



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

May 11, 1981

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee
FROM: Murray Altmann *M. A.*

Enclosed is a copy of the report of examination of the System Open Market Account, made by the Board's Division of Federal Reserve Bank Operations as of the close of business November 21, 1980, and submitted by Mr. Farnsworth, Director, on May 11, 1981. An audit of the Account is made in connection with examination of the Federal Reserve Bank of New York, in accordance with long-standing procedures.

It is contemplated that the enclosed report will be discussed at the meeting of the Committee on May 18.

Enclosure



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**DIVISION OF FEDERAL
RESERVE BANK OPERATIONS**

May 11, 1981

RESTRICTED

Mr. Murray Altmann
Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Altmann:

The following report is submitted for the information of the Federal Open Market Committee in compliance with the Committee's standing request. An examination of the System Open Market Account, including domestic open market and foreign currency operations, was made as of the close of business, November 21, 1980, in conjunction with the annual Financial Examination of the Federal Reserve Bank of New York. Accounts relating to bankers' acceptance and repurchase agreement transactions were also tested.

Scope of Examination

The financial examination was conducted in accordance with generally accepted auditing standards. The procedures used included: verification of System Open Market Account holdings and the related asset and liability accounts; verification of bankers' acceptances held by the Acceptance Division for the account of the Foreign Department and under repurchase agreements and examination of a random sample for negotiability, eligibility, and correctness of timing; tests of departmental accounting records to determine the appropriateness of the balances reported in earnings and profit and loss accounts; reviews of selected transactions to determine the level of compliance with established procedure and adequacy of internal control systems; reviews of the scope and frequency of audits made by the resident auditing staff, and other examination procedures as we considered necessary or appropriate.

RESTRICTED

Mr. Murray Altmann

- 2 -

Summary of Findings

Domestic Open Market Operations

In our opinion, the records of the Securities Department fairly represented the domestic security holdings as of November 21, 1980 (see attached tables), and the results of operations for the interval since the last examination, April 20, 1979.

During the interval between examinations, it was determined that security holdings, earnings, discount, premium, and profits and losses resulting from open market operations were allocated among the Federal Reserve Banks in accordance with procedures approved by the Federal Open Market Committee and that transactions had been executed within the limits prescribed by the Committee.

Audit attention to operations was reviewed during the examination and, in our opinion, is adequate.

Foreign Currency Operations

In our opinion, the records of the Foreign Department presented fairly the asset and liability accounts related to the foreign currency operations as of November 21, 1980 (see attached tables).

During the interval between examinations, distribution of interest earnings on foreign currency balances and profits and losses on foreign exchange operations among the Federal Reserve Banks was made according to procedures approved by the Federal Open Market Committee. A review was also made to assure that foreign currencies were periodically revalued in accordance with generally accepted accounting principles.

The review of transactions on the date of our examination indicated that the pertinent authorizations issued by the Committee were being followed. In our opinion, the accounting records, the internal controls in effect, and the audit attention are adequate.

Sincerely yours,



Clyde H. Farnsworth, Jr.
Director

Attachments-
Table I
Table II

Table I

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS

As of November 21, 1980

A. Domestic Operations

Bankers' Acceptances: 1/

Bought Outright	\$	-0-	
Less Unearned Discount		-0-	
Book Value			\$ -0-
Held Under Repurchase Agreements	\$	375,283,665.78	
Less Unearned Discount		(521,438.71)	
Book Value			374,762,227.07

U. S. Treasury and
Government Agency Securities:

Bought Outright	\$127,882,455,000.00	
Less Discount	(1,831,475,177.89)	
Plus Premium	250,434,528.47	
Plus Interest Accrued	1,554,710,353.43	
Book Value		127,856,124,704.01
Held Under Repurchase Agreements <u>1/</u>	\$ 3,188,100,000.00	
Less Discount	(180,008,855.01)	
Plus Premium	9,106,250.00	
Plus Interest Accrued	-0-	
Book Value		3,017,197,394.99
Total Book Value		\$131,248,084,326.07

B. Foreign Currency Operations

	<u>Units of Foreign Currency</u>	
Belgian Francs	10,215,273.00	\$ 285,212.42
Canadian Dollars	147,439.88	137,548.56
British Pounds	62,207.02	158,856.68
French Francs	15,789,635.05	3,314,991.55
German Marks "B"	1,984,022,432.60	1,050,776,738.78
Japanese Yen	99,193,529,131.00	435,153,370.92
Netherland Guilders	28,232,292.71	11,947,091.97
Swiss Francs "B"	181,028,104.17	107,794,420.65
Swiss Franc Warehousing- E-1	1,247,000,000.00	775,980,087.12
Swiss Franc Warehousing- E-2	685,332,863.11	426,468,395.79
German Marks Warehousing- E-2	766,995,902.10	401,955,531.58
Total		\$ 3,213,972,246.02
TOTAL HOLDINGS		<u>\$134,462,056,572.09</u>

1/ Bankers' acceptances and securities held under repurchase agreements are held for the account of the Federal Reserve Bank of New York at the direction of the Federal Open Market Committee and are included here to provide an accounting of all holdings purchased under the authority granted to the New York Reserve Bank by the Committee.

Table II

INCOME RESULTING FROM SYSTEM OPEN MARKET
DOMESTIC SECURITY AND FOREIGN CURRENCY OPERATIONS

January 1 through November 21, 1980

A. Domestic Operations

Bankers' Acceptances:

Discount Earned- Outright Purchases	\$ -0-
Discount Earned- Repurchase Agreements	14,834,579.07

U. S. Treasury and
Government Agency Securities:

Earnings- Outright Purchases	10,945,044,158.37
Earnings- Repurchase Agreements	74,710,348.45

Earnings on SOMA Securities Loaned	2,618,908.85
Penalty Charges to Dealers- SOMA Security Loans	6,316.66
Net Loss On Securities Sold	<u>(44,548,732.02)</u>

Total	\$10,992,665,579.38
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B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments	\$ 93,252,720.49
Profit on Foreign Exchange Transactions	<u>117,107,279.45</u>

Total	\$ 210,359,999.94
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TOTAL INCOME	<u><u>\$11,203,025,579.32</u></u>
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