



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited
September 30, 2018



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2018

This and other Federal Reserve Board reports and publications are available online at
www.federalreserve.gov/publications/default.htm.

To order copies of Federal Reserve Board publications offered in print,
see the Board's Publication Order Form (www.federalreserve.gov/files/orderform.pdf)
or contact:

Printing and Fulfillment
Mail Stop K1-120
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(email) Publications-BOG@frb.gov

Contents

Abbreviations	1
Combined Quarterly Financial Statements	3
Supplemental Financial Information	7
(1) Loans	7
(2) System Open Market Account (SOMA) Holdings	7
(3) Consolidated Variable Interest Entity (VIE)	13
(4) Federal Reserve Notes	13
(5) Depository Institution Deposits	13
(6) Treasury Deposits	14
(7) Capital and Surplus	14
(8) Income and Expense	14

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
TBA	To be announced
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition (in millions)		
	September 30, 2018	December 31, 2017
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,772	1,892
Loans	271	134
	Note 1	
System Open Market Account:	Note 2	
Treasury securities, net (of which \$18,063 and \$28,053 is lent as of September 30, 2018, and December 31, 2017, respectively)	2,395,842	2,545,733
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of September 30, 2018, and December 31, 2017)	2,746	4,752
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,729,954	1,817,700
Foreign currency denominated investments, net	20,824	21,316
Central bank liquidity swaps	74	12,067
Accrued interest receivable	22,455	24,744
Other assets	36	13
Investments held by consolidated variable interest entity (of which \$7 and \$1,720 is measured at fair value as of September 30, 2018, and December 31, 2017, respectively)	7	1,722
	Note 3	
Prepaid pension benefit costs	67	14
Bank premises and equipment, net	2,535	2,571
Items in process of collection	146	81
Other assets	946	1,001
Total assets	<u>\$4,193,912</u>	<u>\$4,449,977</u>
Liabilities and capital		
Federal Reserve notes outstanding, net	\$1,637,753	\$1,570,727
	Note 4	
System Open Market Account:		
Securities sold under agreements to repurchase	278,949	563,958
	Note 2	
Other liabilities	196	558
Liabilities of consolidated variable interest entity (of which \$0 and \$8 is measured at fair value as of September 30, 2018 and December 31, 2017, respectively)	1	9
Deposits:		
Depository institutions	1,769,493	1,954,431
	Note 5	
Treasury, general account	384,713	228,933
	Note 6	
Other deposits	77,683	83,018
Interest payable to depository institutions and others	453	1,006
Accrued benefit costs	2,469	2,332
Deferred credit items	1,115	1,001
Accrued remittances to the Treasury	1,323	2,337
Other liabilities	663	278
Total liabilities	<u>4,154,811</u>	<u>4,408,588</u>
Capital paid-in	32,276	31,389
	Note 7	
Surplus (including accumulated other comprehensive loss of \$3,179 and \$3,334 at September 30, 2018 and December 31, 2017, respectively)	6,825	10,000
	Note 7	
Total capital	<u>39,101</u>	<u>41,389</u>
Total liabilities and capital	<u>\$4,193,912</u>	<u>\$4,449,977</u>

UNAUDITED

Combined statements of operations					
(in millions)					
		Three months ended		Nine months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest income					
Loans	Note 8(A)	\$ 1	\$ 1	\$ 2	\$ 1
System Open Market Account:	Note 8(B)				
Treasury securities, net		15,645	15,519	47,752	47,928
Government-sponsored enterprise debt securities, net		35	85	140	349
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,118	12,096	37,060	36,730
Foreign currency denominated investments, net		(8)	(5)	(22)	(11)
Central bank liquidity swaps		1	1	11	6
Investments held by consolidated variable interest entity	Note 3	6	4	19	10
Total interest income		<u>27,798</u>	<u>27,701</u>	<u>84,962</u>	<u>85,013</u>
Interest expense					
System Open Market Account:	Note 8(B)				
Securities sold under agreements to repurchase		1,200	1,005	3,219	2,442
Other		1	3	4	6
Deposits:					
Depository institutions and others	Note 8(C)	9,886	7,523	28,059	18,088
Term Deposit Facility		1	3	2	9
Total interest expense		<u>11,088</u>	<u>8,534</u>	<u>31,284</u>	<u>20,545</u>
Net interest income		<u>16,710</u>	<u>19,167</u>	<u>53,678</u>	<u>64,468</u>
Non-interest income					
System Open Market Account:					
Treasury securities gains, net		—	—	6	7
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net		—	(1)	—	9
Foreign currency translation (losses) gains, net		(266)	421	(493)	1,670
Other		3	7	17	19
Investments held by consolidated variable interest entity losses, net	Note 3	—	—	(11)	(5)
Income from services		108	108	331	331
Reimbursable services to government agencies		177	169	512	504
Other		19	17	52	50
Total non-interest income		<u>41</u>	<u>721</u>	<u>414</u>	<u>2,585</u>
Operating expenses					
	Note 8(D)				
Salaries and benefits		799	760	2,406	2,313
Occupancy		84	80	246	232
Equipment		46	44	138	130
Net periodic pension expense		134	98	380	377
Other		185	165	525	487
Assessments:					
Board of Governors operating expenses and currency costs		453	390	1,186	1,075
Bureau of Consumer Financial Protection		65	85	164	356
Total operating expenses		<u>1,766</u>	<u>1,622</u>	<u>5,045</u>	<u>4,970</u>
Net income before providing for remittances to the Treasury		14,985	18,266	49,047	62,083
Earnings remittances to the Treasury		<u>14,795</u>	<u>18,137</u>	<u>51,625</u>	<u>61,724</u>
Net income (loss) after providing for remittances to the Treasury		<u>190</u>	<u>129</u>	<u>(2,578)</u>	<u>359</u>
Change in prior service costs related to benefit plans		8	13	23	41
Change in actuarial gains related to benefit plans		55	48	132	165
Total other comprehensive income		<u>63</u>	<u>61</u>	<u>155</u>	<u>206</u>
Comprehensive income (loss)		<u>\$ 253</u>	<u>\$ 190</u>	<u>\$ (2,423)</u>	<u>\$ 565</u>

UNAUDITED

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 December 31, 2016 (608,848,261 shares)	\$30,442	\$13,985	\$(3,985)	\$10,000	\$40,442
Net change in capital stock issued (18,923,950 shares)	947	—	—	—	947
Comprehensive income:					
Net income	—	133	—	133	133
Other comprehensive loss	—	—	651	651	651
Dividends on capital stock	—	(784)	—	(784)	(784)
Net change in capital	947	(651)	651	—	947
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 (17,755,389 shares)	887	—	—	—	887
Comprehensive income:					
Net loss	—	(2,578)	—	(2,578)	(2,578)
Other comprehensive income	—	—	155	155	155
Dividends on capital stock	—	(752)	—	(752)	(752)
Net change in capital	887	(3,330)	155	(3,175)	(2,288)
Balance at September 30, 2018 (645,527,600 shares)	<u>\$32,276</u>	<u>\$10,004</u>	<u>\$(3,179)</u>	<u>\$ 6,825</u>	<u>\$39,101</u>

UNAUDITED

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 September 30, 2018, and December 31, 2017, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
September 30, 2018	\$213	\$58	\$271
December 31, 2017	133	1	134

At September 30, 2018, and December 31, 2017, 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 September 30, 2018, and year ended December 31, 2017.

(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 September 30, 2018, and December 31, 2017, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	September 30, 2018			December 31, 2017		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury Securities						
Bills	\$ 100	\$ 100	\$ —	\$ —	\$ —	\$ —
Notes	1,475,574	1,447,704	(27,870)	1,629,571	1,624,540	(5,031)
Bonds	920,168	947,338	27,170	916,162	1,008,468	92,306
Total Treasury securities	\$2,395,842	\$2,395,142	\$ (700)	\$2,545,733	\$2,633,008	\$87,275
GSE debt securities	2,746	3,173	427	4,752	5,383	631
Federal agency and GSE MBS	1,729,954	1,663,774	(66,180)	1,817,700	1,809,918	(7,782)
Total domestic SOMA portfolio securities holdings	\$4,128,542	\$4,062,089	\$ (66,453)	\$4,368,185	\$4,448,309	\$80,124
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ —	\$ —	\$ —	\$ 11,447	\$ 11,467	\$ 20
Purchases of federal agency and GSE MBS	5,167	5,162	(5)	19,257	19,285	28
Sales of federal agency and GSE MBS	—	—	—	—	—	—

UNAUDITED

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at September 30, 2018, and December 31, 2017:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	September 30, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 7,853	\$ 7,457	\$ 8,968	\$ 8,739
2.5%	96,977	92,132	110,452	108,371
3.0%	619,374	584,316	674,138	660,939
3.5%	602,856	580,289	630,590	630,245
4.0%	302,364	295,991	289,819	291,868
4.5%	70,081	71,956	68,069	71,896
5.0%	24,285	25,205	28,352	30,048
5.5%	5,333	5,551	6,318	6,739
6.0%	726	765	870	939
6.5%	105	112	124	134
Total	<u>\$1,729,954</u>	<u>\$1,663,774</u>	<u>\$1,817,700</u>	<u>\$1,809,918</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 September 30, 2018, and December 31, 2017, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	September 30, 2018	December 31, 2017
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$ 48,430	\$319,595
Securities pledged (par value), end of period	49,021	302,690
Securities pledged (fair value), end of period	48,445	320,048
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$230,519	\$244,363
Securities pledged (par value), end of period	231,714	240,660
Securities pledged (fair value), end of period	230,562	244,417
Total contract amount outstanding, end of period	\$278,949	\$563,958

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at September 30, 2018, and December 31, 2017, 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
September 30, 2018:							
Treasury securities (par value)	\$ 19,033	\$ 83,128	\$328,804	\$ 999,351	\$265,760	\$ 617,134	\$2,313,210
GSE debt securities (par value)	—	—	62	—	—	2,347	2,409
Federal agency and GSE MBS (par value) ¹	—	—	1	156	43,631	1,637,988	1,681,776
Securities sold under agreements to repurchase (contract amount)	278,949	—	—	—	—	—	278,949
December 31, 2017:							
Treasury securities (par value)	\$ 20,601	\$107,658	\$315,420	\$1,077,270	\$310,375	\$ 622,884	\$2,454,208
GSE debt securities (par value)	—	—	1,982	62	—	2,347	4,391
Federal agency and GSE MBS (par value) ¹	—	—	1	173	20,013	1,744,742	1,764,929
Securities sold under agreements to repurchase (contract amount)	563,958	—	—	—	—	—	563,958

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 8.3 years and 6.9 years as of September 30, 2018, and December 31, 2017, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the nine months ended September 30, 2018, and during the year ended December 31, 2017, 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, 2016	\$ —	\$1,647,339	\$920,083	\$2,567,422	\$ 16,648	\$1,795,003
Purchases ¹	—	161,378	15,849	177,227	—	324,524
Sales ¹	—	(124)	(326)	(450)	—	(331)
Realized gains (losses), net ²	—	(2)	30	28	—	2
Principal payments and maturities	—	(175,933)	(13,402)	(189,335)	(11,789)	(290,939)
Amortization of premiums and accretion of discounts, net	—	(3,796)	(7,917)	(11,713)	(107)	(10,559)
Inflation adjustment on inflation-indexed securities	—	709	1,845	2,554	—	—
Subtotal of activity ¹	—	(17,768)	(3,921)	(21,689)	(11,896)	22,697
Balance December 31, 2017	\$ —	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases ¹	100	167,114	11,716	178,930	—	112,834
Sales ¹	—	(49)	(65)	(114)	—	(119)
Realized gains (losses), net ²	—	(1)	6	5	—	(1)
Principal payments and maturities	—	(319,543)	(3,889)	(323,432)	(1,982)	(193,552)
Amortization of premiums and accretion of discounts, net	—	(2,334)	(5,808)	(8,142)	(24)	(6,908)
Inflation adjustment on inflation-indexed securities	—	816	2,046	2,862	—	—
Subtotal of activity ¹	100	(153,997)	4,006	(149,891)	(2,006)	(87,746)
Balance September 30, 2018	\$100	\$1,475,574	\$920,168	\$2,395,842	\$ 2,746	\$1,729,954
Year ended December 31, 2017						
Supplemental information—par value of transactions						
Purchases ³	\$ —	\$ 161,796	\$ 15,976	\$ 177,772	\$ —	\$ 314,797
Sales	—	(125)	(275)	(400)	—	(320)
Nine months ended September 30, 2018						
Supplemental information—par value of transactions						
Purchases ³	\$100	\$ 167,742	\$ 11,838	\$ 179,680	\$ —	\$ 110,517
Sales ³	—	(51)	(59)	(110)	—	(119)
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 of Treasury securities and federal agency and GSE MBS are recorded on a settlement date basis; unsettled commitments related to those securities are excluded from the reported purchases and sales. 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 September 30, 2018, and December 31, 2017, was as follows:

Table 7. Foreign currency denominated investments (in millions)		
	September 30, 2018	December 31, 2017
Euro:		
Foreign currency deposits	\$ 6,886	\$ 6,070
French government debt instruments	2,632	3,089
German government debt instruments	1,527	2,239
Dutch government debt instruments	1,543	1,626
Japanese yen:		
Foreign currency deposits	6,971	6,765
Japanese government debt instruments	1,265	1,527
Total	<u>\$20,824</u>	<u>\$21,316</u>

The remaining maturity distribution of foreign currency denominated investments at September 30, 2018, and December 31, 2017, 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
September 30, 2018:						
Euro	\$ 7,099	\$227	\$ 319	\$2,891	\$2,052	\$12,588
Japanese yen	6,971	71	193	1,001	—	8,236
Total	<u>\$14,070</u>	<u>\$298</u>	<u>\$ 512</u>	<u>\$3,892</u>	<u>\$2,052</u>	<u>\$20,824</u>
December 31, 2017:						
Euro	\$ 6,162	\$102	\$1,228	\$3,134	\$2,398	\$13,024
Japanese yen	6,765	62	263	1,202	—	8,292
Total	<u>\$12,927</u>	<u>\$164</u>	<u>\$1,491</u>	<u>\$4,336</u>	<u>\$2,398</u>	<u>\$21,316</u>

At September 30, 2018, and December 31, 2017, the fair value of foreign currency denominated investments held in the SOMA was \$20,840 million and \$21,348 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 September 30, 2018, and December 31, 2017, was as follows:

Table 9. Maturity distribution of liquidity swaps (in millions)		
	September 30, 2018 Within 15 days	December 31, 2017 Within 15 days
Euro	\$74	\$11,907
Japanese yen	—	160
Total	\$74	\$12,067

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 September 30, 2018, and September 30, 2017:

Table 10. Realized gains and change in unrealized gain (loss) position (in millions)				
	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Realized gains, net	Change in cumulative unrealized gains (losses) ¹	Realized gains, net	Change in cumulative unrealized gains (losses) ¹
Treasury securities ²	\$ 6	\$ (87,975)	\$ 7	\$18,071
GSE debt securities	—	(204)	—	(119)
Federal agency and GSE MBS ³	—	(58,398)	9	9,731
Total	\$ 6	\$(146,577)	\$16	\$27,683

¹ 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. Change in cumulative unrealized gains (losses) is calculated from December 31 of the previous year.

² Realized gains for Treasury securities are reported in "Non-interest income: System Open Market Account: Treasury securities gains, net" in the Combined statements of operations.

³ Realized gains for federal agency and GSE MBS are reported in "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net" 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 September 30, 2018, and December 31, 2017, is summarized in the following table:

Table 11. Assets and liabilities of consolidated VIE		
(in millions)		
	September 30, 2018	December 31, 2017
Assets		
Short-term investments	\$ —	\$ 998
Swap contracts	—	5
Other investments	—	1
Subtotal	\$ —	\$1,004
Cash, cash equivalents, accrued interest receivable, and other receivables	7	716
Cash collateral on swap contracts	—	2
Total investments held by consolidated VIE	\$ 7	\$1,722
Liabilities		
Swap contracts	\$ —	\$ 8
Cash collateral on swap contracts	—	—
Other liabilities	1	1
Total liabilities held by consolidated VIE	\$ 1	\$ 9

ML had net income of \$7 million and \$4 million for the nine months ended September 30, 2018, and September 30, 2017, respectively.

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 Bank. ML LLC will retain minimal cash to meet any trailing expenses in order to facilitate an orderly wind-down.

(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 September 30, 2018, and December 31, 2017, 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 Bipartisan Budget Act of 2018 (Budget Act), which was enacted on February 9, 2018, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Budget Act reduced the statutory limit on aggregate Reserve Bank surplus from \$10.0 billion to \$7.5 billion, which required the Reserve Banks to make a lump sum payment to the Treasury in the amount of \$2.5 billion. This lump sum payment is reported as a component of "Earnings remittances to the Treasury" in the Combined statements of operations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act), which was enacted on May 24, 2018, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Economic Growth Act reduced the statutory limit on aggregate Reserve Bank surplus from \$7.5 billion to \$6.825 billion, which required the Reserve Banks to make a lump sum payment to the Treasury in the amount of \$675 million. This lump sum payment is reported as a component of "Earnings remittances to the Treasury" in the Combined statements of operations.

(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 nine months ended September 30, 2018 and 2017, primary, secondary, and seasonal credit average daily balances were \$130 million and \$106 million, respectively, and average interest rates were 2.05 percent and 1.08 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)		
	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Interest income:		
Treasury securities, net	\$ 47,752	\$ 47,928
GSE debt securities, net	140	349
Federal agency and GSE MBS, net	37,060	36,730
Foreign currency denominated investments, net ¹	(22)	(11)
Central bank liquidity swaps	11	6
Total interest income	\$ 84,941	\$ 85,002
Average daily balance:		
Treasury securities, net ²	\$2,474,440	\$2,555,313
GSE debt securities, net ³	3,940	11,268
Federal agency and GSE MBS, net ³	1,788,525	1,821,518
Foreign currency denominated investments, net ⁴	21,543	20,518
Central bank liquidity swaps ⁵	694	598
Average interest rate:		
Treasury securities, net	2.57%	2.50%
GSE debt securities, net	4.74%	4.13%
Federal agency and GSE MBS, net	2.76%	2.69%
Foreign currency denominated investments, net	-0.14%	-0.07%
Central bank liquidity swaps	2.02%	1.34%
<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 \$32 million and \$26 million for the nine months ended September 30, 2018 and 2017, respectively.</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 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 161	\$ 953
Foreign official and international accounts ²	3,058	1,489
Total interest expense	\$ 3,219	\$ 2,442
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$ 15,223	\$161,874
Foreign official and international accounts ²	239,115	245,272
Average interest rate:		
Primary dealers and expanded counterparties ¹	1.41%	0.78%
Foreign official and international accounts ²	1.71%	0.81%
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.htm, and on the Audit webpage of the Board's public website at www.federalreserve.gov/regreform/audit.htm.

www.federalreserve.gov

1118

