



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION



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Dear Mr. Carlock:

We recently reviewed disbursing and related activities at the Department of State's Regional Finance and Data Processing Center at Paris, France. We noted during the review that, although the USDO at the Center has had recurring requirements for British Pounds Sterling, he has not been following his normal practice of purchasing the Pounds in Europe. Instead, Treasury has been providing the Pounds needed by both the USDO and the U.S. Military in Europe.

We understand that this practice was established because at one time Treasury wanted to avoid having Pounds purchased in Europe when Pounds had already been acquired in the U.S. During the recent past, however, sufficient Pounds have not been on-hand in the U.S., so that Treasury has been filling the European requirements by purchasing Pounds costing about \$20 million a month from commercial banks in New York City for deposit to disbursing officer checking accounts in London. We were informed by Treasury officials that such purchases would probably continue to be needed because there were no prospects of accumulating large quantities of Pounds in the U.S.

We have previously informed officials of Treasury's Bureau of Accounts that we were inquiring into this matter because of the possibility that a reversion to the purchase of Pounds in Europe could result in savings, and we understand that the Bureau has since initiated a study of the rate differentials between the London and New York markets. Our purpose at this time is to apprise you of our findings in this area.

We obtained information from two American banks in London on their selling rates for Pounds on the same days that six recent Treasury purchases had been accomplished in New York City. One of the banks furnished only its closing rate on each of the days, while the second bank furnished both its best rate and its worst rate between 2 p.m. and 5 p.m. of each day--a period corresponding to the morning market period in New York.

We found that the second bank's rates consistently offered opportunities for purchasing the Pounds at a reduced dollar cost. If the Pounds purchased by Treasury in New York had been purchased

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from this London bank at its best rates, savings could have been realized on each of the six purchases. Moreover, if the Pounds had been purchased from the London bank at only average rates, i.e., at rates equidistant from the best and worst rates, savings could still have been realized. Even the worst rates quoted by the London Bank were either close to or better than the rates paid by Treasury in three of the six cases.

The following schedule contains the details supporting the above statements:

Date	Pounds Purchased From New York Banks		Rates available at an American Bank in London			London Savings	
	Cost in Millions	Rate	Best	Worst	Average	Best	Average
12-17-71	\$ 5.0	\$2.52960	\$2.52700	\$2.52920	\$2.52810	\$ 5,140	\$ 2,965
12-22-71	.9	2.55350	2.55290	2.55400	2.55345	212	-
1- 3-72	9.6	2.55300	2.55200	2.55310	2.55255	3,763	1,690
1-14-72	8.2	2.57600	2.56490	2.57400	2.56945	35,334	20,853
1-28-72	8.9	2.59130	2.59090	2.59160	2.59125	1,371	-
2- 3-72	1.3	2.60430	2.60310	2.60560	2.60435	599	-
Total	<u>833.9</u>					<u>\$16,119</u>	<u>\$25,528</u>

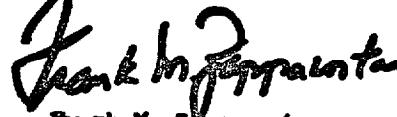
We recognize that the savings shown above represent a small fraction of the total cost incurred for the six purchases. We have nevertheless been impressed with the apparent consistency of the more favorable rates for Pounds in London, and we believe that the potential savings on all Pound purchases make it worth while to consider a change in Treasury's purchasing policy at this time.

The results of our test indicate to us that Treasury should authorize the purchase of Pounds in Europe by those officials who have requirements for Pounds except that, at any future time when large quantities of Pounds have actually accumulated in the U.S., Treasury should temporarily revert to the current practice until the accumulated Pounds have been utilized.

We will appreciate receiving your views on this subject, including the results of the study made by Treasury's Bureau of Accounts as well as explanations of any nonmonetary considerations that might be involved.

Copies of this report are being sent today to the Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations, the Office of Management and Budget, and the Assistant Secretary for Administration, Department of State.

Sincerely yours,



Frank M. Zappacosta
Assistant Director

The Honorable John K. Carlock
Fiscal Assistant Secretary
Department of the Treasury