



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

March 31, 2017



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Abbreviations

BAC	Committee on Federal Reserve Bank Affairs
FAST Act	Fixing America's Surface Transportation Act
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
TBA	To be announced
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition (in millions)			March 31, 2017	December 31, 2016
Assets				
Gold certificates			\$ 11,037	\$ 11,037
Special drawing rights certificates			5,200	5,200
Coin			1,924	1,873
Loans	Note 1		9	63
System Open Market Account:		Note 2		
Treasury securities, net (of which \$30,239 and \$25,195 is lent as of March 31, 2017, and December 31, 2016, respectively)			2,564,940	2,567,422
Government-sponsored enterprise debt securities, net (of which \$47 and \$44 is lent as of March 31, 2017, and December 31, 2016, respectively)			13,753	16,648
Federal agency and government-sponsored enterprise mortgage-backed securities, net			1,822,583	1,795,003
Foreign currency denominated investments, net			19,970	19,442
Central bank liquidity swaps			5,075	5,563
Accrued interest receivable			23,106	25,598
Other assets			6	8
Investments held by consolidated variable interest entity (of which \$1,742 and \$1,742 is measured at fair value as of March 31, 2017, and December 31, 2016, respectively)	Note 3		1,742	1,742
Bank premises and equipment, net			2,552	2,564
Items in process of collection			76	118
Other assets			1,034	1,056
Total assets			<u>\$4,473,007</u>	<u>\$4,453,337</u>
Liabilities and capital				
Federal Reserve notes outstanding, net	Note 4		\$1,489,405	\$1,462,939
System Open Market Account:				
Securities sold under agreements to repurchase	Note 2		600,291	725,210
Other liabilities			690	1,012
Liabilities of consolidated variable interest entity (of which \$27 and \$32 is measured at fair value as of March 31, 2017 and December 31, 2016, respectively)			35	33
Deposits:				
Depository institutions	Note 5		2,151,981	1,759,675
Treasury, general account	Note 6		92,205	399,190
Other deposits			91,621	58,413
Interest payable to depository institutions and others			126	403
Accrued benefit costs			3,017	3,118
Deferred credit items			643	922
Accrued remittances to the Treasury			1,890	1,725
Other liabilities			508	255
Total liabilities			<u>4,432,412</u>	<u>4,412,895</u>
Capital paid-in	Note 7		30,595	30,442
Surplus (including accumulated other comprehensive loss of \$3,912 and \$3,985 at March 31, 2017 and December 31, 2016, respectively)	Note 7		10,000	10,000
Total capital			<u>40,595</u>	<u>40,442</u>
Total liabilities and capital			<u>\$4,473,007</u>	<u>\$4,453,337</u>

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Combined statements of operations			
(in millions)			
		Three months ended	
		March 31, 2017	March 31, 2016
Interest income			
System Open Market Account:		Note 8(B)	
Treasury securities, net		\$16,005	\$15,248
Government-sponsored enterprise debt securities, net		152	298
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,156	12,801
Foreign currency denominated investments, net		(2)	2
Central bank liquidity swaps		3	—
Investments held by consolidated variable interest entity	Note 3	3	2
Total interest income		<u>28,317</u>	<u>28,351</u>
Interest expense			
System Open Market Account:		Note 8(B)	
Securities sold under agreements to repurchase		589	245
Other		1	1
Deposits:			
Depository institutions and others	Note 8(C)	4,481	3,068
Term Deposit Facility		2	6
Total interest expense		<u>5,073</u>	<u>3,320</u>
Net interest income		<u>23,244</u>	<u>25,031</u>
Non-interest income			
System Open Market Account:			
Federal agency and government-sponsored enterprise mortgage-backed securities (losses) gains, net		(2)	6
Foreign currency translation gains, net		545	1,122
Other		5	5
Consolidated variable interest entity losses, net	Note 3	(5)	(9)
Income from services		111	109
Reimbursable services to government agencies		169	164
Other		16	16
Total non-interest income (loss)		<u>839</u>	<u>1,413</u>
Operating expenses		Note 8(D)	
Salaries and benefits		787	745
Occupancy		79	78
Equipment		42	41
Net periodic pension expense		133	99
Other		156	144
Assessments:			
Board of Governors operating expenses and currency costs		318	303
Bureau of Consumer Financial Protection		146	160
Total operating expenses		<u>1,661</u>	<u>1,570</u>
Net income before providing for remittances to the Treasury		<u>22,422</u>	<u>24,874</u>
Earnings remittances to the Treasury		<u>22,287</u>	<u>24,762</u>
Net income after providing for remittances to the Treasury		<u>135</u>	<u>112</u>
Change in prior service costs related to benefit plans		15	21
Change in actuarial gains related to benefit plans		58	52
Total other comprehensive income		<u>73</u>	<u>73</u>
Comprehensive income		<u>\$ 208</u>	<u>\$ 185</u>

Combined statements of changes in capital

(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive (loss)	Total surplus	
Balance at January 1, 2016 (590,166,055 shares)	\$29,508	\$13,802	\$(3,802)	\$10,000	\$39,508
Net change in capital stock issued (18,682,206 shares)	934	—	—	—	934
Comprehensive income:					
Net income	—	894	—	894	894
Other comprehensive loss	—	—	(183)	(183)	(183)
Dividends on capital stock	—	(711)	—	(711)	(711)
Net change in capital	934	183	(183)	—	934
Balance at December 31, 2016 (608,848,261 shares)	\$30,442	\$13,985	\$(3,985)	\$10,000	\$40,442
Net change in capital stock issued (3,042,210 shares)	153	—	—	—	153
Comprehensive income:					
Net income	—	135	—	135	135
Other comprehensive income	—	—	73	73	73
Dividends on capital stock	—	(208)	—	(208)	(208)
Net change in capital	153	(73)	73	—	153
Balance at March 31, 2017 (611,890,471 shares)	\$30,595	\$13,912	\$(3,912)	\$10,000	\$40,595

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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, 2017, and December 31, 2016, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
March 31, 2017	\$ 7	\$2	\$ 9
December 31, 2016	58	5	63

At March 31, 2017, and December 31, 2016, 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, 2017, and year ended December 31, 2016.

(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, 2017, and December 31, 2016, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	March 31, 2017			December 31, 2016		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury Securities						
Notes	\$1,642,879	\$1,652,124	\$ 9,245	\$1,647,339	\$1,657,026	\$ 9,687
Bonds	922,061	991,444	69,383	920,083	983,680	63,597
Total Treasury securities	\$2,564,940	\$2,643,568	\$ 78,628	\$2,567,422	\$2,640,706	\$73,284
GSE debt securities	13,753	14,492	739	16,648	17,442	794
Federal agency and GSE MBS	1,822,583	1,812,115	(10,468)	1,795,003	1,787,484	(7,519)
Total domestic SOMA portfolio securities holdings	\$4,401,276	\$4,470,175	\$ 68,899	\$4,379,073	\$4,445,632	\$66,559
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ —	\$ —	\$ —	\$ 11,679	\$ 11,719	\$ 40
Purchases of federal agency and GSE MBS	23,477	23,616	139	35,787	35,974	187
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, 2017, and December 31, 2016:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	March 31, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 10,177	\$ 9,881	\$ 10,556	\$ 10,243
2.5%	120,814	118,870	121,326	118,641
3.0%	700,971	682,827	693,524	676,572
3.5%	589,645	587,934	561,271	560,510
4.0%	277,228	280,679	275,650	279,877
4.5%	80,649	85,826	86,351	92,111
5.0%	34,168	36,480	36,708	39,159
5.5%	7,705	8,287	8,298	8,939
6.0%	1,073	1,165	1,155	1,253
6.5%	153	166	164	179
Total	<u>\$1,822,583</u>	<u>\$1,812,115</u>	<u>\$1,795,003</u>	<u>\$1,787,484</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, 2017, and December 31, 2016, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	March 31, 2017	December 31, 2016
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$346,853	\$468,355
Securities pledged (par value), end of period	329,825	443,799
Securities pledged (fair value), end of period	347,260	469,282
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$253,438	\$256,855
Securities pledged (par value), end of period	246,125	249,417
Securities pledged (fair value), end of period	253,480	256,897
Total contract amount outstanding, end of period	\$600,291	\$725,210

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at March 31, 2017, and December 31, 2016, 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, 2017:							
Treasury securities (par value)	\$ 460	\$46,451	\$214,571	\$1,194,537	\$380,974	\$ 627,396	\$2,464,389
GSE debt securities (par value)	—	5,232	3,706	2,044	—	2,347	13,329
Federal agency and GSE MBS (par value) ¹	—	—	—	57	11,232	1,757,833	1,769,122
Securities sold under agreements to repurchase (contract amount)	600,291	—	—	—	—	—	600,291
December 31, 2016:							
Treasury securities (par value)	\$ 14,807	\$41,249	\$150,766	\$1,224,348	\$399,277	\$ 633,169	\$2,463,616
GSE debt securities (par value)	—	2,851	8,938	2,044	—	2,347	16,180
Federal agency and GSE MBS (par value) ¹	—	—	—	77	10,584	1,730,730	1,741,391
Securities sold under agreements to repurchase (contract amount)	725,210	—	—	—	—	—	725,210

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 7.2 years as of March 31, 2017, and December 31, 2016, 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, 2017, and during the year ended December 31, 2016, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities					
(in millions)					
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2015	\$1,649,228	\$931,448	\$2,580,676	\$ 33,748	\$1,800,449
Purchases ¹	190,992	13,882	204,874	—	387,210
Sales ¹	(534)	(62)	(596)	—	(213)
Realized gains (losses), net ²	(22)	7	(15)	—	6
Principal payments and maturities	(187,843)	(16,597)	(204,440)	(16,764)	(379,065)
Amortization of premiums and accretion of discounts, net	(5,049)	(10,033)	(15,082)	(336)	(13,384)
Inflation adjustment on inflation-indexed securities	567	1,438	2,005	—	—
Balance December 31, 2016	\$1,647,339	\$920,083	\$2,567,422	\$ 16,648	\$1,795,003
Purchases ¹	52,496	3,567	56,063	—	102,232
Sales ¹	—	—	—	—	—
Realized gains (losses), net ²	—	—	—	—	—
Principal payments and maturities	(56,054)	—	(56,054)	(2,851)	(72,051)
Amortization of premiums and accretion of discounts, net	(1,053)	(2,004)	(3,057)	(44)	(2,601)
Inflation adjustment on inflation-indexed securities	151	415	566	—	—
Balance March 31, 2017	\$1,642,879	\$922,061	\$2,564,940	\$ 13,753	\$1,822,583
Year ended December 31, 2016					
Supplemental information—par value of transactions					
Purchases ³	\$ 191,231	\$ 13,868	\$ 205,099	\$ —	\$ 373,197
Sales	(555)	(45)	(600)	—	(203)
Three months ended March 31, 2017					
Supplemental information—par value of transactions					
Purchases ³	\$ 52,693	\$ 3,568	\$ 56,261	\$ —	\$ 99,783
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 TBA 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, 2017, and December 31, 2016, was as follows:

Table 7. Foreign currency denominated investments
(in millions)

	March 31, 2017	December 31, 2016
Euro:		
Foreign currency deposits	\$ 4,666	\$ 4,205
French government debt instruments	3,706	3,892
German government debt instruments	1,739	1,884
Dutch government debt instruments	1,474	1,462
Japanese yen:		
Foreign currency deposits	5,433	4,668
Japanese government debt instruments	2,952	3,331
Total	<u>\$19,970</u>	<u>\$19,442</u>

The remaining maturity distribution of foreign currency denominated investments at March 31, 2017, and December 31, 2016, 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, 2017:						
Euro	\$ 4,728	\$264	\$1,027	\$3,603	\$1,963	\$11,585
Japanese yen	5,626	373	902	1,484	—	8,385
Total	<u>\$10,354</u>	<u>\$637</u>	<u>\$1,929</u>	<u>\$5,087</u>	<u>\$1,963</u>	<u>\$19,970</u>
December 31, 2016:						
Euro	\$ 4,253	\$334	\$1,170	\$3,174	\$2,512	\$11,443
Japanese yen	4,840	342	1,341	1,476	—	7,999
Total	<u>\$ 9,093</u>	<u>\$676</u>	<u>\$2,511</u>	<u>\$4,650</u>	<u>\$2,512</u>	<u>\$19,442</u>

At March 31, 2017, and December 31, 2016, the fair value of foreign currency denominated investments held in the SOMA was \$19,981 million and \$19,510 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, 2017, and December 31, 2016, was as follows:

Table 9. Maturity distribution of liquidity swaps

(in millions)

	March 31, 2017 Within 15 days	December 31, 2016 Within 15 days
Euro	\$4,525	\$4,340
Japanese yen	550	1,223
Total	<u>\$5,075</u>	<u>\$5,563</u>

The following table presents the realized gains (losses) and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the periods ended March 31, 2017, and March 31, 2016:

Table 10. Realized gains and change in unrealized gain position

(in millions)

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Realized gains (losses), net ¹	Change in cumulative unrealized gains (losses) ²	Realized gains (losses), net ¹	Change in cumulative unrealized gains (losses) ²
Treasury securities	\$—	\$ 5,344	\$—	\$ 85,595
GSE debt securities	—	(55)	—	57
Federal agency and GSE MBS	(2)	(2,949)	6	27,149
Total	<u>\$ (2)</u>	<u>\$ 2,340</u>	<u>\$ 6</u>	<u>\$112,801</u>

¹ Realized gains (losses), net for federal agency and GSE MBS are reported in "Non-interest income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities (losses) gains, net" in the Combined statements of operations.

² Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses), net is not reported in the Combined statements of operations.

(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.

The classification of significant assets and liabilities of ML at March 31, 2017, and December 31, 2016, is summarized in the following table:

Table 11. Assets and liabilities of consolidated VIE		
(in millions)		
	March 31, 2017	December 31, 2016
Assets		
Short-term investments	\$1,620	\$1,618
Swap contracts	26	28
Other investments	19	17
Subtotal	1,665	\$1,663
Cash, cash equivalents, accrued interest receivable, and other receivables	77	79
Total investments held by consolidated VIE	<u>\$1,742</u>	<u>\$1,742</u>
Liabilities		
Swap contracts	\$ 27	\$ 32
Cash collateral on swap contracts	8	1
Total liabilities held by consolidated VIE	<u>\$ 35</u>	<u>\$ 33</u>

ML incurred net losses of \$2 million and net income of \$8 million for the three months ended March 31, 2017, and March 31, 2016, respectively.

The FRBNY will continue to sell the remaining assets from the ML portfolio as market conditions warrant and if the sales represent good value for the public. In accordance with the ML agreements, proceeds from future asset sales will be distributed to the FRBNY as contingent interest after all derivative instruments in ML have been terminated and paid or sold from the portfolio.

(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, 2017, and December 31, 2016, all Federal Reserve notes, net, were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits are primarily comprised of 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 \$10 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, 2017 and 2016, primary, secondary, and seasonal credit average daily balances were \$15 million and \$40 million, respectively, and average interest rates were 1.16 percent and 0.82 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 12. Interest income on SOMA portfolio		
(in millions)		
	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest income:¹		
Treasury securities, net	\$ 16,005	\$ 15,248
GSE debt securities, net	152	298
Federal agency and GSE MBS, net	12,156	12,801
Foreign currency denominated investments, net ²	(2)	2
Central bank liquidity swaps	3	*
Total interest income	\$ 28,314	\$ 28,349
Average daily balance:		
Treasury securities, net ³	\$2,558,156	\$2,578,280
GSE debt securities, net ²	15,187	32,005
Federal agency and GSE MBS, net ⁴	1,810,448	1,805,635
Foreign currency denominated investments, net ⁵	19,863	20,172
Central bank liquidity swaps ⁶	1,092	150
Average interest rate:		
Treasury securities, net	2.50%	2.37%
GSE debt securities, net	4.00%	3.72%
Federal agency and GSE MBS, net	2.69%	2.84%
Foreign currency denominated investments, net	-0.04%	0.04%
Central bank liquidity swaps	1.20%	0.85%
<p>¹ The Board of Governors approved, effective January 2017, accounting for Treasury securities, GSE debt securities, and foreign government debt instruments held in the SOMA using the effective interest method. Previously, the cost bases of these securities were adjusted for amortization of premiums or accretion of discounts on a straight-line basis. This change has been applied prospectively.</p> <p>² 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 \$7 million and \$6 million for the three months ended March 31, 2017 and 2016, respectively.</p> <p>³ Face value, net of unamortized premiums and discounts.</p> <p>⁴ 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>⁵ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁶ 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 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 246	\$ 53
Foreign official and international accounts ²	343	192
Total interest expense	\$ 589	\$ 245
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$175,224	\$ 84,148
Foreign official and international accounts ²	250,664	234,612
Average interest rate:		
Primary dealers and expanded counterparties ¹	0.56%	0.25%
Foreign official and international accounts ²	0.55%	0.33%
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.

In May 2010, the Reserve Banks commenced the auction of term deposits to be offered through its Term Deposit Facility. 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.

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 www.federalreserve.gov/publications/annual-report/default.htm, and on the Audit webpage of the Board's public website at www.federalreserve.gov/newsevents/reform_audit.htm.

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