



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited
March 31, 2019



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Abbreviations

BAC	Committee on Federal Reserve Bank Affairs
FRA	Federal Reserve Act
FOMC	Federal Open Market Committee
FRBNY	Federal Reserve Bank of New York
GSE	Government-sponsored enterprise
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
LLC	Limited liability company
SOMA	System Open Market Account
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition (in millions)		
	March 31, 2019	December 31, 2018
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,729	1,726
Loans	Note 1 11	61
System Open Market Account:	Note 2	
Treasury securities, net (of which \$33,251 and \$25,102 is lent as of March 31, 2019, and December 31, 2018, respectively)	2,252,966	2,302,462
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of March 31, 2019, and December 31, 2018)	2,674	2,741
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,637,522	1,683,532
Foreign currency denominated investments, net	20,576	20,906
Central bank liquidity swaps	1,365	4,207
Accrued interest receivable	21,234	22,236
Bank premises and equipment, net	2,534	2,553
Items in process of collection	82	236
Other assets	976	983
Total assets	<u>\$3,957,906</u>	<u>\$4,057,880</u>
Liabilities and capital		
Federal Reserve notes outstanding, net	Note 4 \$1,675,814	\$1,671,437
System Open Market Account:		
Securities sold under agreements to repurchase	Note 2 255,345	304,012
Other liabilities	68	34
Deposits:		
Depository institutions	Note 5 1,580,789	1,555,954
Treasury, general account	Note 6 334,012	402,138
Other deposits	66,598	78,317
Interest payable to depository institutions and others	440	1,381
Accrued benefit costs	2,609	2,558
Deferred credit items	871	1,006
Accrued remittances to the Treasury	1,452	1,597
Other liabilities	561	286
Total liabilities	<u>3,918,559</u>	<u>4,018,720</u>
Capital paid-in	Note 7 32,522	32,335
Surplus (including accumulated other comprehensive loss of \$3,255 and \$3,292 at March 31, 2019, and December 31, 2018, respectively)	Note 7 6,825	6,825
Total capital	<u>39,347</u>	<u>39,160</u>
Total liabilities and capital	<u>\$3,957,906</u>	<u>\$4,057,880</u>

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Combined statements of operations			
(in millions)			
		Three months ended	
		March 31, 2019	March 31, 2018
Interest income			
Loans	Note 8(A)	\$ 0	\$ 0
System Open Market Account:			
Note 8(B)			
Treasury securities, net		13,364	15,616
Government-sponsored enterprise debt securities, net		35	54
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,100	12,538
Foreign currency denominated investments, net		(7)	(6)
Central bank liquidity swaps		2	8
Total interest income		<u>25,494</u>	<u>28,210</u>
Interest expense			
System Open Market Account:			
Note 8(B)			
Securities sold under agreements to repurchase		1,521	914
Other		0	1
Deposits:			
Depository institutions and others	Note 8(C)	10,236	8,687
Total interest expense		<u>11,757</u>	<u>9,602</u>
Net interest income		<u>13,737</u>	<u>18,608</u>
Other items of income (loss)			
System Open Market Account:			
Note 8(D)			
Foreign currency translation (losses) gains, net		(323)	832
Other		8	10
Income from investments held by consolidated variable interest entity, net	Note 3	0	4
Income from services		109	112
Reimbursable services to government agencies		170	167
Other components of net benefit costs		9	40
Other		17	16
Total other items of income (loss)		<u>(10)</u>	<u>1,181</u>
Operating expenses			
Note 8(D)			
Salaries and benefits		825	792
Occupancy		81	79
Equipment		46	44
Pension service cost		139	187
Other		157	160
Assessments:			
Board of Governors operating expenses and currency costs		335	357
Bureau of Consumer Financial Protection		123	0
Total operating expenses		<u>1,706</u>	<u>1,619</u>
Net income before providing for remittances to the Treasury		<u>12,021</u>	<u>18,170</u>
Earnings remittances to the Treasury		<u>11,807</u>	<u>20,509</u>
Net income (loss) after providing for remittances to the Treasury		<u>214</u>	<u>(2,339)</u>
Change in prior service costs related to benefit plans		(5)	7
Change in actuarial gains related to benefit plans		42	39
Total other comprehensive income		<u>37</u>	<u>46</u>
Comprehensive income (loss)		<u>\$ 251</u>	<u>\$ (2,293)</u>

Combined statements of changes in capital

(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive income (loss)	Total surplus	
Balance at December 31, 2017 (627,772,211 shares)	\$31,389	\$13,334	\$(3,334)	\$10,000	\$41,389
Net change in capital stock issued (18,931,796 shares)	946	—	—	—	946
Comprehensive income:					
Net loss	—	(2,218)	—	(2,218)	(2,218)
Other comprehensive income	—	—	42	42	42
Dividends on capital stock	—	(999)	—	(999)	(999)
Net change in capital	946	(3,217)	42	(3,175)	(2,229)
Balance at December 31, 2018 (646,704,007 shares)	\$32,335	\$10,117	\$(3,292)	\$ 6,825	\$39,160
Net change in capital stock issued (3,731,124 shares)	187	—	—	—	187
Comprehensive income:					
Net income	—	214	—	214	214
Other comprehensive income	—	—	37	37	37
Dividends on capital stock	—	(251)	—	(251)	(251)
Net change in capital	187	(37)	37	0	187
Balance at March 31, 2019 (650,435,131 shares)	<u>\$32,522</u>	<u>\$10,080</u>	<u>\$(3,255)</u>	<u>\$ 6,825</u>	<u>\$39,347</u>

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Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer 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). The remaining maturity distribution of loans to depository institutions outstanding as of March 31, 2019, and December 31, 2018, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days
March 31, 2019	\$11
December 31, 2018	61

At March 31, 2019, and December 31, 2018, the Reserve Banks 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 period ended March 31, 2019, and year ended December 31, 2018.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the Combined statements of condition. SOMA portfolio holdings at March 31, 2019, and December 31, 2018, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	March 31, 2019			December 31, 2018		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury Securities						
Notes	\$1,339,421	\$1,336,505	\$ (2,916)	\$1,383,929	\$1,370,515	\$(13,414)
Bonds	913,545	993,653	80,108	918,533	967,479	48,946
Total Treasury securities	\$2,252,966	\$2,330,158	\$ 77,192	\$2,302,462	\$2,337,994	\$ 35,532
GSE debt securities	2,674	3,245	571	2,741	3,222	481
Federal agency and GSE MBS	1,637,522	1,620,504	(17,018)	1,683,532	1,641,381	(42,151)
Total domestic SOMA portfolio securities holdings	\$3,893,162	\$3,953,907	\$ 60,745	\$3,988,735	\$3,982,597	\$ (6,138)
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Purchases of federal agency and GSE MBS	373	375	2	294	296	2
Sales of federal agency and GSE MBS	—	—	—	—	—	—

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The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at March 31, 2019, and December 31, 2018:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	March 31, 2019		December 31, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 7,223	\$ 7,048	\$ 7,532	\$ 7,296
2.5%	89,102	87,224	92,877	89,530
3.0%	586,500	572,873	601,805	577,317
3.5%	569,826	564,588	585,114	571,406
4.0%	289,354	289,069	297,546	294,038
4.5%	67,363	70,043	69,474	71,559
5.0%	22,498	23,697	23,296	24,128
5.5%	4,900	5,159	5,097	5,277
6.0%	660	698	691	722
6.5%	96	105	100	108
Total	<u>\$1,637,522</u>	<u>\$1,620,504</u>	<u>\$1,683,532</u>	<u>\$1,641,381</u>

The Federal Reserve Bank of New York (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 (primary dealer and expanded counterparties reverse repurchase agreements). Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Financial information related to reverse repurchase agreements at March 31, 2019, and December 31, 2018, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	March 31, 2019	December 31, 2018
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$ 731	\$ 41,848
Securities pledged (par value), end of period	744	42,485
Securities pledged (fair value), end of period	730	41,919
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$254,614	\$262,164
Securities pledged (par value), end of period	252,510	261,615
Securities pledged (fair value), end of period	254,643	262,184
Total contract amount outstanding, end of period	\$255,345	\$304,012

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at March 31, 2019, and December 31, 2018, was as follows:

Table 5. Maturity distribution of domestic SOMA portfolio securities and securities sold under agreements to repurchase
(in millions)

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
March 31, 2019:							
Treasury securities (par value)	\$ 22,559	\$90,278	\$287,111	\$908,900	\$249,136	\$ 617,646	\$2,175,630
GSE debt securities (par value)	—	—	—	—	—	2,347	2,347
Federal agency and GSE MBS (par value) ¹	—	—	7	200	72,712	1,519,804	1,592,723
Securities sold under agreements to repurchase (contract amount)	255,345	—	—	—	—	—	255,345
December 31, 2018:							
Treasury securities (par value)	\$ 2,092	\$92,622	\$290,222	\$958,065	\$260,898	\$ 618,648	\$2,222,547
GSE debt securities (par value)	—	62	—	—	—	2,347	2,409
Federal agency and GSE MBS (par value) ¹	—	—	4	214	62,706	1,574,199	1,637,123
Securities sold under agreements to repurchase (contract amount)	304,012	—	—	—	—	—	304,012

¹ The par amount shown for federal agency and GSE MBS is the remaining principal balance of the securities.

Federal agency and GSE MBS are reported at stated maturity in table 5 above. The estimated weighted-average life of these securities, which differs from the stated maturity in table 5 primarily because it factors in scheduled payments and prepayment assumptions, was approximately 6.3 years and 7.0 years as of March 31, 2019, and December 31, 2018, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the three months ended March 31, 2019, and during the year ended December 31, 2018, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities						
(in millions)						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2017	\$ —	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases ¹	126	192,346	15,560	208,032	—	121,190
Sales ¹	(47)	(49)	(65)	(161)	—	(253)
Realized gains (losses), net ²	—	(1)	6	5	—	(5)
Principal payments and maturities	(79)	(453,970)	(7,731)	(443,780)	(1,982)	(246,316)
Amortization of premiums and accretion of discounts, net	—	(2,929)	(7,781)	(10,710)	(29)	(8,784)
Inflation adjustment on inflation-indexed securities	—	961	2,382	3,343	—	—
Subtotal of activity ¹	—	(245,642)	2,371	243,271	(2,011)	(134,168)
Balance December 31, 2018	\$ —	\$1,383,929	\$918,533	\$2,302,462	\$ 2,741	\$1,683,532
Purchases ¹	—	21,040	4,931	25,971	—	882
Sales ¹	—	—	—	—	—	—
Realized gains (losses), net ²	—	—	—	—	—	—
Principal payments and maturities	—	(64,834)	(7,497)	(72,331)	(62)	(45,266)
Amortization of premiums and accretion of discounts, net	—	(525)	(1,974)	(2,499)	(5)	(1,626)
Inflation adjustment on inflation-indexed securities	—	(189)	(448)	(637)	—	—
Subtotal of activity ¹	—	(44,508)	(4,988)	(49,496)	(67)	(46,010)
Balance March 31, 2019	\$ —	\$1,339,421	\$913,545	\$2,252,966	\$ 2,674	\$1,637,522
Year ended December 31, 2018						
Supplemental information—par value of transactions						
Purchases ³	\$126	\$ 193,093	\$ 15,713	\$ 208,932	\$ —	\$ 118,762
Sales ³	(47)	(51)	(59)	(157)	—	(251)
Three months ended March 31, 2019						
Supplemental information—par value of transactions						
Purchases ³	\$ —	\$ 21,092	\$ 4,960	\$ 26,052	\$ —	\$ 865
Sales	—	—	—	—	—	—
¹ 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. Purchases and sales exclude MBS transactions that are settled on a net basis. ² Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount. ³ Includes inflation compensation.						

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at March 31, 2019, and December 31, 2018, was as follows:

Table 7. Foreign currency denominated investments
(in millions)

	March 31, 2019	December 31, 2018
Euro:		
Foreign currency deposits	\$ 6,395	\$ 6,390
French government debt instruments	2,972	3,045
Dutch government debt instruments	1,472	1,511
German government debt instruments	1,292	1,440
Japanese yen:		
Foreign currency deposits	7,311	7,286
Japanese government debt instruments	1,134	1,234
Total	<u>\$20,576</u>	<u>\$20,906</u>

The remaining maturity distribution of foreign currency denominated investments at March 31, 2019, and December 31, 2018, was as follows:

Table 8. Maturity distribution of foreign currency denominated investments
(in millions)

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
March 31, 2019:						
Euro	\$ 6,395	\$193	\$292	\$3,104	\$2,147	\$12,131
Japanese yen	7,311	108	299	727	—	8,445
Total	<u>\$13,706</u>	<u>\$301</u>	<u>\$591</u>	<u>\$3,831</u>	<u>\$2,147</u>	<u>\$20,576</u>
December 31, 2018:						
Euro	\$ 6,425	\$ 81	\$448	\$2,792	\$2,640	\$12,386
Japanese yen	7,286	90	301	843	—	8,520
Total	<u>\$13,711</u>	<u>\$171</u>	<u>\$749</u>	<u>\$3,635</u>	<u>\$2,640</u>	<u>\$20,906</u>

At March 31, 2019, and December 31, 2018, the fair value of foreign currency denominated investments held in the SOMA was \$20,690 million and \$20,957 million, respectively.

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. The Federal Open Market Committee (FOMC) authorized and directed the FRBNY to maintain standing U.S. dollar liquidity swap arrangements and standing foreign currency 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. The FRBNY holds amounts outstanding under these swap lines in the SOMA. These swap lines, which were originally established as temporary arrangements, were converted to standing arrangements on October 31, 2013, and will remain in place until further notice.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Reserve Banks at March 31, 2019, and December 31, 2018, was as follows:

Table 9. Maturity distribution of liquidity swaps (in millions)		
	March 31, 2019 Within 15 days	December 31, 2018 Within 15 days
Euro	\$1,365	\$4,197
Japanese yen	—	10
Total	\$1,365	\$4,207

The following table presents the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the periods ended March 31, 2019, and September 30, 2018:

Table 10. Realized gains and change in unrealized gain (loss) position (in millions)				
	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Realized gains, net ¹	Change in cumulative unrealized gains (losses) ²	Realized gains, net ¹	Change in cumulative unrealized gains (losses) ²
Treasury securities	\$—	\$41,660	\$—	\$(44,960)
GSE debt securities	—	90	—	(99)
Federal agency and GSE MBS	—	25,133	—	(35,527)
Total	\$—	\$66,883	\$—	\$(80,586)

¹ Realized gains are reported in "Other items of income (loss): System Open Market Account" in the Combined statements of operations.

² Because SOMA securities are recorded at amortized cost, unrealized gains (losses) are not reported in the Combined statements of operations. Change in cumulative unrealized gains (losses) is calculated from December 31 of the previous year.

(3) Consolidated Variable Interest Entity (VIE)

The combined financial statements include the accounts and results of operations of a limited liability company (LLC), Maiden Lane LLC (ML), which is consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation. During 2018, the FRBNY sold all remaining securities from the ML portfolio and in accordance with the ML agreements, net proceeds were distributed to the FRBNY. On November 1, 2018, ML LLC was dissolved. While its affairs are being wound up, ML LLC will retain minimal cash to meet trailing expenses and other obligations as required by law. The costs to wind up ML LLC are not expected to be material.

At March 31, 2019, and December 31, 2018, investments held by the consolidated VIE consisted primarily of \$0.4 million in cash equivalents.

ML had immaterial net income for the three months ended March 31, 2019, and net income of \$4 million for the three months ended March 31, 2018.

(4) 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 Reserve Banks' assets are eligible to be pledged as collateral. At March 31, 2019, and December 31, 2018, all Federal Reserve notes, net, were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits primarily represent required reserve balances and excess reserve balances. 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.

(6) Treasury Deposits

The Treasury holds deposits at the Reserve Banks in a general account pursuant to the Reserve Banks' role as fiscal agent and depository of the United States.

(7) Capital and Surplus

The Federal Reserve Act (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 are nonvoting, with 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 on paid in capital stock. By law member banks with more than \$10 billion of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock 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 \$10 billion or less of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to 6 percent. The dividend is paid semiannually and is cumulative.

The FRA limits aggregate Reserve Bank surplus to \$6.825 billion.

(8) Income and Expense

(A) Loans

Interest income on primary, secondary, and seasonal credit is accrued using the applicable rate established at least every 14 days by the Reserve Banks' boards of directors, subject to review and determination by the Board of Governors. For the three months ended March 31, 2019 and 2018, primary, secondary, and seasonal credit average daily balances were \$18 million and \$32 million, respectively, and average interest rates were 2.83 percent and 1.94 percent, respectively.

(B) SOMA Holdings

The amount reported as interest income on SOMA portfolio holdings includes the amortization of premiums and discounts. Supplemental information on interest income on SOMA portfolio holdings is as follows:

Table 11. Interest income on SOMA portfolio		
(in millions)		
	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest income:		
Treasury securities, net	\$ 13,364	\$ 15,616
GSE debt securities, net	35	54
Federal agency and GSE MBS, net	12,100	12,538
Foreign currency denominated investments, net ¹	(7)	(6)
Central bank liquidity swaps	2	8
Total interest income	\$ 25,494	\$ 28,210
Average daily balance:		
Treasury securities, net ²	\$2,275,310	\$2,525,384
GSE debt securities, net ²	2,735	4,748
Federal agency and GSE MBS, net ³	1,662,958	1,816,527
Foreign currency denominated investments, net ⁴	20,838	22,037
Central bank liquidity swaps ⁵	269	1,616
Average interest rate:		
Treasury securities, net	2.35%	2.47%
GSE debt securities, net	5.08%	4.58%
Federal agency and GSE MBS, net	2.91%	2.76%
Foreign currency denominated investments, net	-0.14%	-0.11%
Central bank liquidity swaps	2.89%	1.92%
<p>¹ As a result of negative interest rates on certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$10 million for the three months ended March 31, 2019 and 2018.</p> <p>² Face value, net of unamortized premiums and discounts.</p> <p>³ Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities, net of premiums and discounts.</p> <p>⁴ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁵ Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.</p>		

Supplemental information on interest expense on securities sold under agreement to repurchase (reverse repurchase agreements) is as follows:

Table 12. Interest expense on securities sold under agreement to repurchase (in millions)		
	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 20	\$ 101
Foreign official and international accounts ²	1,501	813
Total interest expense	\$ 1,521	\$ 914
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$ 3,562	\$ 31,858
Foreign official and international accounts ²	248,423	234,067
Average interest rate:		
Primary dealers and expanded counterparties ¹	2.25%	1.27%
Foreign official and international accounts ²	2.42%	1.39%
¹ Overnight and term reverse repurchase agreements arranged as open market operations are settled through a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. ² Reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.		

(C) Depository Institution Deposits

The Reserve Banks pay interest to depository institutions on qualifying balances held at the Reserve Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on a FOMC-established target range for the federal funds rate.

The Reserve Banks also offer term deposits through the Term Deposit Facility, and all depository institutions that are eligible to receive interest on their balances at the Reserve Banks may participate in the term deposit program. The interest rate paid on these deposits is determined by auction.

(D) Operating Expenses

The Federal Reserve Banks have established procedures for budgetary control and monitoring of operating expenses as part of their efforts to ensure appropriate stewardship and accountability. Reserve Bank and Board governance bodies provide budget guidance for major functional areas for the upcoming budget year. The Board's Committee on Federal Reserve Bank Affairs (BAC) reviews the Banks' budgets and the BAC chair submits the budgets to Board members for review and final action. Throughout the year, Reserve Bank and Board staffs monitor actual performance and compare it with approved budgets and forecasts.

Certain amounts relating to the prior year have been reclassified in the Combined Statements of Operations to conform to the current year presentation. \$13 million previously reported as "Operating expenses: Salaries and benefits" as of March 31, 2018, and (\$53 million) previously reported as "Operating expenses: Net periodic pension expense" as of March 31, 2018, have been reclassified as "Other items of income (loss): Other components of net benefits costs." In addition, in 2019, the description of the line item "Operating expenses: Net periodic pension expense" has been revised to "Operating expenses: Pension service cost" to better reflect the nature of the item.

Additional information regarding Reserve Bank operating expenses is available each year in the Annual Report of the Board of Governors of the Federal Reserve System at <https://www.federalreserve.gov/publications/annual-report.htm>, and on the Audit webpage of the Board's public website at <https://www.federalreserve.gov/regreform/audit.htm>.

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