



Financial Statements:  
The Federal Reserve Bank of Cleveland

As of and for the Years Ended  
December 31, 2020 and 2019 and  
Independent Auditors' Report

# Federal Reserve Bank of Cleveland

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# FEDERAL RESERVE BANK *of* CLEVELAND

CLEVELAND, OHIO 44101  
AREA CODE 216-579-2000

## Management's Report on Internal Control over Financial Reporting

March 17, 2021

To the Board of Directors of the Federal Reserve Bank of Cleveland:

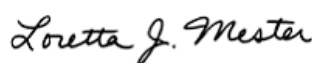
The management of the Federal Reserve Bank of Cleveland (Bank) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2020 and 2019, and the Statements of Operations, and Statements of Changes in Capital for the years then ended (the financial statements). The financial statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the FAM and include all disclosures necessary for such fair presentation.

The management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Bank's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the FAM. The Bank's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Bank's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with FAM, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its financial statements.

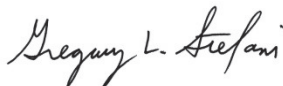
Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the Bank assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the Bank maintained effective internal control over financial reporting.

Federal Reserve Bank of Cleveland



Loretta J. Mester  
President &  
Chief Executive Officer



Gregory L. Stefani  
First Vice President &  
Chief Operating Officer



Michael W. Beedles  
Senior Vice President &  
Chief Financial Officer



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## Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System  
and the Board of Directors of the Federal Reserve Bank of Cleveland:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Cleveland (“FRB Cleveland”) as of December 31, 2020 and 2019, and the related statements of operations and changes in capital for the years then ended. We also have audited the FRB Cleveland’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRB Cleveland’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the FRB Cleveland’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The FRB Cleveland’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System (the “Board”) as described in Note 3 of the financial statements and as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (“FAM”). The FRB Cleveland’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the FRB Cleveland; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the FAM, and that receipts and expenditures of the FRB Cleveland are being made only in accordance with authorizations of management and directors of the FRB Cleveland; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRB Cleveland’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



As described in Note 3 to the financial statements, the FRB Cleveland has prepared these financial statements in conformity with the accounting principles established by the Board, as set forth in the FAM, which is a basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FRB Cleveland as of December 31, 2020 and 2019, and the results of its operations and changes in capital for the years then ended, on the basis of accounting described in Note 3. Also, in our opinion, the FRB Cleveland maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Cleveland, Ohio  
March 17, 2021

## **Abbreviations**

|                    |  |
|--------------------|--|
| <b>ACH</b>         | <b>Automated clearinghouse</b>   |
| <b>ASC</b>         | <b>Accounting Standards Codification</b>   |
| <b>ASU</b>         | <b>Accounting Standards Update</b>   |
| <b>BEP</b>         | <b>Benefit Equalization Retirement Plan</b>  |
| <b>Bureau</b>      | <b>Bureau of Consumer Financial Protection</b>                                       |
| <b>CARES</b>       | <b>Coronavirus Aid, Relief, and Economic Security</b>                                |
| <b>CCF</b>         | <b>Corporate Credit Facilities LLC</b>   |
| <b>CMBS</b>        | <b>Commercial mortgage-backed securities</b>   |
| <b>CPFF II</b>     | <b>CP Funding Facility II LLC</b>  |
| <b>ESF</b>         | <b>Exchange Stabilization Fund</b>   |
| <b>FAM</b>         | <b>Financial Accounting Manual for Federal Reserve Banks</b>                         |
| <b>FASB</b>        | <b>Financial Accounting Standards Board</b>  |
| <b>FIMA</b>        | <b>Foreign and International Monetary Authorities</b>                                |
| <b>FOMC</b>        | <b>Federal Open Market Committee</b>   |
| <b>FRA</b>         | <b>Federal Reserve Act</b>   |
| <b>FRBB</b>        | <b>Federal Reserve Bank of Boston</b>  |
| <b>FRBNY</b>       | <b>Federal Reserve Bank of New York</b>  |
| <b>GAAP</b>        | <b>Accounting principles generally accepted in the United States of America</b>      |
| <b>GSE</b>         | <b>Government-sponsored enterprise</b>   |
| <b>LLC</b>         | <b>Limited Liability Company</b>   |
| <b>MBS</b>         | <b>Mortgage-backed securities</b>  |
| <b>MMLF</b>        | <b>Money Market Mutual Fund Liquidity Facility</b>                                   |
| <b>Main Street</b> | <b>MS Facilities LLC</b>   |
| <b>MLF</b>         | <b>Municipal Liquidity Facility LLC</b>  |
| <b>OEB</b>         | <b>Office of Employee Benefits of the Federal Reserve System</b>                     |
| <b>PDCF</b>        | <b>Primary Dealer Credit Facility</b>  |
| <b>PMCCF</b>       | <b>Primary Market Corporate Credit Facility</b>                                      |
| <b>PPP</b>         | <b>Paycheck Protection Program</b>   |
| <b>PPPLF</b>       | <b>Paycheck Protection Program Liquidity Facility</b>                                |
| <b>RMBS</b>        | <b>Residential mortgage-backed securities</b>  |
| <b>SBA</b>         | <b>Small Business Administration</b>   |
| <b>SDR</b>         | <b>Special drawing rights</b>  |
| <b>SERP</b>        | <b>Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks</b> |
| <b>SMCCF</b>       | <b>Secondary Market Corporate Credit Facility</b>                                    |
| <b>SOMA</b>        | <b>System Open Market Account</b>  |
| <b>TALF II</b>     | <b>Term Asset-Backed Securities Loan Facility II LLC</b>                             |
| <b>TDF</b>         | <b>Term Deposit Facility</b>   |
| <b>TIPS</b>        | <b>Treasury Inflation-Protected Securities</b>                                       |
| <b>TBA</b>         | <b>To be announced</b>   |

# Federal Reserve Bank of Cleveland

## Statements of Condition

As of December 31, 2020 and December 31, 2019

(in millions)

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| <b><u>ASSETS</u></b>  |                   |                   |
| Gold certificates   | \$ 524            | \$ 531            |
| Special drawing rights certificates   | 237               | 237               |
| Coin  | 86                | 100               |
| Loans   |                   |                   |
| Loans to depository institutions  | 1                 | -                 |
| Other loans   | 1,559             | -                 |
| System Open Market Account:   |                   |                   |
| Securities purchased under agreements to resell   | 31                | 7,479             |
| Treasury securities, net (of which \$1,051 and \$1,217 is lent as of December 31, 2020 and December 31, 2019, respectively)                 | 155,054           | 70,265            |
| Federal agency and government-sponsored enterprise mortgage-backed securities, net  | 66,006            | 42,335            |
| Government-sponsored enterprise debt securities, net (of which \$0 is lent as of December 31, 2020 and December 31, 2019)                   | 82                | 78                |
| Foreign currency denominated investments, net   | 1,898             | 1,653             |
| Central bank liquidity swaps  | 1,528             | 298               |
| System Open Market Account accrued interest receivable  | 945               | 610               |
| Other accrued interest receivable   | 3                 | -                 |
| Bank premises and equipment, net  | 139               | 132               |
| Interdistrict settlement account  | 86,860            | 17,803            |
| Other assets  | 47                | 43                |
| Total assets  | <u>\$ 315,000</u> | <u>\$ 141,564</u> |
| <b><u>LIABILITIES AND CAPITAL</u></b>   |                   |                   |
| Federal Reserve notes outstanding, net  | \$ 93,431         | \$ 85,767         |
| System Open Market Account:   |                   |                   |
| Securities sold under agreements to repurchase  | 6,759             | 9,849             |
| Other liabilities   | 181               | 4                 |
| Deposits:   |                   |                   |
| Depository institutions   | 207,045           | 42,395            |
| Other deposits  | 4,020             | 40                |
| Interest payable to depository institutions and others  | 1                 | 25                |
| Accrued benefit costs   | 144               | 138               |
| Accrued remittances to the Treasury   | 13                | 40                |
| Other liabilities   | 16                | 14                |
| Total liabilities   | <u>311,610</u>    | <u>138,272</u>    |
| Reserve Bank capital  |                   |                   |
| Capital paid-in   | 2,800             | 2,709             |
| Surplus (including accumulated other comprehensive income (loss) of \$1 and (\$3) at December 31, 2020 and December 31, 2019, respectively) | 590               | 583               |
| Total Reserve Bank capital  | <u>3,390</u>      | <u>3,292</u>      |
| Total liabilities and capital   | <u>\$ 315,000</u> | <u>\$ 141,564</u> |

The accompanying notes are an integral part of these financial statements.

# Federal Reserve Bank of Cleveland

## Statements of Operations

For the years ended December 31, 2020 and December 31, 2019

(in millions)

|  |            | <u>2020</u>  | <u>2019</u>  |
|--|------------|--------------|--------------|
| <b><u>INTEREST INCOME</u></b>  |            |              |              |
| Loans  | Note 4     |              |              |
| Other loans  |            | \$ 4         | \$ -         |
| System Open Market Account:  | Note 5     |              |              |
| Securities purchased under agreements to resell  |            | 21           | 28           |
| Treasury securities, net   |            | 2,075        | 1,699        |
| Federal agency and government-sponsored enterprise mortgage-backed securities, net       |            | 989          | 1,249        |
| Government-sponsored enterprise debt securities, net                                     |            | 4            | 4            |
| Foreign currency denominated investments, net  |            | (3)          | (3)          |
| Central bank liquidity swaps   |            | 42           | 1            |
| Total interest income  |            | <u>3,132</u> | <u>2,978</u> |
| <b><u>INTEREST EXPENSE</u></b>   |            |              |              |
| System Open Market Account:  | Note 5     |              |              |
| Securities sold under agreements to repurchase   |            | 21           | 174          |
| Deposits:  |            |              |              |
| Depository institutions and others   |            | 233          | 731          |
| Total interest expense   |            | <u>254</u>   | <u>905</u>   |
| Net interest income  |            | <u>2,878</u> | <u>2,073</u> |
| <b><u>OTHER ITEMS OF INCOME (LOSS)</u></b>   |            |              |              |
| System Open Market Account:  | Note 5     |              |              |
| Federal agency and government-sponsored enterprise mortgage-backed securities gains, net |            | 21           | -            |
| Foreign currency translation gains (losses), net   |            | 132          | (14)         |
| Other  |            | 1            | 1            |
| Reimbursable services to government agencies   |            | 62           | 50           |
| Other components of net benefit costs  | Notes 8, 9 | (8)          | (7)          |
| Other  |            | 4            | 4            |
| Total other items of income  |            | <u>212</u>   | <u>34</u>    |
| <b><u>OPERATING EXPENSES</u></b>   |            |              |              |
| Salaries and benefits  |            | 160          | 149          |
| Occupancy  |            | 18           | 18           |
| Equipment  |            | 6            | 7            |
| Other  |            | 44           | 41           |
| Assessments:   |            |              |              |
| Board of Governors operating expenses and currency costs                                 |            | 133          | 118          |
| Bureau of Consumer Financial Protection  |            | 44           | 42           |
| Total operating expenses   |            | <u>405</u>   | <u>375</u>   |
| Reserve Bank net income from operations  |            | 2,685        | 1,732        |
| Earnings remittances to the Treasury   |            | <u>2,653</u> | <u>1,644</u> |
| Net income after providing for remittances to the Treasury                               |            | <u>32</u>    | <u>88</u>    |
| Change in prior service costs related to benefit plans                                   | Notes 8, 9 | 11           | (1)          |
| Change in actuarial (loss) gain related to benefit plans                                 | Notes 8, 9 | (7)          | 6            |
| Total other comprehensive income   |            | <u>4</u>     | <u>5</u>     |
| Comprehensive income   |            | <u>\$ 36</u> | <u>\$ 93</u> |

The accompanying notes are an integral part of these financial statements.



# Federal Reserve Bank of Cleveland

## Statements of Changes in Capital

For the years ended December 31, 2020 and December 31, 2019

(in millions, except share data)

|   | Reserve Bank Capital |   |               |        |                            |
|---|----------------------|---|---------------|--------|----------------------------|
|   | Capital paid-in      | Surplus                                       |               |        | Total Reserve Bank capital |
| Net income retained   |                      | Accumulated other comprehensive (loss) income | Total surplus |        |                            |
| Balance at December 31, 2018<br>(51,628,211 shares of Reserve Bank capital stock) | \$ 2,581             | \$ 553  | \$ (8)        | \$ 545 | \$ 3,126                   |
| Net change in capital stock issued<br>(2,547,027 shares)                          | 128                  | -   | -             | -      | 128                        |
| Comprehensive income:   |                      |   |               |        |                            |
| Net income after providing for<br>remittances to the Treasury                     | -                    | 88  | -             | 88     | 88                         |
| Other comprehensive income  | -                    | -   | 5             | 5      | 5                          |
| Dividends on capital stock  | -                    | (55)  | -             | (55)   | (55)                       |
| Net change in capital   | 128                  | 33  | 5             | 38     | 166                        |
| Balance at December 31, 2019<br>(54,175,238 shares of Reserve Bank capital stock) | \$ 2,709             | \$ 586  | \$ (3)        | \$ 583 | \$ 3,292                   |
| Net change in capital stock issued<br>(1,815,980 shares)                          | 91                   | -   | -             | -      | 91                         |
| Comprehensive income:   |                      |   |               |        |                            |
| Net income after providing for<br>remittances to the Treasury                     | -                    | 32  | -             | 32     | 32                         |
| Other comprehensive income  | -                    | -   | 4             | 4      | 4                          |
| Dividends on capital stock  | -                    | (29)  | -             | (29)   | (29)                       |
| Net change in Reserve Bank capital  | 91                   | 3   | 4             | 7      | 98                         |
| Balance at December 31, 2020<br>(55,991,218 shares of Reserve Bank capital stock) | \$ 2,800             | \$ 589  | \$ 1          | \$ 590 | \$ 3,390                   |

The accompanying notes are an integral part of these financial statements.

# Federal Reserve Bank of Cleveland

## Notes to Financial Statements

### (1) STRUCTURE

The Federal Reserve Bank of Cleveland (Bank) is part of the Federal Reserve System (System) and is one of the 12 Federal Reserve Banks (Reserve Banks) created by Congress under the Federal Reserve Act of 1913 (FRA), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the Fourth Federal Reserve District, which includes Ohio and portions of Kentucky, Pennsylvania, and West Virginia.

In accordance with the FRA, supervision and control of the Bank is exercised by a board of directors. The FRA specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System (Board of Governors) to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and state-chartered banks that apply and are approved for membership. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one director representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

In addition to the 12 Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee (FOMC). The Board of Governors, an independent federal agency, is charged by the FRA with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York (FRBNY), and, on a rotating basis, four other Reserve Bank presidents.

### (2) OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including transfers of funds, automated clearinghouse (ACH) operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, savings and loan holding companies, U.S. offices of foreign banking organizations, Edge and agreement corporations, and certain financial market utilities that have been designated as systemically important. Certain services are provided to foreign official and international account holders, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations and oversees these operations. The FOMC has selected the FRBNY to execute open market transactions on behalf of the Reserve Banks as provided in its annual authorization. As such, the FRBNY holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA). The FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, federal agency and government-sponsored enterprise (GSE) residential mortgage-backed securities (RMBS), federal agency and GSE commercial mortgage-backed securities (CMBS), and GSE debt securities; the purchase of these securities under agreements to resell; the sale of these securities under agreements to repurchase; and the exchange, at market prices, of these securities that are maturing. The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

To be prepared to meet the needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC authorized and directed the FRBNY to execute standalone spot and forward foreign exchange transactions in certain foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY holds these securities and agreements in the SOMA.

Because of the global character of bank funding markets, the System has, at times, coordinated with other central banks to provide liquidity. The FOMC authorized and directed the FRBNY to maintain standing temporary U.S. dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements with various foreign banks. The FRBNY holds amounts outstanding under these liquidity swap lines in the SOMA. These liquidity swap lines are subject to annual review and approval by the FOMC.

On March 19, 2020, the FOMC enhanced the standing U.S. dollar liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank in order to provide U.S. dollar liquidity to foreign markets. The FOMC established temporary swap U.S. dollar liquidity lines to the Reserve Bank of Australia, Banco Central do Brasil, Danmarks Nationalbank, the Bank of Korea, Banco de Mexico, the Norges Bank, the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and Sveriges Riksbank. In pledging foreign currency for U.S. currency, these central banks borrowed U.S. currency against collateral in their respective jurisdictions. The temporary swap lines will expire on September 30, 2021.

The FOMC has authorized and directed the FRBNY to conduct small-value exercises periodically for the purpose of testing operational readiness.

In response to the coronavirus pandemic, the Board of Governors authorized several lending facilities under section 13(3) of the Federal Reserve Act. The lending facilities are as follows:

- On March 17, 2020, the Board of Governors authorized the FRBNY to establish and operate the Primary Dealer Credit Facility (PDCF). The PDCF is a term loan facility that provides funding to primary dealers in exchange for a broad range of collateral and is intended to foster the functioning of financial markets more generally.
- On March 17, 2020, the Board of Governors authorized the FRBNY to establish and operate the Commercial Paper Funding Facility (CPFF). The purpose of the CPFF is to provide liquidity to short-term funding markets. The CPFF provides a liquidity backstop to U.S. issuers of commercial paper, including municipalities, by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY established the CP Funding Facility II Limited Liability Company (LLC) (CPFF II) to administer the CPFF. The Treasury, using the Exchange Stabilization Fund (ESF), made an equity investment in the CPFF II. The CPFF II will cease purchasing commercial paper on March 31, 2021.
- On March 18, 2020, the Board of Governors authorized the Federal Reserve Bank of Boston (FRBB) to establish and operate the Money Market Mutual Fund Liquidity Facility (MMLF). The MMLF provides funding to U.S. depository institutions and bank holding companies to finance their purchases of certain types of assets from money market mutual funds under certain conditions. No new credit extensions under the MMLF will be made after March 31, 2021.
- On March 22, 2020, the Board of Governors authorized the FRBNY to establish and operate the Term Asset-Backed Securities Loan Facility to provide loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by recently originated consumer and business loans. The FRBNY established the Term Asset-Backed Securities Loan Facility II LLC (TALF II) to administer the facility. The Treasury, using funds appropriated to the ESF through the Coronavirus Aid, Relief, and Economic

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

Security (CARES) Act, made an equity investment in TALF II. TALF II ceased extending new loans on December 31, 2020.

- On March 23, 2020, the Board of Governors authorized the FRBNY to establish two facilities to support credit to large employers — the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Money Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds. The FRBNY established the Corporate Credit Facilities LLC (CCF) to administer the PMCCF and SMCCF. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in CCF. The CCF ceased purchasing eligible assets on December 31, 2020.
- On April 8, 2020, the Board of Governors authorized the FRBNY to establish the Municipal Liquidity Facility to support lending to state, city, and county governments, certain multistate entities, and other issuers of municipal securities. The FRBNY established the Municipal Liquidity Facility LLC (MLF) to administer the facility. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in MLF. MLF ceased purchasing eligible assets on December 31, 2020.
- On April 8, 2020, the Board of Governors authorized each of the 12 Federal Reserve Banks to establish and operate the Paycheck Protection Program Liquidity Facility (PPPLF). The PPPLF offers a source of liquidity to financial institution lenders that lend to small businesses through the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). No new extensions of credit will be made under the PPPLF after June 30, 2021.
- The Board of Governors authorized the Main Street Lending Program (MSLP) to support lending to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the coronavirus pandemic. The MSLP lending program involves the purchase of participations in loans originated by eligible lenders. The MSLP includes five facilities: the Main Street New Loan Facility, Main Street Expanded Loan Facility, Main Street Priority Loan Facility, Nonprofit Organization New Loan Facility, and Nonprofit Organization Expanded Loan Facility. The FRBB established the MS Facilities LLC (Main Street) to administer the facilities. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in Main Street. Main Street ceased purchasing participations on January 8, 2021

Additional information related to the lending facility that the Bank participates in is provided in Note 4.

Although the Reserve Banks are separate legal entities, they collaborate on the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements among the Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks. Major services provided by the Bank on behalf of the System for which the costs were not reimbursed by the other Reserve Banks include Cash and Audit technology support and services related to enhancing payment efficiencies, integrity and accessibility.

### (3) SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of the nation’s central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the *Financial Accounting Manual for Federal Reserve*

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

*Banks* (FAM), which is issued by the Board of Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM. The financial statements and associated disclosures have been prepared in accordance with the FAM.

Due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank and given the System's unique responsibility to conduct monetary policy, the Board has adopted accounting principles and practices in the FAM that differ from accounting principles generally accepted in the United States of America (GAAP). The more significant differences are the presentation of all SOMA securities holdings at amortized cost, adjusted for credit impairment, if any, and the recording of all SOMA securities on a settlement-date basis. Amortized cost, rather than the fair value presentation, more appropriately reflects the financial position associated with the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are primarily motivated by monetary policy and financial stability objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to open market operations and do not motivate decisions related to policy or open market activities. Accounting for these securities on a settlement-date basis, rather than the trade-date basis required by GAAP, better reflects the timing of the transaction's effect on the quantity of reserves in the banking system.

In addition, the Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Bank's unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Operations, and Changes in Capital, and the accompanying notes to the financial statements. Other than those described above, the accounting policies described in FAM are generally consistent with those in GAAP and the references to GAAP in the notes to the financial statements highlight those areas where FAM is consistent with GAAP.

Preparing the financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts relating to the prior year have been reclassified in the Statements of Operations to conform to the current year presentation.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, \$3 million of net cost related to the Benefit Equalization Retirement Plan (BEP) and the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP) previously reported as "Operating expenses: Salaries and benefits" for the year ended December 31, 2019 has been reclassified to "Other items of income (loss): Other components of net benefit costs".

Significant accounts and accounting policies are explained below.

#### **a. Consolidation**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory

## **Federal Reserve Bank of Cleveland**

### **Notes to Financial Statements**

authority over some institutions previously supervised by the Reserve Banks in connection with those institutions' compliance with consumer protection statutes. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. The Board of Governors funds the Bureau through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationship to the Bureau and determined that it should not be consolidated in the Bank's financial statements.

#### **b. Gold and Special Drawing Rights Certificates**

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at \$42 2/9 per fine troy ounce. Gold certificates are recorded by the Reserve Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding 12 months.

Special drawing rights (SDR) are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange-stabilization operations. At the time SDR certificate transactions occur, the Board of Governors allocates the SDR certificates among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding calendar year. SDR certificates are recorded by the Reserve Banks at original cost.

#### **c. Coin**

The amount reported as coin in the Statements of Condition represents the face value of all United States coin held by the Bank. The Bank buys coin at face value from the U.S. Mint in order to fill depository institution orders.

#### **d. Loans**

Loans to depository institutions and other loans, consisting of the PPPLF, are reported at their outstanding principal balances and interest income is recognized on an accrual basis.

Loans are impaired when current information and events indicate that it is probable that the Bank will not receive the principal and interest that are due in accordance with the contractual terms of the loan agreement. Impaired loans are evaluated to determine whether an allowance for loan loss is required. The Bank has developed procedures for assessing the adequacy of any allowance for loan losses using all available information to identify incurred losses. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values. Generally, the Bank would discontinue recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest would be received in accordance with the terms of the loan agreement. If the Bank discontinues recording interest on an impaired loan, cash payments are first applied to principal until the loan balance is reduced to zero; subsequent payments are applied as recoveries of amounts previously deemed uncollectible, if any, and then as interest income.

## **Federal Reserve Bank of Cleveland**

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#### **e. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Lending**

The FRBNY may engage in purchases of securities under agreements to resell (repurchase agreements) with primary dealers and foreign official and international account holders. Transactions under these repurchase agreements are typically settled through a tri-party arrangement, in which a commercial custodial bank manages the collateral clearing, settlement, pricing, and pledging, and provides cash and securities custodial services for and on behalf of the FRBNY and the counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repurchase agreements primarily includes Treasury securities (including Treasury Inflation-Protected Securities (TIPS), Separate Trading of Registered Interest and Principal of Securities, and Treasury Floating Rate Notes); direct obligations of several federal agencies and GSEs, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE MBS. The repurchase agreements are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition. Interest income is reported as “System Open Market Account: Securities purchased under agreements to resell” in the Statements of Operations.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. Transactions under these reverse repurchase agreements are designed to have a margin of zero and are settled through a tri-party arrangement, similar to repurchase agreements. Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, federal agency and GSE MBS, or GSE debt securities that are held in the SOMA. Reverse repurchase agreements are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These reverse repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities sold under agreements to repurchase” and the related accrued interest payable is reported as a component of “System Open Market Account: Other liabilities” in the Statements of Condition. Interest expense is reported as “System Open Market Account: Securities sold under agreements to repurchase” in the Statements of Operations.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers, typically overnight, to facilitate the effective conduct of open market operations. The amortized cost basis of securities lent continues to be reported as “System Open Market Account: Treasury securities, net” and “System Open Market Account: Government-sponsored enterprise debt securities, net,” as appropriate, in the Statements of Condition. Securities lending transactions are fully collateralized by Treasury securities based on the fair values of the securities lent increased by a margin determined by the FRBNY. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of “Other items of income (loss): System Open Market Account: Other” in the Statements of Operations.

Activity related to repurchase agreements, reverse repurchase agreements, and securities lending is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year.

#### **f. Treasury Securities, Federal Agency and Government-Sponsored Enterprise Residential and Commercial Mortgage-Backed Securities, Government-Sponsored Enterprise Debt Securities, and Foreign Currency Denominated Investments**

Interest income on Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign currency denominated investments included in the SOMA is recorded when earned and includes inflation compensation on

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### Notes to Financial Statements

TIPS and amortization of premiums and accretion of discounts using the effective interest method. Interest income on federal agency and GSE MBS also includes gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized or accreted over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, federal agency and GSE MBS, and GSE debt securities are reported net of premiums and discounts in the Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts in the Statements of Operations.

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into RMBS dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell “to be announced” (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. During the years ended December 31, 2020 and 2019, the FRBNY executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as individual purchases and sales, on a settlement-date basis. Accounting for these transactions as purchases and sales, rather than as financing transactions, is appropriate because the purchase or sale component of the MBS TBA dollar roll is paired off or assigned prior to settlement and, as a result, there is no transfer and return of securities. Net gains (losses) resulting from MBS transactions are reported as a component of “Other items of income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net” in the Statements of Operations.

Foreign currency denominated investments, which can include foreign currency deposits, repurchase agreements, and government debt instruments, are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Any negative interest associated with these foreign currency denominated investments is included as a component of “Interest income: System Open Market Account: Foreign currency denominated investments, net” in the Statements of Operations. Foreign currency translation gains and losses that result from the daily revaluation of foreign currency denominated investments are reported as “Other items of income (loss): System Open Market Account: Foreign currency translation gains (losses), net” in the Statements of Operations.

Because the FRBNY enters into commitments to buy Treasury securities, federal agency and GSE MBS, and foreign government debt instruments and records the related securities on a settlement-date basis in accordance with the FAM, the related outstanding commitments are not reflected in the Statements of Condition.

Activity related to Treasury securities, federal agency and GSE MBS, and GSE debt securities including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year. Activity related to foreign currency denominated investments, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank on a percentage basis, adjusted annually in the second quarter of each year, calculated as the ratio of each Reserve Bank’s capital and surplus to the Reserve Banks’ aggregate capital and surplus at the preceding December 31.

#### **g. Central Bank Liquidity Swaps**

Central bank liquidity swaps, which are transacted between the FRBNY and a foreign central bank, can be structured as either U.S. dollar or foreign currency liquidity swap arrangements.

Central bank liquidity swaps activity, including the related income and expense, is allocated to each Reserve Bank based on a percentage basis, adjusted annually in the second quarter of each year, calculated as the ratio of each Reserve Bank’s capital and surplus to the Reserve Banks’ aggregate capital and surplus at the preceding December 31.



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### Notes to Financial Statements

#### *U.S. dollar liquidity swaps*

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. The Bank's allocated portion of the foreign currency amounts that the FRBNY acquires are reported as "System Open Market Account: Central bank liquidity swaps" in the Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the FRBNY based on the amount outstanding and the interest rate under the swap agreement. The Bank's allocated portion of the amount of compensation received during the term of the swap transaction is reported as "Interest income: System Open Market Account: Central bank liquidity swaps" in the Statements of Operations.

#### *Foreign currency liquidity swaps*

Foreign currency liquidity swap transactions involve the transfer by the FRBNY, at the prevailing market exchange rate, of a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency liquidity swap is recorded as a liability in the amount of foreign currency that the FRBNY receives.

#### **h. Bank Premises, Equipment, and Software**

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 50 years. Major alterations, renovations, and improvements are capitalized and depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred. Reserve Banks may transfer assets to other Reserve Banks or may lease property of other Reserve Banks.

Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

#### **i. Leases**

Leases are identified in accordance with FASB Accounting Standards Codification (ASC) 842, *Leases*. The Bank's material leases involve lessor and lessee arrangements for premises and are classified as operating leases. When the Bank is a lessee, the discount rate is based on a risk-free Treasury borrowing rate at lease commencement using a period comparable to the lease term. The Bank elected the short-term lease recognition exemption and to not separate lease components from non-lease components for all leases.

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

#### **j. Interdistrict Settlement Account**

Each Reserve Bank aggregates the payments due to or from other Reserve Banks. These payments result from transactions between the Reserve Banks and transactions that involve depository institution accounts held by other Reserve Banks, such as Fedwire funds and securities transfers and check and ACH transactions. The cumulative net amount due to or from the other Reserve Banks is reflected in the “Interdistrict settlement account” in the Statements of Condition.

An annual settlement of the interdistrict settlement account occurs in the second quarter of each year. As a result of the annual settlement, the balance in each Bank’s interdistrict settlement account is adjusted by an amount equal to the average balance in the account during the previous twelve-month period ended March 31. An equal and offsetting adjustment is made to each Bank’s allocated portion of SOMA assets and liabilities.

#### **k. Federal Reserve Notes**

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Bank’s assets are eligible to be pledged as collateral. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities pledged as collateral under reverse repurchase agreements is deducted from the eligible collateral value.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the FRA provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government.

“Federal Reserve notes outstanding, net” in the Statements of Condition represents the Bank’s Federal Reserve notes outstanding, reduced by the Bank’s currency holdings of \$7,610 million and \$8,280 million at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2020 and 2019, all gold certificates, all SDR certificates, and \$2,024 billion and \$1,743 billion, respectively, of domestic securities held in the SOMA were pledged as collateral. At December 31, 2020 and 2019, no investments denominated in foreign currencies were pledged as collateral.

#### **l. Deposits**

##### ***Depository Institutions***

Depository institutions’ deposits represent the reserve and service-related balances in the accounts that depository institutions hold at the Bank. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Excess reserves are those held by the depository institutions in excess of their required reserve balances. Effective March 26, 2020, the Board of Governors reduced reserve requirement ratios to zero and, as a result, all balances held were excess balances. The interest rates paid on required and excess reserve balances are determined by the Board of Governors, based on an FOMC-established target range for the federal funds rate. Interest expense on depository institutions’ deposits is accrued daily at the appropriate rate. Interest payable is reported as a component of “Interest payable to depository institutions and others” in the Statements of Condition.

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### Notes to Financial Statements

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest expense on deposits held by the Reserve Banks under the TDF is accrued daily at the appropriate rate. Interest payable is reported as a component of “Interest payable to depository institutions and others” in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2020 and 2019.

#### ***Other Deposits***

Other deposits include the Bank’s allocated portion of foreign central bank and foreign government deposits held at the FRBNY. Other deposits also include GSE deposits held by the Bank.

#### **m. Reserve Bank Capital Paid-in**

The FRA requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. These shares have a par value of \$100, and may not be transferred or hypothecated. As a member bank’s capital and surplus changes, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid in, and the remainder is subject to call. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

The FRA requires each Reserve Bank to pay each member bank an annual dividend based on the amount of the member bank’s paid-in capital stock and a rate determined by the member bank’s total consolidated assets. Member banks with total consolidated assets in excess of a threshold established in the FRA receive a dividend equal to the smaller of 6 percent or the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Member banks with total consolidated assets equal to or less than the threshold receive a dividend of 6 percent. The threshold for total consolidated assets was \$10.7 billion and \$10.5 billion for the years ended December 31, 2020 and 2019, respectively. This threshold is adjusted annually based on the Gross Domestic Product Price Index, which is published by the Bureau of Economic Analysis. The dividend is paid semiannually and is cumulative.

#### **n. Surplus**

The FRA limits aggregate Reserve Bank surplus. Effective February 9, 2018, the Bipartisan Budget Act of 2018 (Budget Act) reduced the statutory limit on aggregate Reserve Bank surplus from \$10 billion to \$7.5 billion. Effective May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act) further reduced the statutory limit on aggregate Reserve Bank surplus from \$7.5 billion to \$6.825 billion. Reserve Bank surplus is allocated among the Reserve Banks based on the ratio of each Bank’s capital paid-in to total Reserve Bank capital paid-in as of December 31 of each year. The amount reported as surplus by the Bank as of December 31, 2020 and 2019 represents the Bank’s allocated portion of surplus.

Accumulated other comprehensive income (loss) is reported as a component of “Surplus” in the Statements of Condition and the Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income (loss) is provided in Notes 9 and 10.

#### **o. Earnings Remittances to the Treasury**

The FRA requires that any amounts of the surplus funds of the Reserve Banks that exceed, or would exceed, the aggregate surplus limitation shall be transferred to the Board of Governors for transfer to the Treasury. The Bank remits excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain surplus at the Bank’s allocated portion of the aggregate surplus limitation. Remittances to the Treasury are made on a weekly basis. The amount of the remittances to the Treasury is reported as “Earnings remittances to the Treasury” in the Statements of Operations. The amount due to the Treasury is reported as “Accrued remittances to the Treasury” in the Statements of Condition. See Note 11 for additional information on earnings remittances to the Treasury.

## **Federal Reserve Bank of Cleveland**

### **Notes to Financial Statements**

If earnings during the year are not sufficient to provide for the costs of operations, payment of dividends, and maintaining surplus at an amount equal to the Bank's allocated portion of the aggregate surplus limitation, remittances to the Treasury are suspended. This decrease in earnings remittances to the Treasury results in a deferred asset that represents the amount of net earnings a Reserve Bank will need to realize before remittances to the Treasury resume.

#### **p. Income and Costs Related to Treasury Services**

When directed by the Secretary of the Treasury, the Bank is required by the FRA to serve as fiscal agent and depository of the United States Government. By statute, the Treasury has appropriations to pay for these services. Revenue generated by the Bank in performing fiscal agent activities is recognized when the Bank's performance obligations are satisfied. During the years ended December 31, 2020 and 2019, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

#### **q. Services Provided to Other Reserve Banks**

The Federal Reserve Bank of Atlanta has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions, the FRBNY has overall responsibility for managing the Reserve Banks' provision of Fedwire funds and securities services and National Settlement Service, and the Federal Reserve Bank of Chicago has overall responsibility for managing the Reserve Banks' provision of electronic access services to depository institutions. The Reserve Bank that has overall responsibility for managing these services recognizes the related total System revenue in its Statements of Operations. Revenue generated from these services is recognized when the Reserve Banks' performance obligations are satisfied. Because the performance obligations for these services are not for any specific term, the Reserve Banks responsible for managing these services recognize income based on usage of the services. Transaction prices are set by fee schedules published by the System. During the years ended December 31, 2020 and 2019, earned income was collected timely. The Bank is reimbursed for costs incurred to provide these services by the Reserve Banks responsible for managing these services and reports this reimbursement as a component of "Operating expenses: Other" in its Statements of Operations.

#### **r. Assessments**

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances. The Board of Governors also assesses each Reserve Bank for expenses related to producing, issuing, and retiring Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governor's 2009 annual report, which totaled \$4.98 billion. After 2013, the amount will be adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2020 and 2019 was 13.97 percent (\$695.9 million) and 13.63 percent (\$678.9 million), respectively. The Bank's assessment for Bureau funding is reported as "Operating expenses: Assessments: Bureau of Consumer Financial Protection" in the Statements of Operations.

#### **s. Taxes**

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were \$2 million for each of the years ended December 31, 2020 and 2019, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Operations.

#### **t. Restructuring Charges**

The Reserve Banks recognize restructuring charges for exit or disposal costs incurred as part of the closure of business activities in a particular location, the relocation of business activities from one location to another, or a fundamental reorganization that affects the nature of operations. Restructuring charges may include costs associated

## Federal Reserve Bank of Cleveland

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with employee separations, contract terminations, and asset impairments. Expenses are recognized in the period in which the Bank commits to a formalized restructuring plan or executes the specific actions contemplated in the plan and all criteria for financial statement recognition have been met.

The Bank had no significant restructuring activities in 2020 and 2019.

#### u. Recently Issued Accounting Standards

Other than the significant differences described in Note 3, the accounting policies described in FAM are generally consistent with those in GAAP. The following items represent recent GAAP accounting standards and describe how FAM was or will be revised to be consistent with these standards.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs including ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*; ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This revenue recognition accounting guidance was effective for the Bank for the year ended December 31, 2019, and the relevant disclosures have been included in Note 3p and Note 3q to the Bank's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This update was effective for the Bank for the year ended December 31, 2019, and did not have a material effect on the Bank's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet based on the value of discounted future lease payments. Lessor accounting is largely unchanged. Subsequently, the FASB issued a number of related ASUs, including in July 2018, ASU 2018-11, *Leases (Topic 842) Targeted Improvements*; in November 2018, ASU 2018-20, *Leases (Topic 842): Narrow-scope Improvements for Lessors*; and in November 2019, ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This guidance was effective for the Bank for the year ending December 31, 2020. The Bank used the modified retrospective transition approach to recognize material leases existing on January 1, 2020 with no adjustment to prior periods presented. There were no cumulative effect adjustments required. The Bank elected not to reassess prior determinations of whether an existing contract contains a lease, lease clarification, and initial direct costs. This update did not have a material effect on the Bank's financial statements. The relevant disclosures have been included prospectively in Note 7 to the Bank's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. Although earlier adoption is permitted, this update is effective for the Bank for the year ending December 31, 2023. The Board of Governors is continuing to evaluate the effect of this guidance on the Bank's financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update requires an employer to disaggregate the service cost component

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from the other components of net benefit cost. It also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. This update was effective for the Bank for the year ended December 31, 2019, and the relevant disclosures have been included in Note 9 to the Bank's financial statements. Adoption of ASU 2017-07 occurred in multiple phases. ASU 2017-07 was effective in 2019 for the System's pension and postretirement plans, then subsequently effective in 2020 for the BEP and SERP plans.

In August 2018, the FASB issued ASU 2018-14, *Retirement Benefits-Defined Benefits Plans-General (Subtopic 715-20)*. This update modifies the disclosure requirements for postretirement plans. The Board of Governors has adopted this standard for the year ending December 31, 2020. Relevant disclosure updates have been included in Note 9.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Board of Governors early adopted this standard for the year ended December 31, 2019. This update did not have a material effect on the Bank's financial statements.

#### (4) LOANS

##### Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or nonpersonal time deposits and have established discount window borrowing privileges). Each program has its own interest rate and interest is accrued using the applicable interest rate established at least every 14 days by the Bank's board of directors, subject to review and determination by the Board of Governors. Primary and secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

Primary, secondary, and seasonal loans are collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; asset-backed securities; corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Bank, which is typically fair value reduced by a margin. Loans to depository institutions are monitored daily to ensure that borrowers continue to meet eligibility requirements for these programs. If a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or, for primary or seasonal loans, may convert the loan to a secondary credit loan. Collateral levels are reviewed daily against outstanding obligations, and borrowers that no longer have sufficient collateral to support outstanding loans are required to provide additional collateral or to make partial or full repayment.

Interest income attributable to loans to depository institutions was immaterial during the years ended December 31, 2020 and 2019.

##### Other Loans

##### *Paycheck Protection Program Liquidity Facility*

PPPLF loans are non-recourse loans and only PPP loans guaranteed by the SBA are eligible to serve as collateral for the PPPLF. An eligible borrower may pledge SBA-guaranteed PPP loans that it has originated or purchased. Each PPPLF loan is equal to the maturity of the PPP loan pledged and has a term of two years or five years based on the PPP loan origination date. In an event of default, PPP covered loans are fully guaranteed as to principal and

## Federal Reserve Bank of Cleveland Notes to Financial Statements

accrued interest by the SBA. The Bank has the rights to any such loan forgiveness reimbursement by the SBA to the eligible borrower. The eligible borrower shall pay fully collected funds to the Bank. Interest income attributable to the PPPLF was \$4 million during the year ended December 31, 2020. At December 31, 2020, no PPPLF loans were over 90 days past due or on nonaccrual status.

The amounts outstanding at December 31, 2020 for loans to depository institutions and other loans were as follows (in millions):

|   | <u>2020</u>     |
|---|-----------------|
| Loans to depository institutions        |                 |
| Primary, secondary, and seasonal credit | \$ 1            |
| Other loans                             |                 |
| PPPLF                                   | <u>1,559</u>    |
| Total loans                             | <u>\$ 1,560</u> |

The remaining maturity distribution of loans outstanding at December 31, 2020, is as follows (in millions):

|   | <u>Remaining Maturity</u> |                               |                              |                                   | <u>Total</u>    |
|---|---------------------------|-------------------------------|------------------------------|-----------------------------------|-----------------|
|   | <u>Within 15<br/>days</u> | <u>16 days to<br/>90 days</u> | <u>91 days to<br/>1 year</u> | <u>Over 1 year<br/>to 5 years</u> |                 |
| December 31, 2020                       |                           |                               |                              |                                   |                 |
| Loans to depository institutions        |                           |                               |                              |                                   |                 |
| Primary, secondary, and seasonal credit | \$ -                      | \$ 1                          | \$ -                         | \$ -                              | \$ 1            |
| Other loans                             |                           |                               |                              |                                   |                 |
| PPPLF                                   | <u>-</u>                  | <u>-</u>                      | <u>-</u>                     | <u>1,559</u>                      | <u>1,559</u>    |
| Total other loans                       | <u>-</u>                  | <u>-</u>                      | <u>-</u>                     | <u>1,559</u>                      | <u>1,559</u>    |
| Total loans                             | <u>\$ -</u>               | <u>\$ 1</u>                   | <u>\$ -</u>                  | <u>\$ 1,559</u>                   | <u>\$ 1,560</u> |

The Bank had no loans outstanding as of December 31, 2019.

At December 31, 2020 and 2019, the Bank did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2020 and 2019.

### (5) SYSTEM OPEN MARKET ACCOUNT

#### a. Domestic Securities Holdings

The FRBNY executes domestic open market operations and, on behalf of the Reserve Banks, holds the resulting securities in the SOMA. Pursuant to the FOMC directives, in 2019, the FRBNY continued to roll over principal payments from the SOMA holdings of Treasury securities maturing during each calendar month that exceeded the monthly cap of \$30 billion. Beginning in May 2019, the FOMC directed the FRBNY to slow the reduction of its holdings of Treasury securities by reducing the monthly cap on Treasury redemptions to \$15 billion. Additionally, during the period from January through July 2019, the FRBNY continued to reinvest in federal agency and GSE MBS the amount of principal payments from the SOMA holdings of GSE debt securities and federal agency and GSE MBS received during each calendar month that exceeded a monthly cap of \$20 billion per month, as directed by the FOMC. Beginning in August 2019, the FOMC directed the FRBNY to conclude the reduction of aggregate SOMA holdings and to roll over at auction all maturing Treasury securities and reinvest up to \$20 billion of principal payments of GSE debt and federal agency and GSE MBS received during each calendar month in Treasury securities and the remainder in federal agency and GSE MBS; and to roll over at auction all maturing Treasury

## Federal Reserve Bank of Cleveland Notes to Financial Statements

securities in the SOMA portfolio. Beginning in October 2019, the FOMC also directed the FRBNY to purchase Treasury bills, at least to the second quarter of 2020, to maintain ample reserve balances at or above levels that prevailed in early September 2019.

On March 16, 2020, in response to risks to economic activity posed by the coronavirus, the FOMC directed the FRBNY to increase the SOMA portfolio by purchasing at least \$500 billion of Treasury securities and \$200 billion of RMBS at a pace appropriate to smooth market functioning, to roll over at auction all principal payments from the System's holdings of Treasury securities, and to reinvest all principal payments from the System's holdings of agency debt and agency MBS in agency mortgage-backed securities. On March 23, 2020, the FOMC further directed the FRBNY to increase the SOMA portfolio, with no explicit limit, by purchasing Treasury securities and RMBS and begin purchasing CMBS as needed to sustain smooth functioning of markets for those securities. In December 2020, the FOMC directed the FRBNY to purchase Treasury securities at a pace of \$80 billion per month and purchase RMBS at a pace of \$40 billion per month and to increase the SOMA portfolio by purchasing Treasury securities, RMBS, and CMBS as needed to sustain smooth functioning of markets for these securities.

The Bank's allocated share of activity related to domestic open market operations was 3.129 percent and 2.926 percent at December 31, 2020 and 2019, respectively.

The Bank's allocated share of Treasury securities, federal agency and GSE MBS, and GSE debt securities, net, excluding accrued interest, held in the SOMA at December 31, 2020 and 2019 was as follows (in millions):

|                                  | Allocated to the Bank |                      |                     |                      |                  |                      |                     |                      |
|----------------------------------|-----------------------|----------------------|---------------------|----------------------|------------------|----------------------|---------------------|----------------------|
|                                  | 2020                  |                      |                     |                      | 2019             |                      |                     |                      |
|                                  | Par                   | Unamortized Premiums | Unaccrued Discounts | Total amortized cost | Par              | Unamortized Premiums | Unaccrued Discounts | Total amortized cost |
| Treasury securities:             |                       |                      |                     |                      |                  |                      |                     |                      |
| Bills                            | \$ 10,201             | \$ -                 | \$ (3)              | \$ 10,198            | \$ 4,960         | \$ -                 | \$ (31)             | \$ 4,929             |
| Notes                            | 95,833                | 2,257                | (50)                | 98,040               | 37,745           | 96                   | (93)                | 37,748               |
| Bonds                            | 40,668                | 6,263                | (115)               | 46,816               | 25,434           | 2,411                | (257)               | 27,588               |
| Total Treasury securities        | <u>146,702</u>        | <u>8,520</u>         | <u>(168)</u>        | <u>155,054</u>       | <u>68,139</u>    | <u>2,507</u>         | <u>(381)</u>        | <u>70,265</u>        |
| Federal agency and GSE MBS       |                       |                      |                     |                      |                  |                      |                     |                      |
| Residential                      | \$ 63,501             | \$ 2,167             | \$ (5)              | \$ 65,663            | \$ 41,215        | \$ 1,128             | \$ (8)              | \$ 42,335            |
| Commercial                       | 308                   | 35                   | -                   | 343                  | -                | -                    | -                   | -                    |
| Total Federal agency and GSE MBS | <u>63,809</u>         | <u>2,202</u>         | <u>(5)</u>          | <u>66,006</u>        | <u>41,215</u>    | <u>1,128</u>         | <u>(8)</u>          | <u>42,335</u>        |
| GSE debt securities              | <u>73</u>             | <u>9</u>             | <u>-</u>            | <u>82</u>            | <u>69</u>        | <u>9</u>             | <u>-</u>            | <u>78</u>            |
|                                  |                       |                      |                     |                      |                  |                      |                     |                      |
|                                  | Total SOMA            |                      |                     |                      |                  |                      |                     |                      |
|                                  | 2020                  |                      |                     |                      | 2019             |                      |                     |                      |
|                                  | Par                   | Unamortized Premiums | Unaccrued Discounts | Total amortized cost | Par              | Unamortized Premiums | Unaccrued Discounts | Total amortized cost |
| Treasury securities:             |                       |                      |                     |                      |                  |                      |                     |                      |
| Bills                            | \$ 326,044            | \$ -                 | \$ (107)            | \$ 325,937           | \$ 169,525       | \$ -                 | \$ (1,064)          | \$ 168,461           |
| Notes                            | 3,063,037             | 72,129               | (1,590)             | 3,133,576            | 1,290,107        | 3,275                | (3,181)             | 1,290,201            |
| Bonds                            | 1,299,848             | 200,197              | (3,687)             | 1,496,358            | 869,301          | 82,422               | (8,781)             | 942,942              |
| Total Treasury securities        | <u>4,688,929</u>      | <u>272,326</u>       | <u>(5,384)</u>      | <u>4,955,871</u>     | <u>2,328,933</u> | <u>85,697</u>        | <u>(13,026)</u>     | <u>2,401,604</u>     |
| Federal agency and GSE MBS       |                       |                      |                     |                      |                  |                      |                     |                      |
| Residential                      | \$2,029,627           | \$ 69,274            | \$ (148)            | \$2,098,753          | \$1,408,677      | \$ 38,571            | \$ (259)            | \$1,446,989          |
| Commercial                       | 9,840                 | 1,122                | -                   | 10,962               | -                | -                    | -                   | -                    |
| Total Federal agency and GSE MBS | <u>2,039,467</u>      | <u>70,396</u>        | <u>(148)</u>        | <u>2,109,715</u>     | <u>1,408,677</u> | <u>38,571</u>        | <u>(259)</u>        | <u>1,446,989</u>     |
| GSE debt securities              | <u>2,347</u>          | <u>287</u>           | <u>-</u>            | <u>2,634</u>         | <u>2,347</u>     | <u>310</u>           | <u>-</u>            | <u>2,657</u>         |



## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

During the years ended December 31, 2020 and 2019, the FRBNY entered into repurchase agreements and reverse repurchase agreements as part of its monetary policy activities. These operations have been undertaken as necessary to maintain the federal funds rate in a target range. In addition, reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.

On April 6, 2020, the Foreign and International Monetary Authorities (FIMA) Repo Facility was established to allow FIMA account holders to temporarily exchange their U.S. Treasury securities for U.S. dollars, which can then be available to institutions in their jurisdictions. Administered by the FRBNY, the FIMA Repo Facility terminates on September 30, 2021. Consistent with the treatment of other repurchase agreements, these are accounted for as financing transactions and reported at the contractual amount as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition. Interest income is reported as “System Open Market Account: Securities purchased under agreements to resell” in the Statements of Operations.

Financial information related to repurchase agreements allocated to the Bank and held in the SOMA for the years ended December 31, 2020 and 2019 was as follows (in millions):

|   | Allocated to the Bank |              | Total SOMA    |                |
|---|-----------------------|--------------|---------------|----------------|
|   | 2020                  | 2019         | 2020          | 2019           |
| <u>Primary dealers</u>  |                       |              |               |                |
| Contract amount outstanding, end of year                                | \$ -                  | \$ 7,479     | \$ -          | \$ 255,619     |
| Average daily amount outstanding, during the year                       | 2,924                 | 1,667        | 97,711        | 56,971         |
| Maximum balance outstanding, during the year                            | 14,503                | 7,605        | 495,700       | 259,950        |
| <u>FIMA Repo Facility</u>   |                       |              |               |                |
| Contract amount outstanding, end of year                                | \$ 31                 | \$ -         | \$ 1,000      | \$ -           |
| Average daily amount outstanding, during the year                       | 9                     | -            | 292           | -              |
| Maximum balance outstanding, during the year                            | 44                    | -            | 1,404         | -              |
| Total repurchase agreement contract amount outstanding, end of year     | <u>31</u>             | <u>7,479</u> | <u>1,000</u>  | <u>255,619</u> |
| Supplemental information - interest income:                             |                       |              |               |                |
| Primary dealers   | 21                    | 28           | 722           | 971            |
| FIMA Repo Facility  | -                     | -            | 1             | -              |
| Total interest income - securities purchased under agreements to resell | <u>\$ 21</u>          | <u>\$ 28</u> | <u>\$ 723</u> | <u>\$ 971</u>  |

The contract amount outstanding as of December 31, 2020 of repurchase agreements that were transacted with primary dealers had a remaining term of one business day and matured on January 4, 2021.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

Financial information related to reverse repurchase agreements allocated to the Bank and held in the SOMA for the years ended December 31, 2020 and 2019 was as follows (in millions):

|   | Allocated to the Bank |                 | Total SOMA        |                   |
|---|-----------------------|-----------------|-------------------|-------------------|
|   | 2020                  | 2019            | 2020              | 2019              |
| <u>Primary dealers and expanded counterparties:</u>                         |                       |                 |                   |                   |
| Contract amount outstanding, end of year                                    | \$ 302                | \$ 1,875        | \$ 9,651          | \$ 64,087         |
| Average daily amount outstanding, during the year                           | 257                   | 145             | 8,749             | 4,981             |
| Maximum balance outstanding, during the year                                | 8,336                 | 1,875           | 284,908           | 64,087            |
| Securities pledged (par value), end of year                                 | 199                   | 1,770           | 6,351             | 60,490            |
| Securities pledged (fair value), end of year                                | 302                   | 1,873           | 9,666             | 64,008            |
| <u>Foreign official and international accounts:</u>                         |                       |                 |                   |                   |
| Contract amount outstanding, end of year                                    | \$ 6,457              | \$ 7,974        | \$ 206,400        | \$ 272,562        |
| Average daily amount outstanding, during the year                           | 6,931                 | 7,819           | 226,215           | 269,399           |
| Maximum balance outstanding, during the year                                | 9,077                 | 8,962           | 290,113           | 306,311           |
| Securities pledged (par value), end of year                                 | 6,278                 | 7,757           | 200,673           | 265,139           |
| Securities pledged (fair value), end of year                                | 6,458                 | 7,975           | 206,410           | 272,579           |
| Total reverse repurchase agreement contract amount outstanding, end of year | <u>\$ 6,759</u>       | <u>\$ 9,849</u> | <u>\$ 216,051</u> | <u>\$ 336,649</u> |
| Supplemental information - interest expense:                                |                       |                 |                   |                   |
| Primary dealers and expanded counterparties                                 | \$ 1                  | \$ 3            | \$ 14             | \$ 102            |
| Foreign official and international accounts                                 | <u>20</u>             | <u>171</u>      | <u>697</u>        | <u>5,910</u>      |
| Total interest expense - securities sold under agreements to repurchase     | <u>\$ 21</u>          | <u>\$ 174</u>   | <u>\$ 711</u>     | <u>\$ 6,012</u>   |

Securities pledged as collateral, at December 31, 2020 and 2019, consisted solely of Treasury securities. The contract amount outstanding as of December 31, 2020 of reverse repurchase agreements that were transacted with primary dealers and expanded counterparties had a remaining term of one business day and matured on January 4, 2021. The contract amount outstanding as of December 31, 2020 of reverse repurchase agreements that were transacted with foreign official and international account holders had a remaining term of one business day and matured on January 4, 2021.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

The remaining maturity distribution of Treasury securities, federal agency and GSE MBS bought outright, GSE debt securities, repurchase agreements, and reverse repurchase agreements that were allocated to the Bank at December 31, 2020 and 2019 was as follows (in millions):

|   | <u>Within 15<br/>days</u> | <u>16 days to 90<br/>days</u> | <u>91 days to 1<br/>year</u> | <u>Over 1 year<br/>to 5 years</u> | <u>Over 5 years<br/>to 10 years</u> | <u>Over 10 years</u> | <u>Total</u> |
|---|---------------------------|-------------------------------|------------------------------|-----------------------------------|-------------------------------------|----------------------|--------------|
| <b>December 31, 2020:</b>   |                           |                               |                              |                                   |                                     |                      |              |
| Treasury securities (par value)                                   | \$ 1,560                  | \$ 10,106                     | \$ 20,691                    | \$ 55,057                         | \$ 26,183                           | \$ 33,105            | \$ 146,702   |
| Federal agency and GSE residential MBS (par value) <sup>1</sup>   | -                         | -                             | -                            | 60                                | 2,115                               | 61,326               | 63,501       |
| Federal agency and GSE commercial MBS (par value) <sup>1</sup>    | -                         | -                             | -                            | 3                                 | 140                                 | 165                  | 308          |
| GSE debt securities (par value)                                   | -                         | -                             | -                            | -                                 | 57                                  | 16                   | 73           |
| Securities purchased under agreements to resell (contract amount) | 31                        | -                             | -                            | -                                 | -                                   | -                    | 31           |
| Securities sold under agreements to repurchase (contract amount)  | 6,759                     | -                             | -                            | -                                 | -                                   | -                    | 6,759        |
| <b>December 31, 2019:</b>   |                           |                               |                              |                                   |                                     |                      |              |
| Treasury securities (par value)                                   | \$ 242                    | \$ 3,385                      | \$ 10,211                    | \$ 26,151                         | \$ 9,409                            | \$ 18,741            | \$ 68,139    |
| Federal agency and GSE MBS (par value) <sup>1</sup>               | -                         | -                             | -                            | 33                                | 2,151                               | 39,031               | 41,215       |
| GSE debt securities (par value)                                   | -                         | -                             | -                            | -                                 | 14                                  | 55                   | 69           |
| Securities purchased under agreements to resell (contract amount) | 6,016                     | 1,463                         | -                            | -                                 | -                                   | -                    | 7,479        |
| Securities sold under agreements to repurchase (contract amount)  | 9,849                     | -                             | -                            | -                                 | -                                   | -                    | 9,849        |

<sup>1</sup>The par amount shown for federal agency and GSE residential MBS and commercial MBS is the remaining principal balance of the securities.

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted-average life of these securities differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions. The estimated weighted-average life of RMBS was approximately 3.1 and 5.3 years as of December 31, 2020 and 2019, respectively. The estimated weighted-average life of CMBS was approximately 8.8 years as of December 31, 2020.

The amortized cost and par value of Treasury securities that were loaned from the SOMA under securities lending agreements allocated to the Bank and held in the SOMA at December 31, 2020 and 2019 were as follows (in millions):

|                                      | <u>Allocated to the Bank</u> |             | <u>Total SOMA</u> |             |
|--------------------------------------|------------------------------|-------------|-------------------|-------------|
|                                      | <u>2020</u>                  | <u>2019</u> | <u>2020</u>       | <u>2019</u> |
| Treasury securities (amortized cost) | \$ 1,051                     | \$ 1,217    | \$ 33,603         | \$ 41,602   |
| Treasury securities (par value)      | 990                          | 1,213       | 31,635            | 41,450      |

Securities pledged as collateral by the counterparties in the securities lending arrangements at December 31, 2020 and 2019 consisted solely of Treasury securities. The securities lending agreements outstanding as of December 31, 2020 had a term of one business day and matured on January 4, 2021.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

The FRBNY enters into commitments to buy and sell Treasury securities and records the related securities on a settlement-date basis. As of December 31, 2020, the total purchase price of the Treasury securities under outstanding commitments was \$5,232 million, of which \$164 million was allocated to the Bank. These commitments had contractual settlement dates extending through January 5, 2021.

The FRBNY enters into commitments to buy and sell federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2020, the total purchase price of RMBS under outstanding purchase commitments was \$202,127 million, of which \$10,433 million was related to dollar rolls. As of December 31, 2020, there were no outstanding purchase commitments for CMBS. The total purchase price of outstanding purchase commitments allocated to the Bank was \$6,324 million, of which \$326 million was related to dollar rolls. These commitments, which had contractual settlement dates extending through February 18, 2021, are for the purchase of TBA RMBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. As of December 31, 2020, the total sales price of RMBS under outstanding sales commitments was \$88 million, of which \$3 million is allocated to the Bank. These commitments had contractual settlement dates extending through January 14, 2021. As of December 31, 2020, there were no outstanding sales commitments for CMBS. RMBS and CMBS commitments are subject to varying degrees of off-balance market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash margin for RMBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets held in the SOMA consist primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio and were immaterial at December 31, 2020 and 2019. Other liabilities include the FRBNY's accrued interest payable related to repurchase agreements transactions, obligations to return cash margin posted by counterparties as collateral under commitments to purchase and sell RMBS, and obligations that arise from the failure of a seller to deliver Treasury securities and RMBS and CMBS to the FRBNY on the settlement date. Although the FRBNY has ownership of and records its investments in Treasury securities and RMBS and CMBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered. The amount of other liabilities allocated to the Bank and held in the SOMA at December 31, 2020 and 2019 was as follows (in millions):

|  | Allocated to the Bank |             | Total SOMA      |               |
|--|-----------------------|-------------|-----------------|---------------|
|  | 2020                  | 2019        | 2020            | 2019          |
| <b>Other liabilities:</b>                          |                       |             |                 |               |
| Accrued interest payable                           | \$ -                  | \$ 1        | \$ -            | \$ 14         |
| Cash margin  | 181                   | 3           | 5,778           | 115           |
| Obligations from residential MBS transaction fails | -                     | -           | 3               | -             |
| Total other liabilities                            | <u>\$ 181</u>         | <u>\$ 4</u> | <u>\$ 5,781</u> | <u>\$ 129</u> |

Accrued interest receivable on domestic securities held in the SOMA was \$29,978 million and \$20,503 million as of December 31, 2020 and 2019, respectively, of which \$938 million and \$600 million, respectively, was allocated to the Bank. Accrued interest receivable on repurchase agreements was \$174 million as of December 31, 2019, of which \$5 million was allocated to the Bank. Accrued interest receivable on repurchase agreements was immaterial as of December 31, 2020. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

Information about transactions related to Treasury securities, federal agency and GSE MBS, and GSE debt securities allocated to the Bank and held in the SOMA during the years ended December 31, 2020 and 2019, is summarized as follows (in millions):

|  | Allocated to the Bank |                  |                  | Total Treasury securities |
|--|-----------------------|------------------|------------------|---------------------------|
|  | Bills                 | Notes            | Bonds            |                           |
| Balance at December 31, 2018                             | \$ -                  | \$ 39,235        | \$ 26,041        | \$ 65,276                 |
| Purchases <sup>1</sup>                                   | 5,559                 | 7,990            | 1,485            | 15,034                    |
| Sales <sup>1</sup>                                       | (1)                   | (1)              | -                | (2)                       |
| Realized gains (losses), net <sup>2</sup>                | -                     | -                | -                | -                         |
| Principal payments and maturities                        | (639)                 | (10,639)         | (600)            | (11,878)                  |
| Amortization of premiums and accretion of discounts, net | 10                    | (53)             | (217)            | (260)                     |
| Inflation adjustment on inflation-indexed securities     | -                     | 21               | 51               | 72                        |
| Annual reallocation adjustment <sup>3</sup>              | -                     | 1,195            | 828              | 2,023                     |
| Subtotal of activity <sup>1</sup>                        | <u>4,929</u>          | <u>(1,487)</u>   | <u>1,547</u>     | <u>4,989</u>              |
| Balance at December 31, 2019                             | 4,929                 | 37,748           | 27,588           | 70,265                    |
| Purchases <sup>1</sup>                                   | 29,531                | 69,372           | 17,660           | 116,563                   |
| Sales <sup>1</sup>                                       | -                     | (2)              | -                | (2)                       |
| Realized gains (losses), net <sup>2</sup>                | -                     | -                | -                | -                         |
| Principal payments and maturities                        | (24,993)              | (13,533)         | (734)            | (39,260)                  |
| Amortization of premiums and accretion of discounts, net | 72                    | (555)            | (322)            | (805)                     |
| Inflation adjustment on inflation-indexed securities     | -                     | 56               | 53               | 109                       |
| Annual reallocation adjustment <sup>3</sup>              | 659                   | 4,954            | 2,571            | 8,184                     |
| Subtotal of activity <sup>1</sup>                        | <u>5,269</u>          | <u>60,292</u>    | <u>19,228</u>    | <u>84,789</u>             |
| Balance at December 31, 2020                             | <u>\$ 10,198</u>      | <u>\$ 98,040</u> | <u>\$ 46,816</u> | <u>\$ 155,054</u>         |
| Year-ended December 31, 2019                             |                       |                  |                  |                           |
| Supplemental information - par value of transactions:    |                       |                  |                  |                           |
| Purchases <sup>4</sup>                                   | \$ 5,600              | \$ 7,971         | \$ 1,412         | \$ 14,983                 |
| Sales  | (1)                   | (1)              | -                | (2)                       |
| Year-ended December 31, 2020                             |                       |                  |                  |                           |
| Supplemental information - par value of transactions:    |                       |                  |                  |                           |
| Purchases <sup>4</sup>                                   | \$ 29,573             | \$ 66,721        | \$ 13,669        | \$ 109,963                |
| Sales  | -                     | (2)              | -                | (2)                       |

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 3j.

<sup>4</sup> Includes inflation compensation.

# Federal Reserve Bank of Cleveland

## Notes to Financial Statements

|  | Total SOMA |              |              | Total Treasury securities |
|--|------------|--------------|--------------|---------------------------|
|  | Bills      | Notes        | Bonds        |                           |
| Balance at December 31, 2018                             | \$ -       | \$ 1,383,929 | \$ 918,533   | \$ 2,302,462              |
| Purchases <sup>1</sup>                                   | 190,009    | 273,742      | 50,899       | 514,650                   |
| Sales <sup>1</sup>                                       | (50)       | (50)         | -            | (100)                     |
| Realized gains (losses), net <sup>2</sup>                | -          | -            | -            | -                         |
| Principal payments and maturities                        | (21,824)   | (366,328)    | (20,755)     | (408,907)                 |
| Amortization of premiums and accretion of discounts, net | 326        | (1,828)      | (7,468)      | (8,970)                   |
| Inflation adjustment on inflation-indexed securities     | -          | 736          | 1,733        | 2,469                     |
| Subtotal of activity <sup>1</sup>                        | 168,461    | (93,728)     | 24,409       | 99,142                    |
| Balance at December 31, 2019                             | 168,461    | 1,290,201    | 942,942      | 2,401,604                 |
| Purchases <sup>1</sup>                                   | 961,511    | 2,297,336    | 586,011      | 3,844,858                 |
| Sales <sup>1</sup>                                       | -          | (53)         | -            | (53)                      |
| Realized gains (losses), net <sup>2</sup>                | -          | 2            | -            | 2                         |
| Principal payments and maturities                        | (806,405)  | (437,890)    | (23,880)     | (1,268,175)               |
| Amortization of premiums and accretion of discounts, net | 2,370      | (17,816)     | (10,447)     | (25,893)                  |
| Inflation adjustment on inflation-indexed securities     | -          | 1,796        | 1,732        | 3,528                     |
| Subtotal of activity <sup>1</sup>                        | 157,476    | 1,843,375    | 553,416      | 2,554,267                 |
| Balance at December 31, 2020                             | \$ 325,937 | \$ 3,133,576 | \$ 1,496,358 | \$ 4,955,871              |
| Year-ended December 31, 2019                             |            |              |              |                           |
| Supplemental information - par value of transactions:    |            |              |              |                           |
| Purchases <sup>3</sup>                                   | \$ 191,399 | \$ 273,096   | \$ 48,430    | \$ 512,925                |
| Sales  | (50)       | (50)         | -            | (100)                     |
| Year-ended December 31, 2020                             |            |              |              |                           |
| Supplemental information - par value of transactions:    |            |              |              |                           |
| Purchases <sup>3</sup>                                   | \$ 962,924 | \$ 2,209,074 | \$ 452,695   | \$ 3,624,693              |
| Sales  | -          | (50)         | -            | (50)                      |

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Includes inflation compensation.

# Federal Reserve Bank of Cleveland

## Notes to Financial Statements

|  | Allocated to the Bank |                   |  |                        |
|--|-----------------------|-------------------|--|------------------------|
|  | Residential<br>MBS    | Commercial<br>MBS | Total Federal<br>agency and<br>GSE MBS | GSE debt<br>securities |
| Balance at December 31, 2018                             | \$ 47,729             | \$ -              | \$ 47,729                              | \$ 78                  |
| Purchases <sup>1</sup>                                   | 1,001                 | -                 | 1,001                                  | -                      |
| Sales <sup>1</sup>                                       | (9)                   | -                 | (9)                                    | -                      |
| Principal payments and maturities                        | (7,619)               | -                 | (7,619)                                | (2)                    |
| Amortization of premiums and accretion of discounts, net | (253)                 | -                 | (253)                                  | (1)                    |
| Annual reallocation adjustment <sup>3</sup>              | 1,486                 | -                 | 1,486                                  | 3                      |
| Subtotal of activity                                     | (5,394)               | -                 | (5,394)                                | -                      |
| Balance at December 31, 2019                             | 42,335                | -                 | 42,335                                 | 78                     |
| Purchases <sup>1</sup>                                   | 41,276                | 343               | 41,619                                 | -                      |
| Sales <sup>1</sup>                                       | (5)                   | -                 | (5)                                    | -                      |
| Principal payments and maturities                        | (20,487)              | (10)              | (20,497)                               | -                      |
| Amortization of premiums and accretion of discounts, net | (720)                 | (3)               | (723)                                  | (1)                    |
| Annual reallocation adjustment <sup>3</sup>              | 3,264                 | 13                | 3,277                                  | 5                      |
| Subtotal of activity                                     | 23,328                | 343               | 23,671                                 | 4                      |
| Balance at December 31, 2020                             | <u>\$ 65,663</u>      | <u>\$ 343</u>     | <u>\$ 66,006</u>                       | <u>\$ 82</u>           |
| Year-ended December 31, 2019                             |                       |                   |  |                        |
| Supplemental information - par value of transactions:    |                       |                   |  |                        |
| Purchases  | \$ 984                | \$ -              | \$ 984                                 | \$ -                   |
| Sales  | (9)                   | -                 | (9)                                    | -                      |
| Year-ended December 31, 2020                             |                       |                   |  |                        |
| Supplemental information - par value of transactions:    |                       |                   |  |                        |
| Purchases  | \$ 39,606             | \$ 307            | \$ 39,913                              | \$ -                   |
| Sales  | (5)                   | -                 | (5)                                    | -                      |

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, and discounts. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 3j.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

|  | Total SOMA         |                   |  |                        |
|--|--------------------|-------------------|--|------------------------|
|  | Residential<br>MBS | Commercial<br>MBS | Total Federal<br>agency and<br>GSE MBS | GSE debt<br>securities |
| Balance at December 31, 2018                             | \$ 1,683,532       | \$ -              | \$ 1,683,532                           | \$ 2,741               |
| Purchases <sup>1</sup>                                   | 34,259             | -                 | 34,259                                 | -                      |
| Sales <sup>1</sup>                                       | (316)              | -                 | (316)                                  | -                      |
| Realized gains (losses), net <sup>2</sup>                | 6                  | -                 | 6                                      | -                      |
| Principal payments and maturities                        | (261,805)          | -                 | (261,805)                              | (62)                   |
| Amortization of premiums and accretion of discounts, net | (8,687)            | -                 | (8,687)                                | (22)                   |
| Subtotal of activity <sup>1</sup>                        | (236,543)          | -                 | (236,543)                              | (84)                   |
| Balance at December 31, 2019                             | 1,446,989          | -                 | 1,446,989                              | 2,657                  |
| Purchases <sup>1</sup>                                   | 1,335,062          | 11,375            | 1,346,437                              | -                      |
| Sales <sup>1</sup>                                       | (167)              | -                 | (167)                                  | -                      |
| Realized gains (losses), net <sup>2</sup>                | 5                  | -                 | 5                                      | -                      |
| Principal payments and maturities                        | (659,968)          | (330)             | (660,298)                              | -                      |
| Amortization of premiums and accretion of discounts, net | (23,168)           | (83)              | (23,251)                               | (23)                   |
| Subtotal of activity <sup>1</sup>                        | 651,764            | 10,962            | 662,726                                | (23)                   |
| Balance at December 31, 2020                             | \$ 2,098,753       | \$ 10,962         | \$ 2,109,715                           | \$ 2,634               |
| Year-ended December 31, 2019                             |                    |                   |  |                        |
| Supplemental information - par value of transactions:    |                    |                   |  |                        |
| Purchases  | \$ 33,662          | \$ -              | \$ 33,662                              | \$ -                   |
| Sales  | (304)              | -                 | (304)                                  | -                      |
| Year-ended December 31, 2020                             |                    |                   |  |                        |
| Supplemental information - par value of transactions:    |                    |                   |  |                        |
| Purchases  | \$ 1,281,077       | \$ 10,170         | \$ 1,291,247                           | \$ -                   |
| Sales  | (158)              | -                 | (158)                                  | -                      |

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, and discounts. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

### b. Foreign Currency Denominated Investments

The FRBNY conducts foreign currency operations and, on behalf of the Reserve Banks, holds the resulting three types of foreign currency denominated investments in the SOMA.

The FRBNY holds foreign currency deposits with foreign central banks and with the Bank for International Settlements (BIS). The FRBNY also invests in foreign government debt instruments of France, Germany, the Netherlands, and Japan. These foreign government debt instruments are backed by the full faith and credit of the issuing foreign governments. In addition, the FRBNY may enter into repurchase agreements to purchase government debt securities for which the accepted collateral is the debt instruments issued by a foreign government.

The Bank's allocated share of activity related to foreign currency denominated investments was 8.546 percent and 7.983 percent at December 31, 2020 and 2019, respectively.



## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates allocated to the Bank and held in the SOMA at December 31, 2020 and 2019 was as follows (in millions):

|                                      | Allocated to the Bank |                 | Total SOMA       |                  |
|--------------------------------------|-----------------------|-----------------|------------------|------------------|
|                                      | 2020                  | 2019            | 2020             | 2019             |
| <b>Euro:</b>                         |                       |                 |                  |                  |
| Foreign currency deposits            | \$ 564                | \$ 550          | \$ 6,597         | \$ 6,892         |
| Dutch government debt instruments    | 234                   | 115             | 2,738            | 1,443            |
| French government debt instruments   | 235                   | 210             | 2,746            | 2,629            |
| German government debt instruments   | 91                    | 91              | 1,066            | 1,145            |
| <b>Japanese yen:</b>                 |                       |                 |                  |                  |
| Foreign currency deposits            | 721                   | 619             | 8,436            | 7,752            |
| Japanese government debt instruments | 53                    | 68              | 621              | 850              |
| Total                                | <u>\$ 1,898</u>       | <u>\$ 1,653</u> | <u>\$ 22,204</u> | <u>\$ 20,711</u> |

At December 31, 2020 and 2019, there were no repurchase agreements outstanding and, consequently, no related foreign securities held as collateral.

Net interest income earned on foreign currency denominated investments for the years ended December 31, 2020 and 2019 was immaterial for the Bank and held in the SOMA as follows (in millions):

|   | Total SOMA     |                |
|---|----------------|----------------|
|   | 2020           | 2019           |
| <b>Net interest income:<sup>1</sup></b> |                |                |
| Euro                                    | \$ (40)        | \$ (34)        |
| Japanese yen                            | -              | 1              |
| Total net interest income               | <u>\$ (40)</u> | <u>\$ (33)</u> |

<sup>1</sup> As a result of negative interest rates in certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$51 million and \$44 million for the years ended December 31, 2020 and 2019, respectively.

Accrued interest receivable on foreign currency denominated investments, net was \$74 million and \$66 million as of December 31, 2020 and 2019, respectively, of which \$6 million and \$5 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2020 and 2019 was as follows (in millions):

|                           | Within 15<br>days | 16 days to 90<br>days | 91 days to 1<br>year | Over 1 year<br>to 5 years | Over 5 years<br>to 10 years | Total           |
|---------------------------|-------------------|-----------------------|----------------------|---------------------------|-----------------------------|-----------------|
| <b>December 31, 2020:</b> |                   |                       |                      |                           |                             |                 |
| Euro                      | \$ 140            | \$ 20                 | \$ 498               | \$ 188                    | \$ 278                      | \$ 1,124        |
| Japanese yen              | 721               | 49                    | 3                    | 1                         | -                           | 774             |
| Total                     | <u>\$ 861</u>     | <u>\$ 69</u>          | <u>\$ 501</u>        | <u>\$ 189</u>             | <u>\$ 278</u>               | <u>\$ 1,898</u> |
| <b>December 31, 2019:</b> |                   |                       |                      |                           |                             |                 |
| Euro                      | \$ 550            | \$ 4                  | \$ 29                | \$ 219                    | \$ 164                      | \$ 966          |
| Japanese yen              | 619               | 9                     | 59                   | -                         | -                           | 687             |
| Total                     | <u>\$ 1,169</u>   | <u>\$ 13</u>          | <u>\$ 88</u>         | <u>\$ 219</u>             | <u>\$ 164</u>               | <u>\$ 1,653</u> |

There were no foreign exchange contracts related to foreign currency operations outstanding as of December 31, 2020.

The FRBNY enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2020, there were no outstanding commitments to purchase foreign government debt instruments. During 2020, there were purchases, sales, and maturities of foreign government debt instruments of \$2,281 million, \$12 million, and \$1,564 million, respectively, of which \$195 million, \$1 million, and \$133 million, respectively, were allocated to the Bank. Realized losses for 2020 were immaterial.

In connection with its foreign currency activities, the FRBNY may enter into transactions that are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY controls these risks by obtaining credit approvals, establishing transaction limits, receiving collateral in some cases, and performing monitoring procedures.

### c. Central Bank Liquidity Swaps

#### *U.S. Dollar Liquidity Swaps*

The Bank's allocated share of U.S. dollar liquidity swaps was 8.546 percent and 7.983 percent at December 31, 2020 and 2019, respectively.

The total foreign currency held in the SOMA under U.S. dollar liquidity swaps at December 31, 2020 and 2019 was \$17,883 million and \$3,728 million, respectively, of which \$1,528 million and \$298 million, respectively, was allocated to the Bank.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Bank at December 31, 2020 and 2019 was as follows (in millions):

| Currency swap<br>transacted in | 2020              |                       |                 | 2019           |                       |               |
|--------------------------------|-------------------|-----------------------|-----------------|----------------|-----------------------|---------------|
|                                | Within 15<br>days | 16 days to 90<br>days | Total           | Within 15 days | 16 days to 90<br>days | Total         |
| Danish krone                   | \$ -              | \$ 30                 | \$ 30           | \$ -           | \$ -                  | \$ -          |
| Euro                           | 270               | 88                    | 358             | 298            | -                     | 298           |
| Mexican peso                   | -                 | 96                    | 96              | -              | -                     | -             |
| Singapore dollar               | 83                | 103                   | 186             | -              | -                     | -             |
| Swiss franc                    | 259               | 599                   | 858             | -              | -                     | -             |
| Total                          | <u>\$ 612</u>     | <u>\$ 916</u>         | <u>\$ 1,528</u> | <u>\$ 298</u>  | <u>\$ -</u>           | <u>\$ 298</u> |

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

Net income earned on U.S. dollar liquidity swaps is reported as “System Open Market Account: Central bank liquidity swaps” in the Statements of Operations.

#### *Foreign Currency Liquidity Swaps*

At December 31, 2020 and 2019, there was no balance outstanding related to foreign currency liquidity swaps.

#### **d. Fair Value of SOMA Assets and Liabilities**

The fair value amounts below are presented solely for informational purposes and are not intended to comply with the fair value disclosures required by FASB ASC 820, *Fair Value Measurement*. Although the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Statements of Operations.

The fair value of the Treasury securities, federal agency and GSE MBS, and GSE debt securities and foreign government debt instruments held in the SOMA is subject to market risk, arising from movements in market variables such as interest rates and credit risk. The fair value of federal agency and GSE MBS is also affected by the expected rate of prepayments of mortgage loans underlying the securities. The fair value of foreign government debt instruments is also affected by currency risk. Based on evaluations performed as of December 31, 2020 and 2019, there are no credit impairments of SOMA securities holdings.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

The following table presents the amortized cost, fair value, and cumulative unrealized gains (losses) on the Treasury securities, federal agency and GSE MBS, and GSE debt securities allocated to the Bank and held in the SOMA at December 31, 2020 and 2019 (in millions):

|   | Allocated to the Bank |                     |   |                     |                     |   |
|---|-----------------------|---------------------|---|---------------------|---------------------|---|
|   | 2020                  |                     |   | 2019                |                     |   |
|   | Amortized cost        | Fair value          | Cumulative unrealized gains (losses), net | Amortized cost      | Fair value          | Cumulative unrealized gains (losses), net |
| Treasury securities:                              |                       |                     |   |                     |                     |   |
| Bills   | \$ 10,198             | \$ 10,199           | \$ 1                                      | \$ 4,929            | \$ 4,929            | \$ -                                      |
| Notes   | 98,040                | 99,866              | 1,826                                     | 37,748              | 38,139              | 391                                       |
| Bonds   | 46,816                | 54,334              | 7,518                                     | 27,588              | 31,267              | 3,679                                     |
| Total Treasury securities                         | 155,054               | 164,399             | 9,345                                     | 70,265              | 74,335              | 4,070                                     |
| Federal agency and GSE MBS                        |                       |                     |   |                     |                     |   |
| Residential                                       | 65,663                | 67,360              | 1,697                                     | 42,335              | 42,944              | 609                                       |
| Commercial  | 343                   | 349                 | 6   | -                   | -                   | -   |
| Total federal agency and GSE MBS                  | 66,006                | 67,709              | 1,703                                     | 42,335              | 42,944              | 609                                       |
| GSE debt securities                               | 82                    | 111                 | 29  | 78                  | 98                  | 20  |
| Total domestic SOMA portfolio securities holdings | <u>\$ 221,142</u>     | <u>\$ 232,219</u>   | <u>\$ 11,077</u>                          | <u>\$ 112,678</u>   | <u>\$ 117,377</u>   | <u>\$ 4,699</u>                           |
| Memorandum-Commitments for purchases of:          |                       |                     |   |                     |                     |   |
| Treasury securities                               | \$ 164                | \$ 164              | \$ -                                      | \$ -                | \$ -                | \$ -                                      |
| Federal agency and GSE MBS                        | 6,324                 | 6,354               | 30  | 122                 | 122                 | -   |
| Memorandum-Commitments for sales of:              |                       |                     |   |                     |                     |   |
| Treasury securities                               | \$ -                  | \$ -                | \$ -                                      | \$ -                | \$ -                | \$ -                                      |
| Federal agency and GSE MBS                        | 3                     | 3                   | -   | -                   | -                   | -   |
|   |                       |                     |   |                     |                     |   |
|   | Total SOMA            |                     |   |                     |                     |   |
|   | 2020                  |                     |   | 2019                |                     |   |
|   | Amortized cost        | Fair value          | Cumulative unrealized gains (losses), net | Amortized cost      | Fair value          | Cumulative unrealized gains (losses), net |
| Treasury securities:                              |                       |                     |   |                     |                     |   |
| Bills   | \$ 325,937            | \$ 325,974          | \$ 37                                     | \$ 168,461          | \$ 168,479          | \$ 18                                     |
| Notes   | 3,133,576             | 3,191,929           | 58,353                                    | 1,290,201           | 1,303,576           | 13,375                                    |
| Bonds   | 1,496,358             | 1,736,653           | 240,295                                   | 942,942             | 1,068,675           | 125,733                                   |
| Total Treasury securities                         | 4,955,871             | 5,254,556           | 298,685                                   | 2,401,604           | 2,540,730           | 139,126                                   |
| Federal agency and GSE MBS                        |                       |                     |   |                     |                     |   |
| Residential                                       | 2,098,753             | 2,152,965           | 54,212                                    | 1,446,989           | 1,467,802           | 20,813                                    |
| Commercial  | 10,962                | 11,152              | 190                                       | -                   | -                   | -   |
| Total federal agency and GSE MBS                  | 2,109,715             | 2,164,117           | 54,402                                    | 1,446,989           | 1,467,802           | 20,813                                    |
| GSE debt securities                               | 2,634                 | 3,544               | 910                                       | 2,657               | 3,344               | 687                                       |
| Total domestic SOMA portfolio securities holdings | <u>\$ 7,068,220</u>   | <u>\$ 7,422,217</u> | <u>\$ 353,997</u>                         | <u>\$ 3,851,250</u> | <u>\$ 4,011,876</u> | <u>\$ 160,626</u>                         |
| Memorandum-Commitments for purchases of:          |                       |                     |   |                     |                     |   |
| Treasury securities                               | \$ 5,232              | \$ 5,232            | \$ -                                      | \$ 1                | \$ 1                | \$ -                                      |
| Federal agency and GSE MBS                        | 202,127               | 203,084             | 957                                       | 4,177               | 4,187               | 10  |
| Memorandum-Commitments for sales of:              |                       |                     |   |                     |                     |   |
| Treasury securities                               | \$ -                  | \$ -                | \$ -                                      | \$ -                | \$ -                | \$ -                                      |
| Federal agency and GSE MBS                        | 88                    | 88                  | -   | -                   | -                   | -   |

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

The fair value of Treasury securities and GSE debt securities was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of federal agency and GSE MBS was determined using pricing services that utilize a model-based approach that considers observable inputs for similar securities.

The cost bases of repurchase agreements, reverse repurchase agreements, central bank liquidity swaps, and other investments held in the SOMA portfolio approximate fair value. Due to the short-term nature of these agreements and the defined amount that will be received upon settlement, the cost basis approximates fair value.

At December 31, 2020 and 2019, the fair value of foreign currency denominated investments held in the SOMA was \$22,374 million and \$20,829 million, respectively, of which \$1,912 million and \$1,663 million, respectively, was allocated to the Bank. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. Due to the short-term nature of foreign currency deposits, the cost basis is estimated to approximate fair value.

The following tables provide additional information on the amortized cost and fair value of the federal agency and GSE MBS portfolios allocated to the Bank and held in the SOMA at December 31, 2020 and 2019 (in millions):

|   | Allocated to the Bank |                  |                  |                  |
|---|-----------------------|------------------|------------------|------------------|
|   | 2020                  |                  | 2019             |                  |
| Distribution of MBS holdings by coupon rate | Amortized cost        | Fair value       | Amortized cost   | Fair value       |
| <b>Residential</b>                          |                       |                  |                  |                  |
| 1.5%  | \$ 626                | \$ 631           | \$ -             | \$ -             |
| 2.0%  | 10,364                | 10,467           | 181              | 179              |
| 2.5%  | 16,194                | 16,437           | 2,340            | 2,331            |
| 3.0%  | 18,262                | 18,653           | 15,759           | 15,816           |
| 3.5%  | 11,890                | 12,362           | 14,591           | 14,824           |
| 4.0%  | 6,257                 | 6,530            | 7,091            | 7,253            |
| 4.5%  | 1,493                 | 1,625            | 1,662            | 1,771            |
| 5.0%  | 454                   | 516              | 567              | 612              |
| 5.5%  | 106                   | 120              | 125              | 136              |
| 6.0%  | 15                    | 17               | 17               | 19               |
| 6.5%  | 2                     | 2                | 2                | 3                |
| <b>Total</b>                                | <b>\$ 65,663</b>      | <b>\$ 67,360</b> | <b>\$ 42,335</b> | <b>\$ 42,944</b> |
| <b>Commercial</b>                           |                       |                  |                  |                  |
| 1.00% - 1.50%                               | \$ 3                  | \$ 3             | \$ -             | \$ -             |
| 1.51% - 2.00%                               | 14                    | 14               | -                | -                |
| 2.01% - 2.50%                               | 42                    | 42               | -                | -                |
| 2.51% - 3.00%                               | 59                    | 60               | -                | -                |
| 3.01% - 3.50%                               | 102                   | 104              | -                | -                |
| 3.51% - 4.00%                               | 114                   | 117              | -                | -                |
| 4.01% - 4.50%                               | 9                     | 9                | -                | -                |
| <b>Total</b>                                | <b>\$ 343</b>         | <b>\$ 349</b>    | <b>\$ -</b>      | <b>\$ -</b>      |

## Federal Reserve Bank of Cleveland Notes to Financial Statements

| Distribution of MBS holdings by<br>coupon rate | Total SOMA          |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 2020                |                     | 2019                |                     |
|  | Amortized cost      | Fair value          | Amortized cost      | Fair value          |
| <b>Residential</b>                             |                     |                     |                     |                     |
| 1.5%   | \$ 20,021           | \$ 20,156           | \$ -                | \$ -                |
| 2.0%   | 331,252             | 334,549             | 6,183               | 6,116               |
| 2.5%   | 517,579             | 525,374             | 79,991              | 79,661              |
| 3.0%   | 583,681             | 596,178             | 538,642             | 540,588             |
| 3.5%   | 380,033             | 395,114             | 498,727             | 506,691             |
| 4.0%   | 200,003             | 208,717             | 242,353             | 247,915             |
| 4.5%   | 47,732              | 51,934              | 56,789              | 60,551              |
| 5.0%   | 14,523              | 16,481              | 19,377              | 20,921              |
| 5.5%   | 3,390               | 3,853               | 4,266               | 4,633               |
| 6.0%   | 471                 | 534                 | 578                 | 635                 |
| 6.5%   | 68                  | 75                  | 83                  | 91                  |
| <b>Total</b>                                   | <b>\$ 2,098,753</b> | <b>\$ 2,152,965</b> | <b>\$ 1,446,989</b> | <b>\$ 1,467,802</b> |
| <b>Commercial</b>                              |                     |                     |                     |                     |
| 1.00% - 1.50%                                  | \$ 84               | \$ 83               | \$ -                | \$ -                |
| 1.51% - 2.00%                                  | 451                 | 452                 | -                   | -                   |
| 2.01% - 2.50%                                  | 1,330               | 1,352               | -                   | -                   |
| 2.51% - 3.00%                                  | 1,874               | 1,907               | -                   | -                   |
| 3.01% - 3.50%                                  | 3,263               | 3,330               | -                   | -                   |
| 3.51% - 4.00%                                  | 3,661               | 3,726               | -                   | -                   |
| 4.01% - 4.50%                                  | 299                 | 302                 | -                   | -                   |
| <b>Total</b>                                   | <b>\$ 10,962</b>    | <b>\$ 11,152</b>    | <b>\$ -</b>         | <b>\$ -</b>         |

## Federal Reserve Bank of Cleveland Notes to Financial Statements

The following tables present the realized gains and the change in the cumulative unrealized gains related to SOMA domestic securities holdings allocated to the Bank and held in the SOMA during the years ended December 31, 2020 and 2019 (in millions):

|                                  | Allocated to the Bank                          |  |  |  |
|----------------------------------|--|--|--|--|
|                                  | 2020   |  | 2019   |  |
|                                  | Realized gains<br>(losses), net <sup>1,2</sup> | Change in<br>cumulative<br>unrealized gains<br>(losses) <sup>3,4</sup> | Realized gains<br>(losses), net <sup>1,2</sup> | Change in<br>cumulative<br>unrealized gains<br>(losses) <sup>3,4</sup> |
| Treasury securities              | \$ -   | \$ 4,514   | \$ -   | \$ 3,007   |
| Federal agency and GSE MBS       |  |  |  |  |
| Residential                      | 21   | 966  | -  | 1,823  |
| Commercial                       | -  | 6  | -  | -  |
| Total federal agency and GSE MBS | 21   | 972  | -  | 1,823  |
| GSE debt securities              | -  | 6  | -  | 6  |
| Total                            | \$ 21  | \$ 5,492   | \$ -   | \$ 4,836   |

<sup>1</sup> Realized gains (losses) for Treasury securities are reported in “Other items of income (loss): System Open Market Account: Other” in the Statements of Operations.

<sup>2</sup> Realized gains (losses) for federal agency and GSE MBS are reported in “Other items of income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net” in the Statements of Operations.

<sup>3</sup> Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Statements of Operations.

<sup>4</sup> The amount reported as change in cumulative unrealized gains (losses) allocated to the Bank is affected by the annual adjustment to the Bank's allocated portion of the related SOMA securities, as discussed in Note 3f.

|                                  | Total SOMA                                     |  |  |  |
|----------------------------------|--|--|--|--|
|                                  | 2020   |  | 2019   |  |
|                                  | Realized gains<br>(losses), net <sup>1,2</sup> | Change in<br>cumulative<br>unrealized gains<br>(losses) <sup>3</sup> | Realized gains<br>(losses), net <sup>1,2</sup> | Change in<br>cumulative<br>unrealized gains<br>(losses) <sup>3</sup> |
| Treasury securities              | \$ 2   | \$ 159,559   | \$ -   | \$ 103,594   |
| Federal agency and GSE MBS       |  |  |  |  |
| Residential                      | 664  | 33,399   | 9  | 62,964   |
| Commercial                       | -  | 190  | -  | -  |
| Total federal agency and GSE MBS | 664  | 33,589   | 9  | 62,964   |
| GSE debt securities              | -  | 223  | -  | 206  |
| Total                            | \$ 666   | \$ 193,371   | \$ 9   | \$ 166,764   |

<sup>1</sup> Realized gains (losses) for Treasury securities are reported in “Other items of income (loss): System Open Market Account: Other” in the Statements of Operations.

<sup>2</sup> Realized gains (losses) for federal agency and GSE MBS are reported in “Other items of income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net” in the Statements of Operations.

<sup>3</sup> Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Statements of Operations.

The amount of change in cumulative unrealized gains (losses) position, net related to foreign currency denominated investments were gains of \$52 million and \$67 million for the years ended December 31, 2020 and 2019, respectively, of which \$4 million and \$5 million, respectively, were allocated to the Bank. Realized gains, net related to foreign currency denominated investments were immaterial for the years ended December 31, 2020 and 2019.

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Bank's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the Bank's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign government debt instruments are classified as Level 2 within the ASC 820 hierarchy because the fair values are based on indicative quotes and other observable inputs obtained from independent pricing services. The fair value hierarchy level of SOMA financial assets is not necessarily an indication of the risk associated with those assets.

#### (6) BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31, 2020 and 2019 were as follows (in millions):

|   | <u>2020</u>   | <u>2019</u>   |
|---|---------------|---------------|
| Bank premises and equipment:                          |               |               |
| Land and land improvements                            | \$ 9          | \$ 9          |
| Buildings   | 189           | 186           |
| Building machinery and equipment                      | 62            | 53            |
| Construction in progress                              | 7             | 3             |
| Furniture and equipment                               | <u>46</u>     | <u>45</u>     |
| Subtotal  | 313           | 296           |
| Accumulated depreciation                              | <u>(174)</u>  | <u>(164)</u>  |
| Bank premises and equipment, net                      | <u>\$ 139</u> | <u>\$ 132</u> |
| Depreciation expense, for the years ended December 31 | <u>\$ 11</u>  | <u>\$ 11</u>  |



**Federal Reserve Bank of Cleveland**  
**Notes to Financial Statements**

The Bank leases space to outside tenants with remaining lease terms ranging from 1 to 8 years, which reflect any renewal options the lessee is reasonably certain to exercise or termination options not reasonably certain to exercise. Rental income from such leases was \$2 million for each of the years ended December 31, 2020 and 2019, and is reported as a component of “Other items of income (loss): Other” in the Statements of Operations. Future minimum lease payments that the Bank will receive under non-cancelable lease agreements in existence at December 31, 2020, are as follows (in millions):

|            |    |            |
|------------|----|------------|
| 2021       | \$ | 1.6        |
| 2022       |    | 1.7        |
| 2023       |    | 1.7        |
| 2024       |    | 1.8        |
| 2025       |    | 0.3        |
| Thereafter |    | 0.8        |
| Total      | \$ | <u>7.9</u> |

The Bank had capitalized software assets, net of amortization, of \$18 million for each of the years ended December 31, 2020 and 2019. Amortization expense was \$7 million for each of the years ended December 31, 2020 and 2019. Capitalized software assets are reported as a component of “Other assets” in the Statements of Condition and the related amortization is reported as a component of “Operating expenses: Other” in the Statements of Operations.

**(7) COMMITMENTS AND CONTINGENCIES**

In conducting its operations, the Bank enters into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

At December 31, 2020, the Bank was obligated under non-cancelable leases for premises with remaining terms of approximately two years. The lease term and the recorded amount of right-of-use assets and lease liabilities include any renewal options reasonably certain to be exercised or termination options not reasonably certain to be exercised. These leases provide for increased lease payments based upon increases in real estate taxes, operating costs, or selected price indexes.

Rental expense for certain operating facilities, warehouses, and data processing (including taxes, insurance, and maintenance when included in rent), was \$1 million for each of the years ended December 31, 2020 and 2019. Certain of the Bank’s leases have options to renew.

## Federal Reserve Bank of Cleveland

### Notes to Financial Statements

Lease right-of-use assets were \$1 million at December 31, 2020, and are reported as a component of “Other assets” in the Statements of Condition, while lease liabilities are disclosed below and are reported as a component of “Other liabilities” in the Statements of Condition. Future minimum lease payments and total lease liabilities under non-cancelable operating leases at December 31, 2020, are as follows (in millions):

|                               | <u>Operating leases</u> |            |
|-------------------------------|-------------------------|------------|
| 2021                          | \$                      | 0.8        |
| 2022                          |                         | 0.6        |
| 2023                          |                         | -          |
| 2024                          |                         | -          |
| 2025                          |                         | -          |
| Thereafter                    |                         | -          |
| Future minimum lease payments | <u>\$</u>               | <u>1.4</u> |
| Net present value adjustment  |                         | -          |
| Lease liability               | \$                      | 1.4        |

At December 31, 2020, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under an insurance agreement of the Reserve Banks, each of the Reserve Banks has agreed to bear, on a per-incident basis, a share of certain losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank’s capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2020 and 2019.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management’s opinion, based on discussions with counsel, the legal actions and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

#### **(8) RETIREMENT AND THRIFT PLANS**

##### **Retirement Plans**

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan).<sup>1</sup> Under the Dodd-Frank Act, eligible Bureau employees may participate in the System Plan and, during the years ended December 31, 2020 and 2019, certain costs associated with the System Plan were reimbursed by the Bureau. In addition, employees at certain compensation levels participate in the BEP and certain Reserve Bank officers participate in the SERP.

The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. The Bank reports the service cost related to the BEP and SERP as a component of “Operating expenses: Salaries and benefits” in its Statements of Operations, the net cost related to

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<sup>1</sup> The OEB was established by the System to administer selected System benefit plans.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

the BEP and SERP as “Other items of income (loss): Other components of net benefit costs” in its Statements of Operations, and the net liability as a component of “Accrued benefit costs” in its Statements of Condition.

The Bank’s projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2020 and 2019, and for the years then ended, were immaterial.

### Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank’s Thrift Plan contributions totaled \$7 million for each of the years ended December 31, 2020 and 2019, and are reported as a component of “Operating expenses: Salaries and benefits” in the Statements of Operations.

## (9) POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

### Postretirement Benefits Other Than Retirement Plans

In addition to the Bank’s retirement plans, employees who have met certain age and length-of-service requirements are eligible for both medical and life insurance benefits during retirement.

The Bank and plan participants fund benefits payable under the medical and life insurance plans as due and the plans have no assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation for the years ended December 31, 2020 and 2019 (in millions):

|  | <u>2020</u>     | <u>2019</u>     |
|--|-----------------|-----------------|
| Accumulated postretirement benefit obligation at January 1   | \$ 112.6        | \$ 115.5        |
| Service cost benefits earned during the period               | 4.2             | 3.6             |
| Interest cost on accumulated benefit obligation              | 3.6             | 4.6             |
| Net actuarial loss (gain)                                    | 7.0             | (6.1)           |
| Contributions by plan participants                           | 2.0             | 1.9             |
| Benefits paid  | (6.7)           | (6.9)           |
| Medicare Part D subsidies                                    | 0.2             | -               |
| Plan amendments  | (11.5)          | -               |
| Accumulated postretirement benefit obligation at December 31 | <u>\$ 111.4</u> | <u>\$ 112.6</u> |

At December 31, 2020 and 2019, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 2.61 percent and 3.31 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan’s benefits when due. The System Plan discount rate assumption setting convention uses an unrounded rate.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

Following is a reconciliation of the beginning and ending balance of the plan assets, and the unfunded postretirement benefit obligation and accrued postretirement benefit costs for the years ended December 31, 2020 and 2019 (in millions):

|   | <u>2020</u>     | <u>2019</u>     |
|---|-----------------|-----------------|
| Fair value of plan assets at January 1                      | \$ -            | \$ -            |
| Contributions by the employer                               | 4.5             | 5.0             |
| Contributions by plan participants                          | 2.0             | 1.9             |
| Benefits paid   | (6.7)           | (6.9)           |
| Medicare Part D subsidies                                   | 0.2             | -               |
| Fair value of plan assets at December 31                    | <u>\$ -</u>     | <u>\$ -</u>     |
| Unfunded obligation and accrued postretirement benefit cost | <u>\$ 111.4</u> | <u>\$ 112.6</u> |

Amounts included in accumulated other comprehensive income (loss) are shown below:

|   |               |                 |
|---|---------------|-----------------|
| Prior service cost                                  | \$ 11.5       | \$ 0.1          |
| Net actuarial loss                                  | <u>(10.1)</u> | <u>(3.0)</u>    |
| Total accumulated other comprehensive income (loss) | <u>\$ 1.4</u> | <u>\$ (2.9)</u> |

Accrued postretirement benefit costs are reported as a component of “Accrued benefit costs” in the Statements of Condition.

For measurement purposes, the assumed health-care cost trend rates at December 31, 2020 and 2019 are provided in the table below:

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Health-care cost trend rate assumed for next year                                    | 5.75%       | 6.00%       |
| Rate to which the cost trend rate is assumed to decline<br>(the ultimate trend rate) | 4.75%       | 4.75%       |
| Year that the rate reaches the ultimate trend rate                                   | 2025        | 2025        |

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31, 2020 and 2019 (in millions):

|  | <u>2020</u>   | <u>2019</u>   |
|--|---------------|---------------|
| Service cost-benefits earned during the period               | <u>\$ 4.2</u> | <u>\$ 3.6</u> |
| Other components of periodic postretirement benefit expense: |               |               |
| Interest cost on accumulated benefit obligation              | \$ 3.6        | \$ 4.6        |
| Amortization of prior service cost                           | <u>(0.1)</u>  | <u>(0.5)</u>  |
| Other components of periodic postretirement benefit expense  | <u>3.5</u>    | <u>4.1</u>    |
| Total periodic postretirement benefit expense                | <u>\$ 7.7</u> | <u>\$ 7.7</u> |

The service cost component of periodic postretirement benefit expense is reported as a component of “Operating expenses: Salaries and benefits” in the Statements of Operations and the other components of periodic

## Federal Reserve Bank of Cleveland Notes to Financial Statements

postretirement benefit expense are reported as a component of “Other items of income (loss): Other components of net benefit costs” in the Statements of Operations.

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2020 and 2019, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 3.31 percent and 4.26 percent, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health-care benefit plans that provide benefits that are at least actuarially equivalent to Medicare Part D. The benefits provided under the Bank’s plan to certain participants are at least actuarially equivalent to the Medicare Part D prescription drug benefit. The estimated effects of the subsidy are reflected in the actuarial loss in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were immaterial in the years ended December 31, 2020 and 2019. Expected receipts in 2021, related to benefits paid in the years ended December 31, 2020 and 2019, are immaterial.

Following is a summary of expected postretirement benefit payments (in millions):

|           | <u>Without subsidy</u> | <u>With subsidy</u> |
|-----------|------------------------|---------------------|
| 2021      | \$ 5.2                 | \$ 5.1              |
| 2022      | 5.2                    | 5.1                 |
| 2023      | 5.3                    | 5.2                 |
| 2024      | 5.5                    | 5.4                 |
| 2025      | 5.5                    | 5.4                 |
| 2026-2030 | 29.3                   | 28.6                |
| Total     | <u>\$ 56.0</u>         | <u>\$ 54.8</u>      |

### Postemployment Benefits

The Bank offers benefits to former qualifying or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of providing disability; medical, dental, and vision insurance; survivor income benefits; and certain workers’ compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2020 and 2019 were \$9 million and \$8 million, respectively. This cost is included as a component of “Accrued benefit costs” in the Statements of Condition. Net periodic postemployment benefit expense included in 2020 and 2019 operating expenses were \$2 million and \$1 million, respectively, and are recorded as a component of “Operating expenses: Salaries and benefits” in the Statements of Operations.

## Federal Reserve Bank of Cleveland Notes to Financial Statements

### (10) ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) as of December 31, 2020 and 2019 (in millions):

|   | <u>2020</u>  | <u>2019</u>  |
|---|--|--|
|   | Amount related<br>to<br>postretirement<br>benefits other<br>than retirement<br>plans | Amount related<br>to<br>postretirement<br>benefits other<br>than retirement<br>plans |
| Balance at January 1  | \$ (3)   | \$ (8)   |
| Change in funded status of benefit plans:                             |  |  |
| Prior service costs arising during the year                           | 11   | -  |
| Amortization of prior service cost                                    | -  | (1) <sup>1</sup>   |
| Change in prior service costs related to benefit plans                | 11   | (1)  |
| Net actuarial (loss) gain arising during the year                     | (7)  | 6  |
| Change in actuarial (loss) gain related to benefit plans              | (7)  | 6  |
| Change in funded status of benefit plans - other comprehensive income | 4  | 5  |
| Balance at December 31  | <u>\$ 1</u>  | <u>\$ (3)</u>  |

<sup>1</sup> Reclassification is reported as a component of "Other items of income (loss): Other components of net benefits costs" in the Statements of Operations.

Additional detail regarding the classification of accumulated other comprehensive income (loss) is included in Note 9.

### (11) RECONCILIATION OF TOTAL DISTRIBUTION OF COMPREHENSIVE INCOME

In accordance with the FRA, the Bank remits excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain the Bank's allocated portion of the aggregate surplus limitation. The FRA currently limits aggregate Reserve Bank surplus to \$6.825 billion.

The following table presents the distribution of the Bank's and System total comprehensive income for the years ended December 31, 2020 and 2019 (in millions):

|   | <u>Bank's portion</u> |                 | <u>System total</u> |                  |
|---|-----------------------|-----------------|---------------------|------------------|
|   | <u>2020</u>           | <u>2019</u>     | <u>2020</u>         | <u>2019</u>      |
| Reserve Bank net income from operations           | \$ 2,685              | \$ 1,732        | \$ 88,552           | \$ 55,458        |
| Other comprehensive income (loss)                 | 4                     | 5               | (1,276)             | 149              |
| Comprehensive income                              | <u>\$ 2,689</u>       | <u>\$ 1,737</u> | <u>\$ 87,276</u>    | <u>\$ 55,607</u> |
| <b>Distribution of comprehensive income:</b>      |                       |                 |                     |                  |
| Transfer to surplus                               | \$ 7                  | \$ 38           | \$ -                | \$ -             |
| Dividends   | 29                    | 55              | 386                 | 714              |
| Earnings remittances to the Treasury <sup>1</sup> | 2,653                 | 1,644           | 86,890              | 54,893           |
| Total distribution of comprehensive income        | <u>\$ 2,689</u>       | <u>\$ 1,737</u> | <u>\$ 87,276</u>    | <u>\$ 55,607</u> |

## **Federal Reserve Bank of Cleveland**

### **Notes to Financial Statements**

#### **(12) SUBSEQUENT EVENTS**

On January 1, 2021, the National Defense Authorization Act for 2021 reduced the statutory limit on aggregate Reserve Bank surplus from \$6.825 billion to \$6.785 billion. On February 5, 2021, Reserve Banks made a \$40 million lump sum payment to the Treasury, of which \$3 million was allocated to the Bank.

Subsequent events were evaluated through March 17, 2021, which is the date that the financial statements were available to be issued.