



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

April 17, 1991

CONFIDENTIAL (FR)
CLASS III - FOMC

TO: Federal Open Market Committee

FROM: Gary Gillum *GG*

Attached is a report of examination of the System Open Market Account. The examination was conducted by the Board's Division of Federal Reserve Bank Operations as of the close of business on October 31, 1990, and the report was submitted by Mr. Farnsworth, Director of the Division, on April 2, 1991. An audit of the Account is made in connection with the annual financial examination of the Federal Reserve Bank of New York in accordance with long-standing procedures.

The attached report will be on the agenda for consideration at the next meeting of the Committee.

Attachment



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

CLYDE H. FARNSWORTH, JR.
DIRECTOR
DIVISION OF
RESERVE BANK OPERATIONS
AND PAYMENT SYSTEMS

April 2, 1991

RESTRICTED

Mr. Donald L. Kohn, Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Kohn:

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 October 31, 1990, in conjunction with the annual Financial Examination of the Federal Reserve Bank of New York. Accounts relating to repurchase agreement transactions were also tested.

OBJECTIVES AND SCOPE

The objectives of the examination were to verify the accuracy and reliability of the Reserve Bank's balance sheet in accordance with generally accepted auditing standards, and to review procedures and controls for compliance with Federal Open Market Committee instructions and the Bank's own internal prescribed procedures. The scope of the examination was established in consideration of the condition of operations and controls as indicated by current management information reports, reviews of the scope and frequency of audits by the resident auditing staff, operations review reports, and the results of on-site management interviews and preliminary surveys of systems of internal control. Examination attention included verifications of holdings and of the related asset, liability and custody accounts; confirmations; tests of transactions; observations of procedures; and such other techniques deemed necessary in the circumstances.

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Mr. Donald L. Kohn
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SUMMARY OF FINDINGS

In our opinion, the records of the Securities Department and the records of the Foreign Department presented fairly the domestic security holdings and the foreign currency holdings, respectively, as of October 31, 1990, (see enclosed tables) and the results of operations since the previous examination as of April 28, 1989. Holdings, earnings, profits and losses resulting from open market and foreign exchange operations had been allocated and distributed among the Federal Reserve Banks in accordance with procedures approved by the Federal Open Market Committee. Transactions had been executed within the limits and authorizations prescribed by the Committee; foreign currency holdings were revalued periodically in accordance with generally accepted accounting principles. The accounting records, the internal controls in effect, and audit attention were adequate.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Clyde H. Farnsworth, Jr.", written in a cursive style.

Enclosures: Table I
Table II

Table I

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS
AS OF OCTOBER 31, 1990

A. Domestic Operations

Banker's Acceptances: <u>1/</u>	\$	-0-
U.S. Treasury and Government Agency Securities:		
Bought Outright	\$244,105,589,000.00	
Less Discount	(2,681,712,331.56)	
Plus Premium	1,123,178,405.79	
Plus Interest Accrued	<u>3,579,927,449.28</u>	
TOTAL	\$246,126,982,523.51	
Held under Repurchase Agreement <u>2/</u>	\$	-0-
Less Discount	-0-	
Plus Premium	-0-	
Plus Interest Accrued	<u>-0-</u>	
TOTAL	\$	-0-

B. Foreign Currency Operations

	Units of Foreign Currency	U.S. Dollar Equivalent <u>3/</u>
Belgian Francs	25,106,498.00	\$ 805,728.43
Canadian Dollars	324,501.44	278,781.31
British Pounds	13,727,242.86	26,816,168.93
French Francs	37,679,110.42	7,433,243.33
German Marks	40,537,091,883.92	26,769,327,122.15
Japanese Yen	1,062,484,942,311.00	8,277,382,859.77
Netherlands Guilders	53,688,094.03	31,457,253.20
Swiss Francs	711,720,095.83	<u>555,454,403.95</u>
TOTAL		\$ 35,668,955,561.07

¹ The use of Bankers' acceptances to manage reserves was discontinued as of July 2, 1984; New York serves only as an agent in buying and selling acceptances for accounts of foreign central banks.

² 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 New York by the Committee.

³ Revalued U.S. Dollar Equivalent rates of October 29, 1990.

TABLE II

**INCOME RESULTING FROM SYSTEM OPEN MARKET
DOMESTIC SECURITY AND FOREIGN CURRENCY OPERATIONS
JANUARY 1 THROUGH OCTOBER 31, 1990**

A. Domestic Operations

Bankers' Acceptances:

Discount Earned-Outright Purchases	\$	-0-
Discount Earned-Repurchase Agreements	\$	-0-

**U.S. Treasury and
Government Agency Securities:**

Earnings- Outright Purchases	\$16,475,831,198.49
Earnings- Repurchase Agreements- New York	88,724,983.88
Earnings on SOMA New York Securities Loaned	2,811,156.19
Net Profit on Securities Sold	<u>21,614,264.15</u>
TOTAL	\$16,588,981,602.71

B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments <u>1/</u>	\$ 2,102,004,593.99
Profit or Loss on Foreign Exchange Transactions <u>2/</u>	<u>\$ 2,850,963,835.79</u>
TOTAL	\$ 4,952,968,429.78

TOTAL INCOME	\$21,541,950,032.49
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¹ All interest was distributed as of October 15, 1990 (except that the \$119,555,479.56 collected between October 16 and 31, not included in the above amount, was distributed during November).

² Participations only distributed at month end (the \$2,850,963,835.79 profit distributed October 31, 1990, was based on revaluations of foreign currency holdings on October 29, 1990).