

**FEDERAL RESERVE BANK
OF NEW YORK**

AT-10736(c)
November 3, 1994

VALUATION OF DEFINITIVE COLLATERAL

*To the Chief Executive Officers of All Depository
Institutions in the Second Federal Reserve District:*

During 1995, the Federal Reserve System and the U.S. Treasury will implement a change in the methodology used to determine the collateral value of assets that are pledged to secure certain funds held by or loaned to depository institutions. The revised collateral valuation practices will apply to definitive assets beginning in January 1995 and will be implemented for book-entry collateral in approximately two years. Under the revised methodology, collateral values will be based on available market prices to which margins will be applied. The value of collateral for which market prices are not available will not change at this time.

The revised valuation methodology applies to collateral pledged for Treasury Tax and Loan, Discount Window, and Payment System Risk accounts. Collateral pledged for Government Deposits in Agency Accounts ("Circular 176") and Obligations as Security in Lieu of Surety Bonds ("Circular 154") will not be subject to the revised methodology until the book-entry collateral phase is implemented.

The margins that will be applied to definitive collateral where market prices are available will be the same as those currently applied to the current outstanding value of the pledged asset. Collateral valuation methodology will continue to be reviewed and adjusted where appropriate. Where market prices are not available, a uniform valuation system is being developed by the Federal Reserve.

If your institution currently has securities pledged to any of the affected programs, your securities/investment officer will receive a separate package, providing more detailed information on the collateral valuation methodology. Please inform all other applicable departments of this change in methodology.

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To resolve any questions or to obtain additional information, please contact the appropriate program representative:

Discount Window and Payment System Risk:

William A. Walsh (212) 720-5394
Staff Director, Discount Division

Treasury Tax and Loan (TT&L):

Michael J. Falkowski (212) 720-6623
Assistant Chief, Accounting Operations Division

Safekeeping:

Thomas F. Curry (212) 720-6366
Staff Director, Fiscal Services Function

MICHELE S. GODFREY
Vice President and Secretary