OPEN MARKET OPERATIONS DURING 1995

A Report Prepared for the Federal Open Market Committee
by the Markets Group
of the Federal Reserve Bank of New York

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INTRODUCTION

During 1995, the Trading Desk at the Federal Reserve Bank of New York managed reserve conditions with the objective of maintaining the federal funds rate around the level desired by the Federal Open Market Committee. The need for permanent reserve additions was much lower than in the preceding few years, mostly reflecting an unanticipated sharp slowing in currency growth and a reduction in reserve requirements caused by the spread of sweep programs at commercial banks. Temporary operations that are used to meet modest or short-lived swings in reserve supply and demand remained heavily skewed towards adding reserves between outright operations.

THE MONETARY POLICY AND ECONOMIC BACKDROP

Monetary policy during 1995 was formulated against a background of modest price pressures and declining inflation expectations and a slowing in the rate of economic expansion from the rapid pace of the preceding year. At the start of the year, inflation remained subdued, but measured utilization rates stood at levels associated historically with intensifying price and wage pressures. Amid signs that economic activity was continuing to advance at a substantial pace, the Federal Open Market Committee (FOMC) took action at its February meeting to raise the federal funds rate by one-half of a percentage point to about 6 percent, matching the size of the increase in the discount rate approved by the Board of Governors that same day. These policy actions proved to be the last in the sequence of restraining moves begun one year earlier (Table 1).

By midyear, the pace of economic expansion had slowed substantially. Inflationary pressures had diminished, partly as a result of the move to policy restraint begun in 1994, and the FOMC reduced the funds rate by one-quarter percentage point at its July meeting. Over the balance of the year, price performance was somewhat more favorable than anticipated, inflation expectations receded, and the Committee agreed on a further one-quarter percentage point reduction in the funds rate at its December meeting.

The favorable inflation outlook and moderation in economic activity produced a steady decline in market interest rates that was only briefly interrupted in the summer (Chart 1). Prospects for meaningful progress in reducing federal budget deficits in future years added momentum to the downward trend in rates. Yields on Treasury coupon securities declined by 200 to 250 basis points on balance over the year. Short-term Treasury bill rates posted more modest declines, but at the end of the year shorter term yields stood at levels that reflected widespread market expectations of further policy moves in the months beyond.

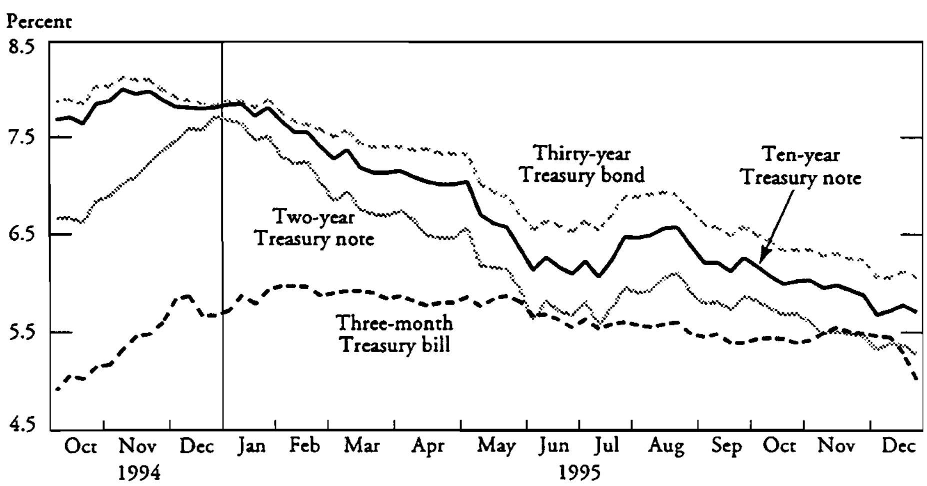
IMPLEMENTATION OF POLICY

RESERVE MANAGEMENT PROCEDURES

In carrying out the FOMC's policy directives, the Desk seeks to maintain the federal funds rate around the level indicated by the Committee. Keeping the funds rate close to a desired level entails using open market operations to adjust the System's portfolio of domestic securities to ensure that the total reserve liabilities of the Federal Reserve are in line with the reserve demands of depository

Chart 1

YIELDS ON TREASURY SECURITIES



Notes: All rates are averages for weeks ending Wednesdays. Treasury bill rates are discount rates; note and bond yields are constant maturity yields.

institutions. Over time, most of the permanent expansion in the System's securities holdings has supported growth in currency and higher demand for reserve balances stemming from rising reserve requirements. Temporary open market operations are used extensively to meet residual needs arising from short-lived swings in reserve supply or demand that can pressure the federal funds rate but which are also subject to considerable forecast uncertainty.

Through its operations, the Desk endeavors to provide in each maintenance period a supply of reserves that enables all banks to meet their two-week reserve requirements and that is sufficient to meet daily demands. As a first step, an objective or "path" for nonborrowed reserves is developed for each period. The path is a projection of the reserves depository institutions must hold to meet their reserve requirements plus any desired excess holdings for the period, less an amount of reserves that the Desk anticipates will be created by borrowing at the discount window. The overall volume of reserve operations needed in a maintenance period to keep the funds rate close to its desired level is estimated by comparing the path with projections of the supply of nonborrowed reserves forthcoming from market factors over the same two-week period.

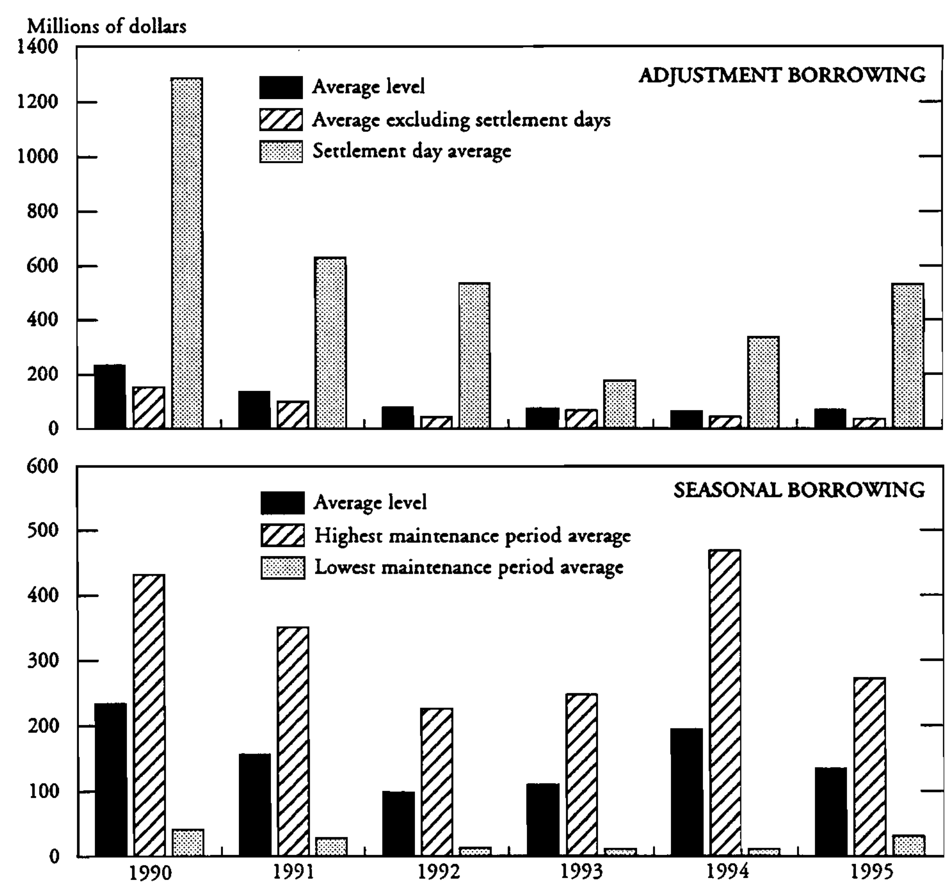
Borrowing at the discount window under the adjustment credit program once had been closely associated with the spread between the level of the federal funds rate sought by the Committee and the discount rate. In recent years, there has not been a systematic relationship between adjustment borrowing and this spread, and typical levels of adjustment borrowing have been negligible. With borrowing now ordinarily expected to make up just a small fraction of total reserve supplies, the Desk must ensure that almost all reserve demands can be met with nonborrowed reserves.[1] Nonetheless, the discount window remains a critical source of supply when nonborrowed reserves are scarce. A bank may turn to the discount window on a settlement day when it cannot secure alternative funding to meet its requirements or at other times to avoid an end-of-day overdraft on its Fed balance, although the discount window is usually tapped only after the funds rate had been bid up to high levels (Chart 2).

Estimates of the daily pattern of nonborrowed reserve supply and demand guide the selection of specific open market operations within a period. To a large degree, reserve operations smooth daily deficiencies or surpluses—measured as the difference between the estimated level of nonborrowed reserves available each day and the two-week average demand-driven objective in place for the period—although demand for reserves may be very unevenly distributed throughout a period, so the supply of nonborrowed reserves that keeps the funds market trading close to the desired rate may vary over the period.

The Desk's knowledge of operating factors affecting reserve supply, required reserves and both the level and pattern of desired reserve holdings over a period is necessarily imperfect, and such estimates are subject to substantial revision. When daily reserve supplies are estimated to be in line with the path but the funds rate nonetheless deviates from the desired level, the divergence may be signaling an unrecognized shortage or surplus. On the other hand, deviations in the funds rate may reflect misperceptions among bank treasurers and federal funds traders about the true availability of aggregate supplies, a situation that might not arise if market participants possessed more complete information. At other times, reserve balances can be distributed in a way that does not allow funding markets to pair surplus and deficient banks efficiently.

Small deviations in the funds rate from the expected level often dissipate quickly and may require no response. Large or persistent deviations may be taken into account in the formulation of reserve

Chart 2
ADJUSTMENT AND SEASONAL BORROWING



Note: Each calendar year includes all maintenance periods with its settlement day in that year.

operations because they might reflect needs or preferences of banks that are not captured in the reserve data available to the Desk.

OPEN MARKET OPERATIONS DURING 1995

Reserve Patterns and Outright Open Market Operations

Over time, most of the permanent expansion of the System's portfolio of domestic securities achieved through outright operations has supported growth of currency and of reserves needed to meet the requirements of depository institutions, both of which are Federal Reserve liabilities. In 1995, net changes in currency and reserve requirements necessitated a much smaller increase in the portfolio than occurred in recent years. Measured from year-end to year-end, currency in circulation increased $20 billion in 1995, compared with a record $37 billion the previous year and similar increases in 1992 and 1993 (Table 2). Much of the slowing in currency growth was attributable to reduced foreign demand, stemming in part from increased economic stability in several foreign countries.

At the same time, demand for reserves to meet reserve requirements fell for a second consecutive year. Required reserves fell $3 billion in 1995, after dropping by almost $2 billion in 1994, as banks implemented sweep programs. Partly offsetting the impact on total reserve demand, many of the banks that implemented these sweep programs raised their clearing balances by $1 billion.

The behavior of other reserve factors on balance had a small impact on the need for outright transactions. As part of a broad support package for Mexico, $2.5 billion of Special Drawing Rights held by the Exchange Stabilization Fund was monetized. But the level of matched-sales purchase transactions undertaken with other central banks (the foreign RP "pool") rose by $4.5 billion over the year and was expected to remain at a high level for an extended period.[2]

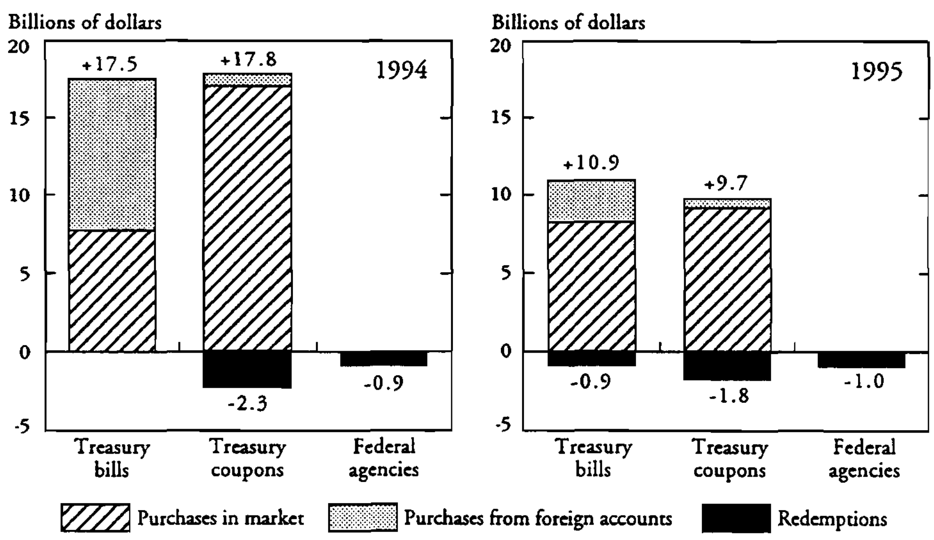
Over the year, $4 billion of maturing securities were redeemed, which contributed to reserve shortages. Many of these redemptions consisted of maturing original issue seven-year Treasury notes, a discontinued maturity. The Desk also redeemed $900 million of maturing holdings in October at a 3-month bill auction in light of the Treasury's sharp cutback in the size of the auction that was made in order to remain under its debt ceiling. Federal agency securities were redeemed when there was no suitable replacement offering, and holdings of agency securities fell by about $1 billion to a level of $2.5 billion, the fifteenth consecutive yearly decline.

Primarily reflecting the slower growth of currency and drop in reserve requirements, the total par value of the Desk's outright purchases fell to about $20 billion in 1995 from $35 billion in 1994 (Chart 3). Most of these purchases were arranged when large and sustained reserve shortages were projected to develop. The Desk entered the market on four occasions, down from six market entries the previous year.[3] Purchases from foreign accounts were also cut back sharply.

As in each of the two preceding years, there were no outright sales of any Treasury or agency issues in 1995. On balance, the overall portfolio grew a net $17 billion, far below the $32 billion addition of the preceding year and the smallest rise since 1990, bringing the total par value of the System's holdings at the end of 1995 to $393 billion (Chart 4). These various outright transactions and the Desk's auction rollover actions lengthened the average maturity of the System portfolio of Treasury securities slightly, by one month, to approximately thirty-nine months.

Near the end of the year, the Desk adopted a new method for purchasing Treasury coupon securities in the secondary market in order to speed up the processing time of each market entry. In the past, the Desk would solicit propositions on all outstanding Treasury coupon securities in a single operation. With just over 200 issues outstanding and a sizable range of prices often offered for each issue, the turnaround time for evaluating the propositions was typically almost one hour. During this interval, primary dealers were exposed to price movements on the securities they submitted. Under the new framework, instead of a single large transaction, total purchases are divided into separate tranches by maturity, and a smaller operation in each sector is arranged on consecutive business days. The new procedure cuts down the time needed to process the operation and,

Chart 3
SYSTEM OUTRIGHT OPERATIONS



Notes: Purchases are positive values; redemptions are negative values. There were no outright sales of securities in 1995 or 1994.

therefore, the level of risk to primary dealers. The Desk has also found that the shorter turnaround time makes it easier to arrange these operations in the morning without interfering with its temporary transactions. The first of these newer operations was undertaken on November 30, and the fourth and final part was executed on December 6. The turnaround time for each leg of the operation was reduced to ten to twenty minutes.

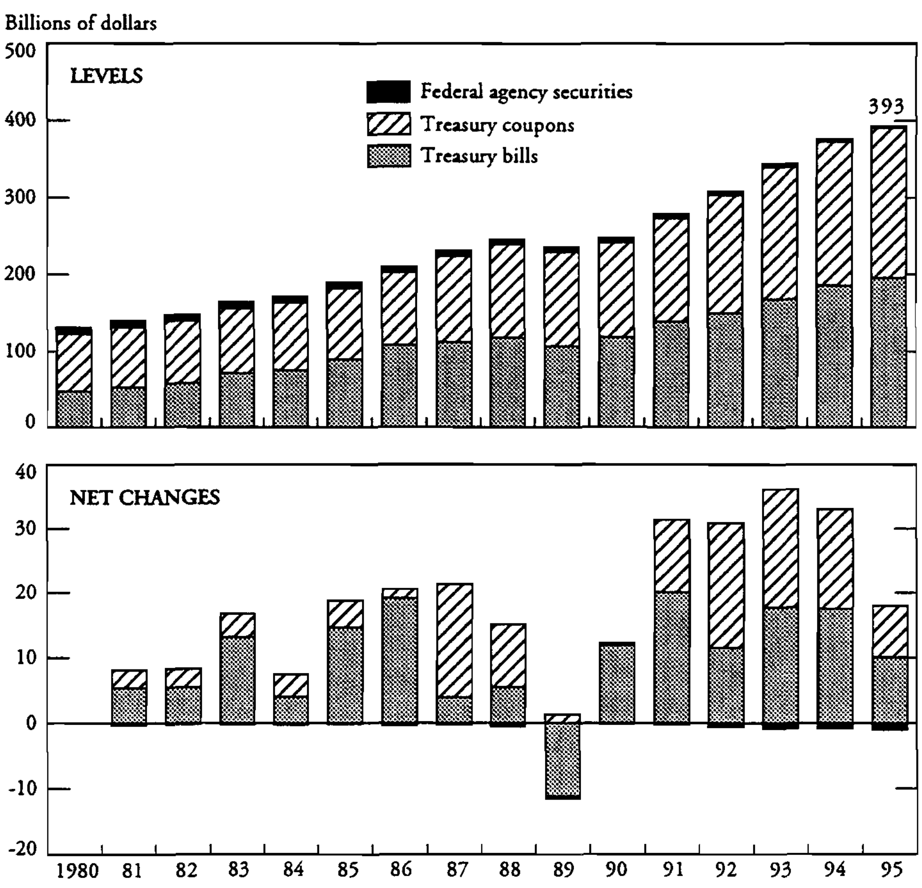
Temporary Operations

Temporary, or self-reversing, operations are used to meet imbalances between reserve supply and demand that are not expected to persist or that are relatively small but which nonetheless would place pressure on the federal funds rate. Most of these operations are used to add small to moderate amounts of reserves because the Desk's outright operations are usually structured to leave

Chart 4

SYSTEM PORTFOLIO OF TREASURY AND FEDERAL AGENCY SECURITIES

Year-end Holdings

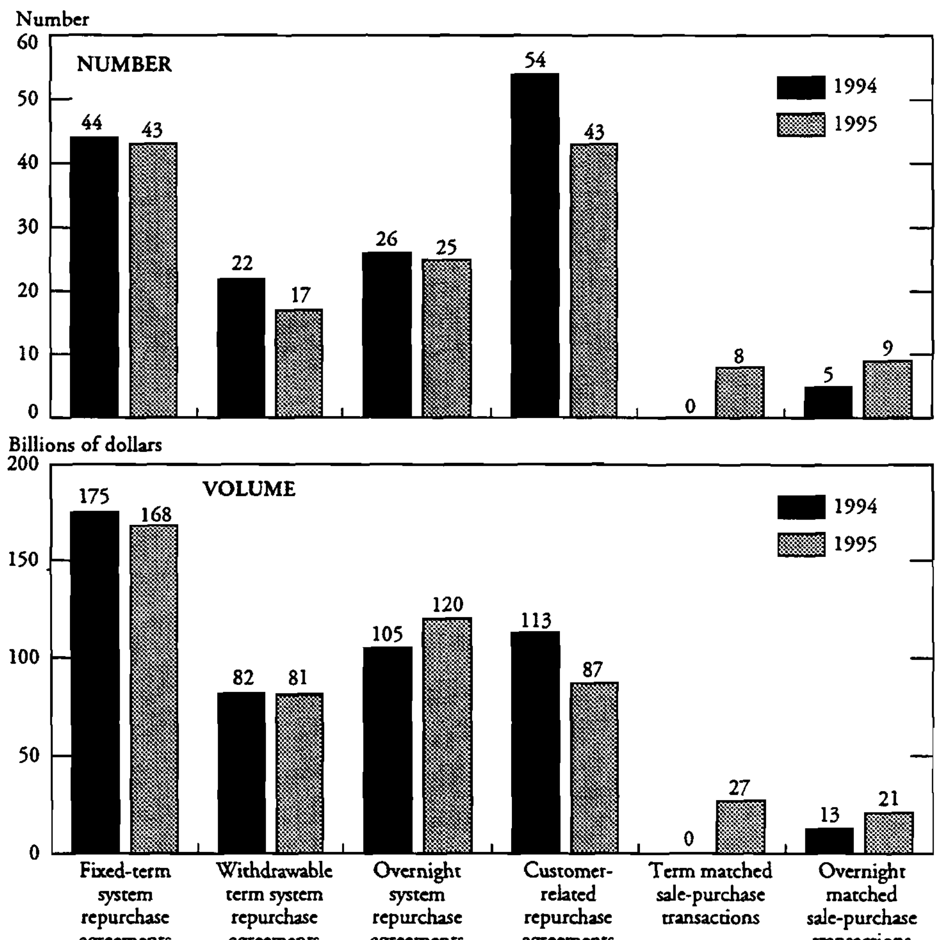


reserve shortages of limited size in most maintenance periods. Large temporary reserve additions or draining operations may occasionally be needed to meet seasonal swings in some operating factors and in reserve demands.

In number and type, the temporary operations selected in 1995 were fairly similar to the previous year (Chart 5). The Desk did drain reserves more frequently than in preceding years, largely because the seasonal reserve surpluses that often emerge early each year were more substantial in 1995 than in recent previous years. The frequency of customer-related repurchase agreements (RP) fell quite a bit.

In a typical maintenance period characterized by a moderate-sized reserve shortage, the Desk often arranged successive multiday, nonwithdrawable operations up through the second weekend. These

Chart 5
SYSTEM TEMPORARY TRANSACTIONS



operations were frequently supplemented by shorter term operations if circumstances warranted. After the second weekend, withdrawable multiday System RPs or overnight operations were employed more often in order to respond to revisions in estimates of reserve supply or demand during the brief time that remained in the period.[4] When substantial reserve needs were projected in a maintenance period, overlapping term operations were sometimes used. In one such instance, on December 21, a fourteen-day System RP was arranged, a maturity last used in 1978. This operation spanned the entire maintenance period including the year-end date when substantial reserve pressures often arise and was supplemented by several other operations.

In structuring temporary operations, the Desk took account of the intraperiod pattern of demand for reserves, which was often revealed by the behavior of the funds rate. Banks continued to prefer holding somewhat more reserves in the second half of a maintenance period than in the first half, a pattern that became more widespread in 1991 as banks adjusted to working with low required operating balances following cuts in reserve requirements (Table 3). All depository institutions, and in particular large ones, accumulated an especially sizable amount of excess reserves on the last day of the period.

SWEEP ACCOUNTS AND REQUIRED OPERATING BALANCES

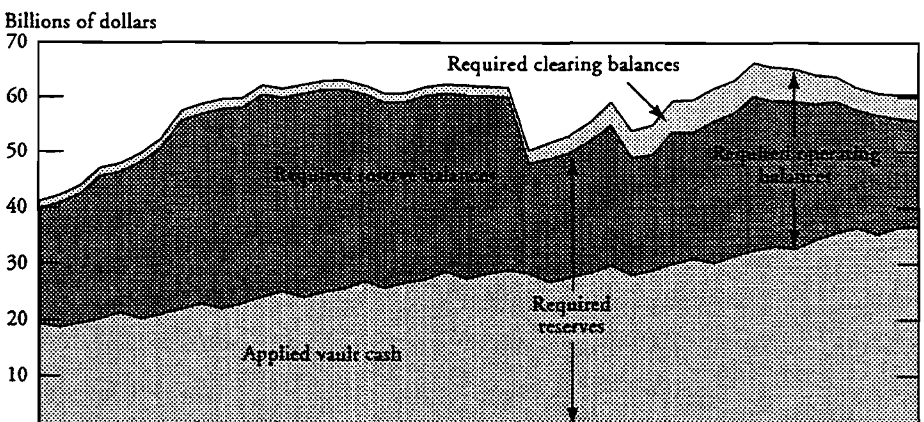
During 1995, depository institutions' use of sweep programs for retail customers expanded dramatically. In such programs, funds from reservable household checking deposits are temporarily placed in nonreservable money market deposit accounts. In addition to distorting the relationship between the M1 and M2 aggregates, sweeps reduce total required reserves within the banking system. A critical issue going forward is whether required reserves may fall to levels that will complicate reserve management and increase the volatility of the federal funds rate. Although the current round of sweeps began in January 1994, activity remained moderate for much of that year and into the first half of 1995.[5] In the later part of 1995, however, the popularity of these programs soared. The cumulative amount of sweeps through June was $22 billion and climbed to $54 billion by the end of the year.[6] The net monthly increase in December was $9 billion, the largest of the year.

Assuming a roughly 10 percent average reserve requirement, the $45 billion of cumulative sweeps implemented during 1995 translated into $4.5 billion fewer reserve requirements for the total banking system. This drop more than accounts for the total decline in required reserves over 1995. At the end of 1995 the level of required reserve balances, which are the balances banks must hold at the Federal Reserve in order to meet reserve requirements not satisfied by vault cash, was $4.1 billion below its level one year earlier (Chart 6). To avoid serious reserve management problems, a number of the banks that activated sweep accounts boosted required clearing balances, so that the fall in required operating balances, which includes these clearing balances, was somewhat smaller.

The popularity of sweep accounts may increase the number of days when operating balances are not sufficient to support ordinary clearing needs of depository institutions. Without any Desk action, the likely result would be an increased incidence of firm money market pressures of the kind that arise currently when payment flows in the banking system are particularly heavy. But even when reserve balances at the Fed are adequate for meeting the clearing demands of banks, a low level of required operating balances can complicate the task of a bank reserve manager. Everyday uncertainties are more likely to bring a bank's reserve position closer to the two extremes of either ending overdrawn or holding an excess position that is difficult to work off on subsequent days because required operating balances are low. The Desk can also have more difficulty predicting the level of reserve balances banks would prefer to hold each day. In this environment, the federal funds rate can become more volatile.

When reserve requirements were first cut sharply in 1991, the sometimes extreme volatility in the federal funds rate that immediately followed was seen partly as a byproduct of banks adapting to low required operating balances. The decline in reserve requirements in 1995 brought on by increased sweep activity has not led to a replay of this extreme volatility. As noted before, many institutions implementing sweeps have partly compensated by increasing their required clearing

Chart 6
RESERVE MEASURES



Notes: All figures are quarterly averages. Reserve requirements are the sum of required reserve balances and applied vault cash. Required operating balances are the sum of required reserve balances and required clearing balances.

balances, possibly helping to curb an increase in volatility. Nonetheless, the level of required operating balances continues to trend downward. Whether these declines eventually cause severe reserve management difficulties remains to be seen. In light of this possibility, the Federal Reserve staff has been evaluating possible modifications to the Desk's intervention practices, the administration of the discount window, and the incentives for banks to hold more balances at the Fed.

What Is a Sweep?

Simply stated, a sweep occurs when funds are automatically shifted from one account to another. Many sweeps have recently been implemented by large commercial banks for their consumer accounts. Transfers are usually made from a reservable checking account, such as a Negotiable Order of Withdrawal (NOW) account to a non-reservable money market deposit account (MMDA). The bank benefits from lower reservable deposits and hence lower reserve requirements.

Over the past two years, banks primarily have adopted one of the following two types of consumer-related sweeps: a NOW sweep or a weekend sweep. The most common is the NOW sweep. This transaction involves two separate sub-accounts, a NOW and an MMDA. At the starting date, the bank will shift funds in excess of a designated minimum from a NOW balance into an MMDA. In subsequent days, if presentments happen to exceed the account holder's NOW balance, amounts sufficient to pay the presented items and restore the minimum NOW balance are then transferred from the customer's MMDA to the NOW account. This process continues until the sixth transfer, the legal maximum, when all the remaining swept balances in the MMDA are transferred back to the NOW account. They are then left in the NOW until the start of the new month, when the cycle begins all over again.

The second type of sweep, the weekend sweep, is a hybrid of the NOW sweep. As represented by the title, fund transfers are limited to weekends. At the close of business on a Friday, entire balances are shifted from NOW accounts into MMDAs. These are transferred back on Monday or on the first business day after the weekend. The net impact is that reservable deposits are reduced on three of the seven days of the week. In addition, the number of sweeps per month does not need to be monitored because the maximum allowable number, six, exceeds the largest possible number of weekends. Only about 10 percent of sweeps are weekend sweeps, and most banks initiating this activity have indicated that these sweeps are an interim step toward a full-time sweep arrangement.

Table 1

SPECIFICATIONS FROM DIRECTIVES OF THE FEDERAL OPEN MARKET COMMITTEE AND RELATED INFORMATION

Date of Meeting	Discount Rate (Percent)	Expected Federal Funds Rate (Percent)	Borrowing Allowance for Deriving NBR Path (Millions of Dollars)[a]
12/20/94	4.75	5.50	125 100 on 1/5[b] 75 on 1/12[b]
1/31 to 2/1/95	5.25 on 2/1	6 on 2/1	75 on 2/1[c]
3/28/95	5.25	6	75 100 on 4/13[b] 150 on 4/27[b] 175 on 5/11[b]
5/23/95	5.25	6	175 225 on 6/22[b]
7/5 to 7/6/95	5.25	5.75 on 7/6	250 on 7/6[d] 275 on 7/20[b]
8/22/95	5.25	5.75	275
9/26/95	5.25	5.75	275 250 on 10/12[b] 200 on 10/26[b] 100 on 11/9[b]
11/15/95	5.25	5.75	100 75 on 11/24[b]
12/19/95	5.25	5.50 on 12/19	75[e]

[a] The borrowing allowance associated with the expected federal funds rate.

[b] Change in borrowing assumption reflects technical adjustment to account for actual or prospective behavior of seasonal borrowing.

[c] The assumption was unchanged because the full effect of the discount rate increase was allowed to show through to the federal funds rate.

[d] The change in reserve pressures was not expected to have an impact on borrowing. This change in the borrowing assumption reflects a technical adjustment to account for actual or prospective behavior of seasonal borrowing.

[e] The allowance was unchanged because the change in reserve pressures was not expected to have an impact on borrowing.

Table 2

REQUIRED RESERVES AND FACTORS AFFECTING NONBORROWED RESERVES

Billions of Dollars

	Maintenance Period Ended 1/3/96	Change during 1995[a]	1994[b]
Required Reserves	57.3	(3.1)	(2.0)
Operating Factors[c]			
Foreign currency[d]	16.4	(0.9)	(2.1)
U.S. currency	423.4	(20.4)	(37.2)
Treasury balance	6.7	0.3	1.4
Float	0.9	0.2	(0.6)
Special drawing rights	10.2	2.1	0.0
Foreign deposits	0.2	0.0	(0.1)
Applied vault cash	37.4	0.9	3.2
Foreign RP pool[e]	12.5	(4.4)	(0.6)
Required clearing balances[f]	5.2	(1.0)	2.1
Other items	21.1	0.2	2.1

[a] Change from maintenance period ended January 4, 1995 to that ended January 3, 1996.

[b] Change from maintenance period ended January 5, 1994 to that ended January 4, 1995.

[c] Sign indicates impact of changes in operating factors on reserves. All items are biweekly averages.

[d] Acquisition value plus interest. Revaluations of foreign currency holdings are included in "Other Items."

[e] Includes customer-related repurchase agreements.

[f] Clearing balances are a source of reserve demand, but in this accounting framework they are counted as a charge against nonborrowed reserves.

Note: Declines in holdings are shown in parentheses.

Table 3

AVERAGE EXCESS RESERVE HOLDINGS

Millions of Dollars

	1990	1991	1992	1993	1994	1995
All depository institutions						
Period average	933	1,206	1,020	1,083	1,074	988
First week	804	845	376	169	691	540
Second week	1,062	1,567	1,664	1,997	1,457	1,437
Settlement day	2,674	5,022	4,292	3,422	630	4,040
Large institutions						
Period average	68	157	79	66	78	49
First week	(65)	(103)	(439)	(659)	(138)	(197)
Second week	200	416	597	791	295	294
Settlement day	1,078	2,987	2,322	1,243	(1,184)	1960
Small institutions						
Period average	865	1,049	940	1,017	995	940
First week	869	948	815	828	828	737
Second week	862	1,151	1,066	1,206	1,163	1,143
Settlement day	1,596	2,035	1,970	2,179	1,814	2,080

Notes: Negative numbers are in parentheses. Each calendar year includes all maintenance periods having its settlement day in that year.

APPENDIX A: FORECAST ACCURACY

On average, the accuracy of the projections of market factors during 1995 was comparable to the 1994 performance at each stage of the maintenance period. Improvements in forecasting the Treasury balance were counterbalanced by a slight deterioration in forecasting currency and the foreign RP pool (see table below).

In general, forecasts of required reserves during 1995 were mildly better than 1994 projections: forecasts made at the beginning and middle of the maintenance period improved in 1995 relative to 1994, while those made at the end of the period were only slightly worse. As noted above, required reserves registered a sizeable decline in 1995 as a result of sweep accounts; however, because advance notice of the timing of these sweeps was generally available, this information was incorporated into the projections of deposits and required reserves at the start of a period.

Estimates of the Treasury's balance at the Fed made on the first day of the maintenance period showed dramatic improvement in 1995 relative to 1994. The largest errors were in the periods around the April and June tax payment dates. During these times, the Treasury's cash balance often exceeded the capacity in the Treasury tax and loan note accounts at commercial banks.[7]

Projections of currency made on the first day of the maintenance period were slightly worse during 1995 than in 1994. Most of the errors occurred in maintenance periods when a typical build-up in currency was expected but did not happen. The weaker growth was related in part to reduced foreign demand, which was consistent with increased economic stability in several foreign economies where demand for U.S. currency previously had been strong.

APPROXIMATE MEAN ABSOLUTE ERRORS FOR FORECASTS OF RESERVES AND VARIOUS OPERATING FACTORS

Millions of Dollars

	1995			1994		
	First Day	Midperiod	Final Day	First Day	Midperiod	Final Day
Required Reserves	235-280	135	70	285-340	160-170	40-65
Factors	710-740	415-525	65-70	710-750	425-465	65-75
Treasury	385-390	285-290	50-60	610	285-305	45-50
Currency	550-690	175-255	20-40	500-515	180-205	15-25
Float	215-240	135-155	30-50	220-250	140-160	25-45
Pool	340	155	10	240	90	10
Other items	175	110	50	190	90	35

Note: Rounded to the nearest $5 million. A range indicates different errors for the New York Reserve Bank and Board of Governors staffs' forecasts.

APPENDIX B: DESK ACTIVITY FOR CUSTOMER ACCOUNTS AND LENDING

CUSTOMER ACTIVITY

The Desk's outright activity for customer accounts grew in 1995, following two years of fairly modest decline. Temporary transactions for these accounts, which consist largely of the foreign RP pool, showed a dramatic increase.

Outright Transactions

Total outright transactions on behalf of customer accounts rose by nearly $21 billion to $162 billion, with most of this total arranged in the market and most of the activity in Treasury bills (Table B1). As in 1994, the major participants were Japan and Thailand whose total transactions were $39 billion and $35 billion, respectively.[8]

Table B1

DOLLAR VOLUME OF TRANSACTIONS FOR ACCOUNTS OTHER THAN THE SYSTEM

Millions of Dollars

	Purchases		Sales		Total	
	1995	1994	1995	1994	1995	1994
Total outright	104,154	85,833	57,598	55,153	161,752	140,986
Foreign and international accounts	103,329	84,672	57,598	55,153	160,927	139,825
Treasury bills	93,232	76,825	52,843	53,658	146,075	130,483
Treasury coupons	6,573	5,195	4,755	1,461	11,328	6,656
STRIPS	3,473	2,382	0	0	3,473	2,382
Bankers' acceptances	51	270	0	34	51	304
Certificates of deposit	0	0	0	0	0	0
Treasury	0	0	a	a	0	a
Other accounts[b]	825	1,161	a	0	825	1,161
Repurchase agreements[c]						
With system	2,153,401	1,688,162	—	—	2,153,401	1,688,162
In market	86,582	112,676	—	—	86,582	112,676
Federal funds	0	0	21,005	10,315	21,005	10,315

[a] Less than $0.5 million.

[b] Includes retirement system and other accounts.

[c] Transacted on behalf of foreign and international accounts only.

Notes: The table includes only the initiation of RPs. Includes transactions between two different foreign accounts and transactions between foreign accounts and the System Account.

Temporary Transactions

The total volume of repurchase agreements arranged on behalf of the foreign RP "pool" facility was about $2.2 trillion. The average daily volume was about $8.9 billion, up about $1.7 billion from the previous year.[9] Most of the increase came in the second half of the year, when Japan's Ministry of Finance raised its investments to build a liquidity cushion to meet the potential dollar funding needs of Japanese institutions. Japan's average daily investment, which had been fairly negligible for much of the year, rose to $1 billion in early August. It declined briefly, varied between $1.5 and $2.5 billion from the end of August to late October, and then stood at $3 billion through the rest of the year.

While the total foreign RP pool rose sharply, the volume passed through to the market as customer-related RPs actually declined by $26 billion to $87 billion, less than 4 percent of the total. The remainder were executed as matched sale-purchase transactions with the System Account. Total gross earnings on all foreign RP transactions were $529 million, up from $309 million in the previous year. The increase reflected both higher RP rates and larger investments. RP rates for the pool averaged 5.89 percent in 1995 compared with 4.22 percent in 1994.

The Desk maintained its practice of placing funds for foreign accounts in the federal funds market on those days when the funds arrived too late to be included in the foreign RP pool. Fund sales more than doubled to $21 billion. One reason for this increase is that fund sales began to include outright purchases for foreign accounts that dealers failed to deliver.

LENDING ACTIVITY

The Desk lends Treasury securities from the System Account to primary dealers in order to facilitate the delivery of transactions in the secondary market, although borrowing against short sales is not permitted. Coupon security loans are limited to $10 million (par value) each, and bill loans are capped at $50 million each. All loans are collateralized with Treasury securities of greater market value than those borrowed. The number of these loans rose in 1995, but because coupon securities made up a greater portion of the total, the dollar volume actually fell slightly (Table B2).

Table B2

FEDERAL RESERVE LENDING OF TREASURY SECURITITES TO PRIMARY DEALERS

	1995	1994
Number of loans	1,644	1,413
Bills	659	789
Coupons	985	624
Volume	$34,843	$35,778
Bills	25,187	29,699
Coupons	9,656	6,079

APPENDIX C: LIST OF AUTHORIZED TRADING COUNTERPARTIES

The number of primary dealers dropped to thirty-seven with the removal of S.G. Warburg & Co. in July following the acquisition of its parent company by Swiss Bank Corporation. In addition, there were three registered name changes during the year:

Nesbitt Burns Securities Inc. (formerly Harris Nesbitt Thomson Securities Inc.);

Lehman Brothers Inc. (formerly Lehman Government Securities, Inc.);

Deutsche Morgan Grenfell/C.J. Lawrence Inc. (formerly Deutsche Bank Securities Corporation).

The table below presents the list of authorized trading counterparties of the Desk as of the end of 1995.

LIST OF AUTHORIZED TRADING COUNTERPARTIES TO THE TRADING DESK

BA Securities, Inc.	Aubrey G. Lanston & Co., Inc.
Barclays de Zoete Wedd Securities Inc.	Lehman Brothers Inc.
Bear, Stearns & Co., Inc.	Merrill Lynch Government Securities Inc.
BT Securities Corporation	J. P. Morgan Securities, Inc.
Chase Securities Inc.	Morgan Stanley & Co. Incorporated
Chemical Securities Inc.	NationsBanc Capital Markets, Inc.
Citicorp Securities, Inc.	Nesbitt Burns Securities Inc.
CS First Boston Corporation	The Nikko Securities Co. International, Inc.
Daiwa Securities America Inc.	Nomura Securities International, Inc.
Dean Witter Reynolds Inc.	Paine Webber Incorporated
Deutsche Morgan Grenfell/C.J. Lawerence Inc.	Prudential Securities Incorporated
Dillon, Read & Co. Inc.	Salomon Brothers Inc.
Donaldson, Lufkin & Jenrette Securities Corporation	Sanwa Securities (USA) Co., L.P.
Eastbridge Capital Inc.	Smith Barney Inc.
First Chicago Capital Markets, Inc.	SBC Capitals Markets Inc.
Fuji Securities Inc.	UBS Securities Inc.
Goldman, Sachs & Co.	Yamaichi International (America), Inc.
Greenwich Capital Markets, Inc.	Zions First National Bank
HSBC Securities, Inc.	

December 31, 1995

APPENDIX D: AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

Open market operations during 1995 were conducted under the Authorization for Domestic Open Market Operations. Only one temporary change was made to the Authorization during 1995. The Committee raised the authorized limit on intermeeting period changes in System Account holdings of U.S. Government and Federal agency securities at the May FOMC meeting to $10 billion. The action, taken on the recommendation of the Manager for Domestic Operations, was made to accommodate anticipated movements in various operating factors and required reserves that might necessitate outright operations in excess of the standard $8 billion intermeeting limit.

The Authorization for Domestic Open Market Operations in effect for 1995, except when amended as above, is reprinted below:

Authorization for Domestic Open Market Operations

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

   (a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $8.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

   (b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in fifteen calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph l(a) under agreements providing for the resale by such accounts of those securities within fifteen calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

ENDNOTES

1. With a borrowed reserves objective, monetary policy actions giving rise to a change in the spread between the funds and discount rates normally would lead to a new borrowing allowance being incorporated in the path. But reflecting the more recent behavior of adjustment borrowing, this allowance was not changed for the two policy easings implemented in 1995. The Desk continued to make changes to reflect actual or anticipated movements in the seasonal component of the borrowing allowance.

2. Investments in the pool drain reserves when foreign institutions shift dollar holdings into their Federal Reserve accounts, which are then invested on an overnight basis by purchasing some of the System's securities. The reasons for the rise in the size of the foreign RP pool in 1995 are discussed in Appendix B.

3. The Desk bought $4.5 billion (par value) of coupon securities on April 4, $4.4 billion of Treasury bills on May 31, and $3.8 billion of bills on November 8. Then, in four linked operations from November 30 through December 6, the Desk purchased a total of $4.6 billion of coupon issues. The Desk's new method of arranging outright coupon transactions is described below.

4. Most operating factors affecting nonborrowed reserve supplies are subject to revision at any point in the period. The estimates of required reserves and applied vault cash for the two-week period are updated on each Tuesday, Wednesday, and Thursday. Revisions coming late in the period can significantly affect the remaining need.

5. Consumer sweep activity is relatively new, facilitated by more sophisticated computer systems at banks. Banks have a long history of shifting, or "sweeping" account balances of businesses, justified on a cost basis by the large volume transfers that are made. In a business sweep, deposits are usually transferred from a demand deposit account into nonreservable investments such as repurchase agreements.

6. Sweep calculations are based on the amount a depository institution transferred at the initiation of the program. Amounts that have been subsequently transferred at that institution are not available.

7. There were sixteen days in 1995 when the Treasury's overall cash balance exceeded the target Federal Reserve balance plus the capacity in the Treasury tax and loan note accounts, which is comparable to 1994 when this capacity was exceeded on fourteen days.

8. In one transaction, the Desk bought for the System Account $1.35 billion of the $1.5 billion of bills that Japan's Ministry of Finance was selling to raise funds to invest in the foreign RP pool. Japan's pool investment activity is described below.

9. All foreign RPs mature the next business day. The average daily volume is computed by weighting each transaction by the number of calendar days outstanding, including weekends and holidays.

STATISTICAL TABLES

Operations in United States Government Securities and Federal Agency Securities

(In thousands of dollars)

The total of United States Government securities and Federal agency securities held by the Federal Reserve System at the close of business on December 31, 1995, together with changes from holdings on December 31, 1994 are summarized in the following table on a delivery basis.

System Open Market Account	Purchases	Sales	Redemptions	Exchanges	Net Changes	Holdings 12/31/95	Holdings 12/31/94
Government Securities							
Treasury Bills:						183,115,712	177,378,390
				405,276,476			
Outright	10,932,100	-	900,000	(405,276,476)	10,032,100		
Matched Transactions	2,197,735,652	2,202,030,430	-		(4,294,778)		
Market	48,629,000	48,629,000	-	-	-		
Foreign official	2,149,106,652	2,153,401,430	-	-	(4,294,778)		
Treasury Notes and Bonds maturing:							
Within 1 year	390,000	-	1,776,195	(35,407,655)	(36,793,850)#	42,869,243	36,657,875
1 to 5 years	5,366,000	-	-	26,387,365	31,753,365 #	83,822,558	88,351,201
5 to 10 years	1,432,100	-	-	7,220,290	8,652,390 #	31,469,096	27,286,780
Over 10 years	2,529,000	-	-	1,800,000	4,329,000 #	36,920,857	34,844,993
Total Notes and Bonds	9,717,100	-	1,776,195	-	7,940,905	195,081,754	187,140,849
Total Govt. Secs.							
Incl. Matched Trans.	2,218,384,852	2,202,030,430	2,676,195	-	13,678,227	378,197,466	364,519,239
(Excl. Matched Trans.	20,649,200	-	2,676,195	-	17,973,005	372,560,593	372,560,593)
Federally Sponsored Agency Issues maturing:							
				(2,477,000)			
Within 1 year	-	-	1,002,710	2,357,000	(1,122,710)##	1,241,295	1,736,710
1 to 5 years	-	-	-	-	- ##	840,950	1,387,245
5 to 10 years	-	-	-	120,000	120,000 ##	526,750	487,750
Over 10 years	-	-	-	-	-	25,000	25,000
Total Agency Issues	-	-	1,002,710	-	(1,002,710)	2,633,995	3,636,705
Total System Account							
Incl. Matched Trans.	2,218,384,852	2,202,030,430	3,678,905	-	12,675,517	380,831,461	368,155,944
(Excl. Matched Trans.	20,649,200	-	3,678,905	-	16,970,295	375,194,588	376,197,298)
F.R.B. of New York							
Repurchase Agreements for System	368,545,000	365,273,000	-	-	3,272,000	13,862,000	10,590,000
Customer-Related RPs passed through to the market	86,582,000	86,582,000	-	-	-	-	-

Does not include the following maturity shifts:
Does not include the following maturity shifts:

(In thousands of dollars)

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
#	43,005,218	(36,282,008)	(4,470,074)	(2,253,136)
##	627,295	(546,295)	(81,000)	-

Declines appear in parentheses.

TRANSACTIONS BETWEEN FEDERAL RESERVE AND GOVERNMENT SECURITY DEALERS - 1995

Outright Transactions*
Gross purchases plus gross sales:
(In thousands of dollars)

Securities Dealers	Outright Transactions: Dollar Volume: Treasury Bills	Treasury Coupon Issues	Total Treasury Issues	Percentage Share: Treasury Bills	Treasury Coupon Issues	Total Treasury Issues
Salomon Brothers, Inc.	765,000	2,452,000	3,217,000	9.3 %	26.9 %	18.6 %
Greenwich Capital Markets, Inc.	20,000	1,458,000	1,478,000	0.2	16.0	8.5
UBS Securities Inc.	875,000	413,000	1,288,000	10.7	4.5	7.5
Lehman Brothers, Inc. (d)	525,000	425,000	950,000	6.4	4.7	5.5
Barclays de Zoete Wedd Secs. Inc.	485,000	410,000	895,000	5.9	4.5	5.2
CS First Boston Corporation	468,000	350,000	818,000	5.7	3.8	4.7
Morgan Stanley & Co., Inc.	200,000	612,000	812,000	2.4	6.7	4.7
Eastbridge Capital Inc.	686,000	60,000	746,000	8.4	0.7	4.3
Paine Webber Inc.	491,000	202,000	693,000	6.0	2.2	4.0
Aubrey G. Lanston & Co., Inc.	465,000	50,000	515,000	5.7	0.6	3.0
Deutsche Morgan Grenfell/ C. J. Lawrence, Inc. (e)	505,000	-	505,000	6.2	-	2.9
BT Securities Corporation	50,000	450,000	500,000	0.6	4.9	2.9
Daiwa Securities America, Inc.	375,000	105,000	480,000	4.6	1.2	2.8
NationsBanc Capital Markets, Inc.	139,500	241,000	380,500	1.7	2.6	2.2
SBC Capital Markets, Inc. (a)	250,000	115,000	365,000	3.1	1.3	2.1
Merrill Lynch Government Sec. Inc.	176,000	185,000	361,000	2.2	2.0	2.1
Bear, Stearns & Co., Inc.	-	325,000	325,000	-	3.6	1.9
Fuji Securities Inc.	215,000	98,000	313,000	2.6	1.1	1.8
Citicorp Securities, Inc.	106,000	168,600	274,600	1.3	1.9	1.6
Goldman, Sachs & Co.	35,000	236,000	271,000	0.4	2.6	1.6
Nesbitt Burns Securities Inc. (b)	20,000	242,000	262,000	0.2	2.7	1.5
J.P. Morgan Securities, Inc.	130,000	75,000	205,000	1.6	0.8	1.2
HSBC Securities, Inc.	157,500	32,000	189,500	1.9	0.4	1.1
Dillon, Read & Co., Inc.	105,000	80,000	185,000	1.3	0.9	1.1
Smith Barney Inc.	165,000	12,000	177,000	2.0	0.1	1.0
Sanwa Securities (USA) Co., L.P.	115,000	50,000	165,000	1.4	0.6	1.0
Prudential Securities Inc.	100,000	61,000	161,000	1.2	0.7	0.9
Nomura Securities International, Inc.	135,000	25,000	160,000	1.6	0.3	0.9
The Nikko Securities Co., Int'l Inc.	144,000	-	144,000	1.8	-	0.8
Chase Securities, Inc.	110,000	25,000	135,000	1.3	0.3	0.8
Chemical Securities, Inc.	80,000	30,000	110,000	1.0	0.3	0.6
Donaldson, Lufkin & Jenrette Sec. Corp.	30,000	75,000	105,000	0.4	0.8	0.6
Zions First National Bank	40,000	-	40,000	0.5	-	0.2
Dean Witter Reynolds, Inc.	-	26,000	26,000	-	0.3	0.2
S.G. Warburg & Co., Inc. (c)	-	25,000	25,000	-	0.3	0.1
First Chicago Capital Markets, Inc.	20,000	3,500	23,500	0.2	-	0.1
BA Securities, Inc.	-	-	-	-	-	-
Yamaichi Int'l (America) Inc.	-	-	-	-	-	-
Total	8,183,000	9,117,100	17,300,100	100%	100%	100%

TRANSACTIONS BETWEEN FEDERAL RESERVE AND GOVERNMENT SECURITY DEALERS - 1995

Temporary Transactions#

Securities Dealers	Repurchase Agreements	Percentage Share Securities Dealers	Customer Related	Percentage Share Securities Dealers	Matched Transactions	Percentage Share Securities Dealers
Daiwa Securities America, Inc.	22,148,000 (6)	6.0 %	3,550,000 (8)	4.1 %	2,100,000 (6)	4.3 %
Lehman Brothers, Inc. (d)	60,972,000 (1)	16.5	19,330,000 (1)	22.3	11,650,000 (1)	24.0
CS First Boston Corporation	30,354,000 (3)	8.2	4,475,000 (6)	5.2	500,000	1.0
NationsBanc Capital Markets, Inc.	28,785,000 (4)	7.8	5,599,000 (4)	6.5	-	-
Nesbitt Burns Securities, Inc. (b)	17,379,000 (8)	4.7	2,300,000	2.7	50,000	0.1
Chase Securities, Inc.	6,355,000	1.7	2,150,000	2.5	5,900,000 (4)	12.1
First Chicago Capital Markets, Inc.	9,325,000	2.5	1,934,000	2.2	6,499,000 (3)	13.4
J.P. Morgan Securities, Inc.	12,195,000 (10)	3.3	700,000	0.8	1,880,000 (7)	3.9
Paine Webber Inc.	13,705,000 (9)	3.7	5,880,000 (3)	6.8	150,000	0.3
BT Securities Corporation	5,270,000	1.4	275,000	0.3	950,000 (10)	2.0
Eastbridge Capital Inc.	23,060,000 (5)	6.3	4,149,000 (7)	4.8	8,450,000 (2)	17.4
Goldman, Sachs & Co.	1,810,000	0.5	3,000,000 (9)	3.5	-	-
Yamaichi Int'l (America) Inc.	17,566,000 (7)	4.8	4,527,000 (5)	5.2	400,000	0.8
Fuji Securities Inc.	3,035,000	0.8	925,000	1.1	-	-
Donaldson, Lufkin & Jenrette Securities Corp.	4,795,000	1.3	1,585,000	1.8	3,325,000 (5)	6.8
Citicorp Securities, Inc.	3,220,000	0.9	525,000	0.6	250,000	0.5
Merrill Lynch Government Securities, Inc.	6,450,000	1.8	2,000,000	2.3	-	-
Greenwich Capital Markets, Inc.	8,444,000	2.3	990,000	1.1	-	-
Zions First National Bank	8,239,000	2.2	2,390,000	2.8	375,000	0.8
Aubrey G. Lanston & Co., Inc.	5,320,000	1.4	1,520,000	1.8	1,390,000 (8)	2.9
S.G. Warburg & Co., Inc. (c)	1,466,000	0.4	206,000	0.2	100,000	0.2
Sanwa Securities (USA) Co., L.P.	6,697,000	1.8	2,647,000 (10)	3.1	750,000	1.5
Morgan Stanley & Co., Inc.	5,115,000	1.4	375,000	0.4	-	-
Bear, Stearns & Co., Inc.	3,700,000	1.0	250,000	0.3	-	-
BA Securities, Inc. (b)	1,260,000	0.3	640,000	0.7	800,000	1.7
Chemical Securities, Inc.	6,970,000	1.9	1,875,000	2.2	50,000	0.1
Salomon Brothers, Inc.	700,000	0.2	1,150,000	1.3	500,000	1.0
Nomura Securities International, Inc.	3,077,000	0.8	840,000	1.0	-	-
Barclays de Zoete Wedd Secs. Inc.	2,230,000	0.6	770,000	0.9	1,185,000 (9)	2.4
Dillon, Read & Co., Inc.	1,536,000	0.4	685,000	0.8	-	-
Deutsche Morgan Grenfell / C. J. Lawrence, Inc. (e)	3,275,000	0.9	800,000	0.9	100,000	0.2
HSBC Securities, Inc.	1,500,000	0.4	50,000	0.1	725,000	1.5
SBC Capital Markets, Inc. (a)	32,660,000 (2)	8.9	6,435,000 (2)	7.4	200,000	0.4
Smith Barney Inc.	5,219,000	1.4	1,105,000	1.3	350,000	0.7
The Nikko Securities Co., Int'l Inc.	1,748,000	0.5	400,000	0.5	-	-
Prudential Securities Inc.	200,000	0.5	-	-	-	-
Dean Witter Reynolds, Inc.	50,000	0.1	-	-	-	-
UBS Securities Inc.	2,715,000	0.7	550,000	0.6	-	-
Subtotal	368,545,000	100%	86,582,000	100%	48,629,000	100%
Foreign & International Institutions	-		-		2,153,401,430	
Total	368,545,000		86,582,000		2,202,030,430	

U.S. TREASURY AND FEDERAL AGENCY SECURITY HOLDINGS IN SYSTEM OPEN MARKET ACCOUNT

(In thousands of dollars)

		Holdings* 12/31/95	Net change since 12/31/94
Treasury Bills		183,115,712	5,737,322
Treasury Notes			
Matured in 1995			(33,420,718)
Issues outstanding			
4.250 %	12/31/95	1,680,000	-
9.250	01/15/96	1,227,984	-
4.000	01/31/95	338,730	-
7.500	01/31/95	1,268,000	-
4.625	02/15/96	3,828,580	-
7.875	02/15/96	1,427,015	-
8.875	02/15/96	616,545	-
4.625	02/29/96	447,620	-
7.500	02/29/96	1,255,700	-
5.125	03/31/96	1,979,720	-
7.750	03/31/96	1,118,500	-
9.375	04/15/96	786,855	-
5.500	04/30/96	800,000	-
7.625	04/30/96	926,000	-
4.250	05/15/96	2,228,215	-
7.375	05/15/96	2,073,909	-
5.875	05/31/96	753,000	60,000
7.625	05/31/96	393,000	-
6.000	06/30/96	1,765,000	-
7.875	06/30/96	412,000	-
7.875	07/15/96	720,752	125,000
6.125	07/31/96	1,246,750	50,000
7.875	07/31/96	270,000	-
4.375	08/15/96	3,074,300	-
6.250	08/31/96	810,000	310,000
7.250	08/31/96	499,300	-
6.500	09/30/96	1,200,000	-
7.000	09/30/96	381,000	17,000
8.000	10/15/96	374,800	-
6.875	10/31/96	1,385,000	140,000
4.375	11/15/96	4,526,933	-
7.250	11/15/96	1,129,035	73,000
6.500	11/30/96	210,000	-
7.250	11/30/96	265,000	-
6.125	12/31/96	200,000	-
7.500	12/31/96	1,250,000	1,250,000
8.000	01/15/97	598,500	100,000
6.250	01/31/97	150,000	-
7.500	01/31/97	400,000	400,000
4.750	02/15/97	1,699,796	30,000
6.750	02/28/97	472,000	-
6.875	02/28/97	575,000	575,000
6.625	03/31/97	1,050,000	1,050,000
6.875	03/31/97	484,000	-
8.500	04/15/97	661,500	21,000
6.500	04/30/97	350,000	350,000
6.875	04/30/97	965,000	-
6.500	05/15/97	3,415,000	5,000
8.500	05/15/97	564,000	-

		Holdings* 12/31/95	Net change since 12/31/94
Treasury Notes (Cont'd)			
6.125	05/31/97	725,000	725,000
6.750	05/31/97	403,000	79,000
5.625	06/30/97	692,435	692,435
6.375	06/30/97	430,000	-
8.500	07/15/97	870,710	105,000
5.500	07/31/97	400,000	-
5.875	07/31/97	286,970	286,970
6.500	08/15/97	2,262,945	-
8.625	08/15/97	497,000	-
5.625	08/31/97	574,000	-
6.000	08/31/97	669,830	669,830
5.500	09/30/97	541,000	-
5.750	09/30/97	511,380	511,380
8.750	10/15/97	731,000	150,000
5.625	10/31/97	550,000	550,000
5.750	10/31/97	315,000	-
7.375	11/15/97	2,910,000	110,000
8.875	11/15/97	600,000	5,000
5.375	11/30/97	402,475	402,475
6.000	11/30/97	275,700	30,000
6.000	12/31/97	500,780	-
7.875	01/15/98	827,800	118,000
5.625	01/31/98	596,000	222,000
7.250	02/15/98	3,115,560	3,115,560
8.125	02/15/98	390,000	111,000
5.125	02/28/98	454,000	-
5.125	03/31/98	1,295,000	-
7.875	04/15/98	584,500	25,000
5.125	04/30/98	495,000	-
6.125	05/15/98	3,444,017	3,444,017
9.000	05/15/98	478,000	-
5.375	05/31/98	805,000	90,000
5.125	06/30/98	1,471,000	25,000
8.250	07/15/98	1,220,140	50,000
5.250	07/31/98	472,000	115,000
5.875	08/15/98	4,179,808	4,179,808
9.250	08/15/98	834,000	104,000
4.750	08/31/98	591,000	-
4.750	09/30/98	900,000	-
7.125	10/15/98	968,593	-
4.750	10/31/98	857,900	39,000
5.500	11/15/98	2,484,635	2,484,635
8.875	11/15/98	510,000	20,000
5.125	11/30/98	879,000	10,000
5.125	12/31/98	1,579,662	100,000
6.375	01/15/99	855,545	4,000
5.000	01/31/99	377,000	52,000
8.875	02/15/99	693,000	56,000
5.500	02/28/99	435,000	-
5.875	03/31/99	1,875,000	25,000
7.000	04/15/99	1,073,700	25,000
6.500	04/30/99	1,219,620	250,000
9.125	05/15/99	1,127,500	250,000
6.750	05/31/99	586,990	71,000
6.750	06/30/99	1,643,820	87,000
6.375	07/15/99	347,000	60,000

* Delivery basis. (Includes matched sale-purchase transactions.)

Note: Declines in holdings are shown in parentheses.

U.S. TREASURY AND FEDERAL AGENCY SECURITY HOLDINGS IN SYSTEM OPEN MARKET ACCOUNT

(In thousands of dollars)

Treasury Notes (Cont'd)		Holdings* 12/31/95	Net change since 12/31/94
6.875 %	07/31/99	1,029,000	134,000
8.000	08/15/99	768,000	143,000
6.875	08/31/99	601,480	50,000
7.125	09/30/99	1,078,752	-
6.000	10/15/99	406,115	-
7.500	10/31/99	498,315	50,000
7.875	11/15/99	667,000	-
7.750	11/30/99	334,845	70,000
7.750	12/31/99	1,329,665	1,329,665
6.375	01/15/00	689,545	-
7.750	01/31/00	532,440	532,440
8.500	02/15/00	832,000	75,000
7.125	02/29/00	870,290	870,290
6.875	03/31/00	1,145,510	1,145,510
5.500	04/15/00	360,000	50,000
6.750	04/30/00	652,750	652,750
8.875	05/15/00	480,000	-
6.250	05/31/00	627,460	627,460
5.875	06/30/00	725,000	725,000
6.125	07/31/00	375,000	375,000
8.750	08/15/00	844,400	28,400
6.250	08/31/00	515,000	515,000
6.125	09/30/00	525,000	525,000
5.750	10/31/00	537,430	537,430
8.500	11/15/00	816,000	-
5.625	11/30/00	350,000	350,000
7.750	02/15/01	677,500	28,500
8.000	05/15/01	892,000	145,000
7.875	08/15/01	1,095,000	43,000
7.500	11/15/01	1,368,000	145,000
7.500	05/15/02	981,009	10,000
6.375	08/15/02	2,190,000	210,000
6.250	02/15/03	2,095,000	100,000
5.750	08/15/03	3,620,000	155,000
5.875	02/15/04	550,000	-
7.250	05/15/04	1,880,550	12,000
7.250	08/15/04	750,000	-
7.875	11/15/04	1,603,040	-
7.500	02/15/05	1,150,000	1,150,000
6.500	05/15/05	2,000,000	2,000,000
6.500	08/15/05	1,800,000	1,800,000
5.875	11/15/05	1,700,000	1,700,000
Total Treasury Notes		151,013,150	6,869,837
Treasury Bonds			
Matured in 1994			(790,667)
Issues outstanding			
3.500 %	11/15/98	30,750	-
7.875	02/15/00	-	(766,490)
8.375	08/15/00	-	(2,205,975)
11.750	02/15/01	160,803	-

Treasury Bonds (Cont'd)		Holdings* 12/31/95	Net change since 12/31/94
13.125 %	05/15/01	165,726	-
8.000	08/15/01	505,810	-
13.375	08/15/01	256,092	5,000
15.750	11/15/01	172,904	-
14.250	02/15/02	159,800	-
11.625	11/15/02	347,850	8,200
10.750	02/15/03	654,250	117,000
10.750	05/15/03	206,000	-
11.125	08/15/03	426,400	79,000
11.875	11/15/03	449,240	45,000
12.375	05/15/04	648,786	131,000
13.750	08/14/04	191,000	35,000
11.625	11/15/04	519,200	85,000
8.250	05/15/05	1,513,660	16,000
12.000	05/15/05	214,476	-
10.750	08/15/05	525,000	-
9.375	02/15/06	20,000	-
7.625	02/15/07	1,396,164	7,000
7.875	11/15/07	378,500	-
8.375	08/15/08	788,500	-
8.750	11/15/08	1,588,500	-
9.125	05/15/09	871,205	115,000
10.375	11/15/09	1,075,939	25,000
11.750	02/15/10	717,400	-
10.000	05/15/10	1,176,556	5,000
12.750	11/15/10	1,260,865	-
13.875	05/15/11	1,043,542	15,000
14.000	11/15/11	885,091	-
10.375	11/15/12	1,611,741	10,000
12.000	08/15/13	3,015,772	160,000
13.250	05/15/14	610,450	171,000
12.500	08/15/14	855,720	56,000
11.750	11/15/14	1,195,000	85,000
11.250	02/15/15	1,335,733	120,000
10.625	08/15/15	905,000	25,000
9.875	11/15/15	466,500	95,000
9.250	02/15/16	780,000	92,000
7.250	05/15/16	995,000	5,000
7.500	11/15/16	1,045,000	-
8.750	05/15/17	544,000	160,000
8.875	08/15/17	820,000	102,000
9.125	05/15/18	296,900	-
9.000	11/15/18	256,000	100,000
8.875	02/15/19	583,000	115,000
8.125	08/15/19	1,444,900	120,000
8.500	02/15/20	590,879	125,000
8.750	05/15/20	440,000	60,000
8.750	08/15/20	765,000	255,000
7.875	02/15/21	425,000	190,000
8.125	05/15/21	490,000	110,000
8.125	08/15/21	360,000	40,000
8.000	11/15/21	805,000	50,000

* Delivery basis.

Note: Declines in holdings are shown in parentheses.

U.S. TREASURY AND FEDERAL AGENCY SECURITY HOLDINGS IN SYSTEM OPEN MARKET ACCOUNT

(In thousands of dollars)

Treasury Bonds (Cont'd)		Holdings* 12/31/95	Net change since 12/31/94
7.250 %	08/15/22	400,000	-
7.625	11/15/22	470,000	-
7.125	02/15/23	982,000	-
6.250	08/15/23	980,000	100,000
7.500	11/15/24	450,000	-
7.625	02/15/25	700,000	700,000
6.875	08/15/25	1,100,000	1,100,000
Total Treasury Bonds		44,068,604	1,861,735
Total Treasury Security Holdings		378,197,466	13,678,227

* Delivery basis.

Note: Declines in holdings are shown in parentheses.

U.S. TREASURY AND FEDERAL AGENCY SECURITY HOLDINGS
IN SYSTEM OPEN MARKET ACCOUNT

(In thousands of dollars)

U.S. Government-Sponsored Agency Issues

FHLB		Holdings* 12/31/95	Net change since 12/31/94
Matured in 1995			(565,000)
Issues outstanding			
8.100 %	03/25/96	10,000	-
9.800	03/25/96	3,000	-
4.360	04/25/96	14,000	-
7.750	04/25/96	33,000	-
8.250	05/27/96	16,000	-
8.000	07/25/96	15,000	-
8.250	09/25/96	2,000	-
7.100	10/25/96	13,000	-
8.250	11/25/96	10,000	-
6.850	02/25/97	26,700	-
7.650	03/25/97	12,000	-
9.150	03/25/97	5,000	-
6.990	04/25/97	14,000	-
5.260	04/27/98	14,000	-
9.250	11/25/98	5,000	-
9.300	01/25/99	2,000	-
8.600	06/25/99	3,900	-
8.450	07/26/99	5,000	-
8.600	08/25/99	11,000	-
8.375	10/25/99	10,000	-
8.600	01/25/00	6,000	-
Total		230,600	(565,000)

FNMA		Holdings* 12/31/95	Net change since 12/31/94
Matured in 1995			(147,000)
Issues outstanding			
8.500 %	06/10/96	10,000	-
8.750	06/10/96	10,000	-
8.000	07/10/96	31,500	-
7.700	09/10/96	25,000	-
7.050	10/10/96	100,000	-
6.900	11/12/96	-	(58,000)
7.700	12/10/96	12,000	-
6.200	01/10/97	-	(15,000)
7.600	01/10/97	160,000	-
7.050	03/10/97	-	(70,000)
7.000	04/10/97	-	(10,000)
9.200	06/10/97	27,000	-
8.950	07/10/97	10,000	-
9.550	09/10/97	35,000	-

FNMA (Cont'd)		Holdings* 12/31/95	Net change since 12/31/94
5.700 %	09/11/97	45,000	-
5.350	10/10/97	4,700	-
6.300	12/11/97	-	(55,000)
8.650	02/10/98	10,000	
5.300	03/11/98	50,000	-
9.150	04/10/98	30,000	-
8.200	08/10/98	-	(35,000)
9.400	08/10/98	50,000	
7.850	09/10/98	48,000	-
5.300	12/10/98	15,000	-
7.050	12/10/98	30,000	-
7.500	03/10/99	50,000	-
9.550	03/10/99	25,000	-
8.700	06/10/99	23,000	-
8.450	07/12/99	5,000	-
7.000	08/11/99	15,000	-
8.350	11/10/99	7,000	-
6.100	02/10/00	25,000	-
9.050	04/10/00	10,000	-
9.800	05/10/00	-	(30,000)
9.200	09/11/00	10,000	-
8.625	04/10/01	35,000	-
8.700	06/11/01	20,000	-
8.875	07/10/01	5,000	-
7.200	01/10/02	10,000	-
7.900	04/10/02	10,000	-
7.800	06/10/02	40,100	-
7.300	07/10/02	12,000	-
6.950	09/10/02	35,000	-
6.625	04/10/03	30,000	-
6.450	06/10/03	25,000	-
6.200	07/10/03	15,000	-
5.800	12/10/03	10,000	-
7.600	04/14/04	100,000	-
7.550	06/10/04	24,650	-
8.050	07/14/04	5,000	-
8.250	10/12/04	30,000	-
6.850	09/12/05	20,000	20,000
6.700	11/10/05	100,000	100,000
10.350	12/10/15	10,000	-
8.200	03/10/16	15,000	-
Total		1,424,950	(300,000)

* Delivery basis.

Note: Declines in holdings are shown in parentheses.

U.S. TREASURY AND FEDERAL AGENCY SECURITY HOLDINGS IN SYSTEM OPEN MARKET ACCOUNT

(In thousands of dollars)

U.S. Government-Sponsored Federal Agency Issues (Cont'd)

		Holdings* 12/31/95	Net Change since 12/31/94
FFCB			
Matured in 1994			(1,024,710)
Issues outstanding			
5.650 %	01/02/96	140,000	140,000
5.700	01/02/96	65,000	65,000
7.210	01/02/96	35,000	35,000
5.660	02/01/96	100,000	100,000
5.720	02/01/96	25,000	25,000
7.110	02/01/96	16,000	16,000
5.630	03/01/96	260,000	260,000
5.730	03/01/96	60,000	60,000
5.700	04/01/96	45,000	45,000
6.500	04/01/96	35,000	35,000
5.580	05/01/96	24,000	24,000
6.380	05/01/96	25,000	25,000
5.520	06/03/96	57,000	57,000
11.900	10/20/97	15,000	-
8.650	10/01/99	10,000	-
Total		912,000	(137,710)
FLB			
Issues outstanding			
7.95 %	10/21/96	49,795	-
7.35	01/20/97	16,650	-
Total		66,445	-
Total Agency Issues		2,633,995	(1,002,710)
Total Treasury & Agency Issues		380,831,461	12,675,517

* Delivery basis.
Note: Declines in holdings are shown in parentheses.

Holdings of Treasury Bills by the System Open Market Account
(In thousands of dollars)

December 31, 1995		Percent of the Total Amount
Maturity	Holdings*	Outstanding
1996		
1/04 #	172,430	26.0%
1/11 #	5,727,588	24.6%
1/18	7,206,960	26.2%
1/25	6,032,500	22.0%
2/01	6,805,115	26.5%
2/08	11,948,010	26.4%
2/15	6,765,485	25.0%
2/22	6,923,664	28.0%
2/29	7,090,180	
3/07	11,152,955	25.5%
3/14	6,594,780	23.9%
3/21	6,429,310	25.2%
3/28	6,379,235	25.8%
4/04	7,984,000	26.3%
4/11	3,493,600	26.4%
4/18	3,464,900	26.5%
4/25	3,900,000	29.9%
5/02	8,140,000	26.5%
5/09	3,900,000	26.5%
5/16	3,650,000	24.6%
5/23	3,550,000	28.1%
5/30	8,795,000	26.9%
6/06	3,600,000	25.6%
6/13	3,350,000	23.7%
6/20	3,550,000	25.2%
6/27	8,250,000	25.5%
7/25	4,750,000	25.9%
8/22	4,840,000	26.2%
9/19	4,915,000	25.5%
10/17	4,605,000	24.9%
11/14	4,700,000	24.9%
12/12	4,450,000	23.7%
Total #	183,115,712	24.1%

* Delivery basis.

Holdings were reduced by $7,000,000 thousand of January 4 maturities and $5,336,132 thousand of January 11 maturities that were sold under matched sale-purchase agreements.
The percentages include the amounts that had been sold under matched transactions.

Participation In the System Open Market Account

The following table shows the net change in each Reserve Bank's participation during 1995 as a result of reallocations.

Reallocations of Participation in the System Open Market Account During 1995

	Reallocations	Participations December 31, 1995
Boston	($1,174,000,000)	$18,729,516,973.95
New York	10,356,000,000	151,363,134,066.55
Philadelphia	1,584,000,000	16,522,176,356.20
Cleveland	(1,997,000,000)	21,954,101,067.99
Richmond	(1,160,000,000)	29,249,499,215.84
Atlanta	640,000,000	17,679,859,642.21
Chicago	271,000,000	43,905,225,144.71
St. Louis	2,221,000,000	17,428,116,048.22
Minneapolis	(1,471,000,000)	6,875,325,782.17
Kansas City	(1,737,000,000)	14,551,335,365.55
Dallas	(2,000,000,000)	12,347,659,207.15
San Francisco	(5,533,000,000)	30,225,512,129.46
	$15,072,000,000	
	$15,072,000,000	$380,831,461,000.00

Note: Declines are shown in parentheses.

Reallocation of participation in the System Open Market Account occurs each April and is based on net reserve flows between the districts. Gold certificates are reassigned among the districts according to the balance in each district's interdistrict settlement account. Those districts that are left with a below-average proportion of gold certificates to their Federal Reserve notes outstanding would receive additional gold certificates to return the proportion to the System average by paying for them with securities. A district which loses gold certificates is, in turn, compensated with additional securities. The Federal Reserve Bank of New York carries out the changes in portfolio shares on instruction from the Board of Governors. The resulting percentage of each Bank's participation in the System Account is used throughout the year to apportion the daily SOMA transactions.

System Account Earnings

Earnings from U.S. Government and Federal agency securities held in the System Open Market Account during the calendar year 1995 totaled $23,642,834,922, an increase of $4,515,827,344 from earnings in 1994.

The average earnings rate was 6.35 percent in 1995, compared with 5.43 percent in 1994. The earnings rate, which ended 1995 at 6.19 percent, was 5.98 percent on January 2, 1995. Average holdings increased to $373.4 billion in 1995 from $350.5 billion in 1994.

Note: Earnings reflect a 2 basis-point charge to foreign accounts for repurchase agreements.

The System Open Market Account earnings rate and the net accrual of earnings from the holdings on the last day of 1995 compared with the end of 1994 are shown in the following table:

(In thousands of dollars)

	12/31/95	12/31/94	Net Change
Total Portfolio*	$380,831,461	$368,155,944	$12,675,517
Earnings Rate**	6.17%	5.98%	19%
Net Daily Accrual of Earnings#	$64,205	$60,332	$3,873
Coupon Issues	$37,037	$34,969	$2,068
Treasury Bills	$27,168	$25,363	$1,805

* Delivery basis.

** The earnings rate on the last day of each year excludes interest earnings on holdings of most Federal agency issues because most agency securities accrue interest on a 30-day per month basis. (For accounting purposes, in 31-day months, no interest accrues on the last day and in February, interest earnings on the last day are adjusted to make the month's earnings equivalent to that of a 30-day month.)

\# Net after accrual of discount and amortization of premium balances.

Market Value of Portfolio

The net appreciation of System Open Market Account holdings of Treasury notes and bonds and Federal agency issues on December 31, 1995, as measured by the difference between book value (acquisition cost) and market bid quotations on notes and bonds, is shown below:

(In thousands of dollars)

	Par Value Holdings	Book Value	Market Value	Appreciation or (Depreciation)
Notes	151,013,150	151,557,159	155,782,380	4,225,221
Bonds	44,068,604	47,695,167	58,925,632	11,230,465
Agencies	2,633,995	2,633,137	2,696,430	63,293

Note: Declines are shown in parentheses.

Temporary Open Market Operations
(In thousands of dollars)

Federal Reserve Bank of New York
Repurchase Agreements Against U.S. Government and Federal Agency Securities

	1995	1994	1993
Purchases	368,545,000	361,972,000	510,509,900
Sales	365,273,000	364,594,000	505,391,900
Year-end Balance	13,862,000	10,590,000	13,212,000
Earnings on Repurchase Agreements	182,767	120,067	113,746

Matched Transactions*
System Open Market Account

	1995	1994	1993
Sales	2,153,401,430	1,701,309,417	1,475,085,001
Purchases	2,149,106,652	1,700,836,213	1,475,941,201
Outstanding transactions at year-end	12,336,132	8,041,354	7,568,150

Customer-Related RP Transactions

	1995	1994	1993
Sales	86,582,000	112,675,900	117,145,000
Purchases	86,582,000	112,675,900	117,145,000
Outstanding transactions at year-end	0	0	0

*Includes transactions in the market and with the System Account.