



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

CONFIDENTIAL (FR)  
CLASS III - FOMC

TO: Federal Open Market Committee                      DATE: November 8, 1993

FROM: Normand Bernard

*N.B.*

Attached is a report of examination of the System Open Market Account. The examination was conducted by the Board's Division of Reserve Bank Operations and Payment Systems as of the close of business on April 30, 1993, and the report was submitted by Mr. Farnsworth, Director of the Division, on October 13, 1993. 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 November 16, 1993 meeting of the Committee.

Attachment



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

CLYDE H. FARNSWORTH, JR.  
DIRECTOR  
DIVISION OF FEDERAL RESERVE  
BANK OPERATIONS

**October 13, 1993**

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 (SOMA), including domestic open market and foreign currency operations, was conducted as of the close of business April 30, 1993, in conjunction with the annual Financial Examination of the Federal Reserve Bank of New York. Accounts relating to repurchase agreement transactions were also tested.

SCOPE OF EXAMINATION

The Financial examination of SOMA was conducted in accordance with generally accepted auditing standards. The procedures used included verification of SOMA holdings and related asset and liability accounts; 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 procedures and the adequacy of internal control systems; reviews of the scope and frequency of audits made by the resident auditing staff; and other examination procedures considered necessary or appropriate.

SUMMARY OF FINDINGS

**Domestic Open Market Operations**

In our opinion, the records of the Securities Department presented fairly the domestic security holdings as of April 30, 1993, and the results of operations for the interval

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since the last examination, which was as of July 31, 1992. (See attached tables.) For the interval between examinations, it was determined that security holdings, earnings, discounts, premiums, 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.

### **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 April 30, 1993, and the results of operations for the interval since the last examination, which was as of July 31, 1992. (See attached tables.) For the interval between examinations, it was determined that distributions of interest earnings on foreign currency balances and profits and losses on foreign exchange operations among the Federal Reserve Banks were made according to procedures approved by the Federal Open Market Committee, and foreign currencies were periodically revalued in accordance with generally accepted accounting principles.

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

Sincerely yours,



Clyde H. Farnsworth, Jr.  
Director

Attachments:  
Tables I and II

cc: Mr. Robinson  
Mr. Dennis  
Mr. Osterholm  
Ms. Welch

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**TABLE I**

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS  
AS OF APRIL 30, 1993

**A. DOMESTIC OPERATIONS**

Banker's Acceptances: 1/	\$	-0-
U.S. Treasury and Government Agency Securities:		
Bought Outright		\$310,476,204,000.00
Less Discount		\$ 1,549,298,564.24
Plus Premium		\$ 3,211,969,068.03
Plus Interest Accrued		<u>\$ 3,788,496,999.55</u>
Book Value		\$315,927,371,503.34
Held under Repurchase Agreement 2/	\$	-0-
Less Discount	\$	-0-
Plus Premium	\$	-0-
Plus Interest Accrued	<u>\$</u>	<u>-0-</u>
Book Value	\$	-0-

**B. FOREIGN CURRENCY OPERATIONS**

	<u>Units of Foreign Currency</u>	<u>U.S. Dollar Equivalent 3/</u>
Belgian Francs	31,379,606.00	\$ 960,208.26
Canadian Dollars	385,505.99	\$ 302,452.53
British Pounds	17,275,272.56	\$ 27,165,366.10
French Francs	47,554,882.49	\$ 8,876,319.64
German Marks	21,366,775,656.99	\$ 13,455,174,589.92
Japanese Yen	1,004,886,553,977.00	\$ 8,975,407,410.09
Netherlands Guilders	66,821,176.05	\$ 37,428,542.01
Swiss Francs	866,085,405.02	<u>\$ 602,913,612.96</u>
TOTAL		\$ 23,108,228,501.51

1/ The use of Banker's 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 the New York Reserve Bank by the Committee.

3/ Revalued at the 10:00 a.m. exchange rates of April 28, 1993.

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**TABLE II**

INCOME RESULTING FROM SYSTEM OPEN MARKET  
DOMESTIC SECURITY AND FOREIGN CURRENCY OPERATIONS  
JANUARY 1 THROUGH APRIL 30, 1993

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	\$	5,513,645,483.81
Earnings-Repurchase Agreements-New York	\$	29,509,718.85
Earnings on SOMA New York Securities Loaned	\$	659,724.37
Net Profit on Securities Sold	\$	<u>15,282,629.37</u>

TOTAL	\$	5,559,097,556.40
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B. FOREIGN CURRENCY OPERATIONS

Interest Earned on Foreign Currency Investments 1/	\$	451,630,459.33
Profit or Loss on Foreign Exchange Transactions 2/	\$	<u>1,235,319,479.15</u>
TOTAL	\$	1,686,949,938.48

TOTAL INCOME	\$	7,246,047,494.88
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1/ Interest earned is participated daily. All interest collected was distributed as of April 28, 1993 (except \$3,897,334.74, interest collected between April 29 and 30, which was distributed May 5, 1993).

2/ Participations on valuation gains and losses are distributed at month end, and participations on realized profit or loss on sales of foreign currency are distributed on value date.