

***The Federal Reserve  
Bank of Dallas***

*Financial Statements as of and for the Years Ended  
December 31, 2009 and 2008 and  
Independent Auditors' Report*

# THE FEDERAL RESERVE BANK OF DALLAS

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FEDERAL RESERVE BANK OF DALLAS

2200 N. PEARL ST.  
DALLAS, TX 75201-22272

April 21, 2010

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

The management of the Federal Reserve Bank of Dallas ("FRBD") is responsible for the preparation and fair presentation of the Statement of Condition, Statements of Income and Comprehensive Income, and Statement of Changes in Capital as of December 31, 2009 (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 the Federal Reserve Banks ("Manual"), 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 Manual and include all disclosures necessary for such fair presentation.

The management of the FRBD is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with the Manual. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

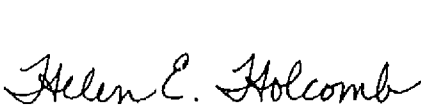
Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness 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 FRBD assessed its internal control over financial reporting reflected in the Financial Statements, based upon the criteria established in the "*Internal Control—Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the FRBD maintained effective internal control over financial reporting as it relates to the Financial Statements.

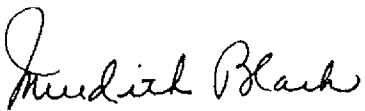
Federal Reserve Bank of Dallas

by 

Richard Fisher, President

by 

Helen Holcomb, First Vice President

by 

Meredith Black, CFO

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of condition of the Federal Reserve Bank of Dallas (“FRB Dallas”) as of December 31, 2009 and 2008 and the related statements of income and comprehensive income, and changes in capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of FRB Dallas as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRB Dallas’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 FRB Dallas’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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.

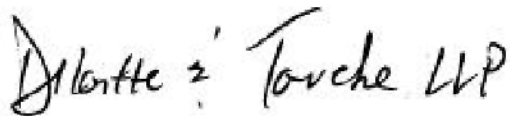
FRB Dallas’s internal control over financial reporting is a process designed by, or under the supervision of, FRB Dallas’s principal executive and principal financial officers, or persons performing similar functions, and effected by FRB Dallas’s board of directors, management, and other personnel to 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. FRB Dallas’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 FRB Dallas; (2) provide reasonable assurance

that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System, and that receipts and expenditures of FRB Dallas are being made only in accordance with authorizations of management and directors of FRB Dallas; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of FRB Dallas's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 4 to the financial statements, FRB Dallas has prepared these financial statements in conformity with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting principles established by the Board of Governors of the Federal Reserve System and accounting principles generally accepted in the United States of America are also described in Note 4.

In our opinion, such financial statements present fairly, in all material respects, the financial position of FRB Dallas as of December 31, 2009 and 2008, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, FRB Dallas maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A handwritten signature in black ink that reads "Dillette z' Touche LLP". The signature is written in a cursive, somewhat stylized font.

April 21, 2010

**FEDERAL RESERVE BANK OF DALLAS**  
**STATEMENTS OF CONDITION**  
As of December 31, 2009 and December 31, 2008  
(in millions)

	2009	2008
<u>ASSETS</u>		
Gold certificates	\$ 621	\$ 636
Special drawing rights certificates	282	98
Coin	214	180
Items in process of collection	33	152
Loans to depository institutions	392	5,027
System Open Market Account:		
Securities purchased under agreements to resell	-	3,318
Treasury securities, net	38,970	19,971
Government-sponsored enterprise debt securities, net	8,092	860
Federal agency and government-sponsored enterprise mortgage-backed securities, net	44,432	-
Investments denominated in foreign currencies	325	489
Central bank liquidity swaps	132	10,908
Accrued interest receivable	610	261
Interdistrict settlement account	-	11,155
Bank premises and equipment, net	276	278
Other assets	37	38
Total assets	\$ 94,416	\$ 53,371
<u>LIABILITIES AND CAPITAL</u>		
Federal Reserve notes outstanding, net	\$ 49,642	\$ 35,121
System Open Market Account:		
Securities sold under agreements to repurchase	3,758	3,665
Other liabilities	29	-
Deposits:		
Depository institutions	22,826	13,533
Other deposits	1	1
Deferred credit items	109	296
Accrued interest on Federal Reserve notes	51	103
Interdistrict settlement account	17,174	-
Interest due to depository institutions	2	2
Accrued benefit costs	103	92
Other liabilities	15	16
Total liabilities	93,710	52,829
Capital paid-in	353	271
Surplus (including accumulated other comprehensive loss of \$18 million and \$15 million at December 31, 2009 and 2008, respectively)	353	271
Total capital	706	542
Total liabilities and capital	\$ 94,416	\$ 53,371

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

**FEDERAL RESERVE BANK OF DALLAS**  
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
For the years ended December 31, 2009 and December 31, 2008  
(in millions)

	<u>2009</u>	<u>2008</u>
<u>INTEREST INCOME</u>		
Loans to depository institutions	\$ 10	\$ 57
System Open Market Account:		
Securities purchased under agreements to resell	1	80
Treasury securities	1,073	1,082
Government-sponsored enterprise debt securities	97	4
Federal agency and government-sponsored enterprise mortgage-backed securities	977	-
Investments denominated in foreign currencies	4	12
Central bank liquidity swaps	32	70
Total interest income	<u>2,194</u>	<u>1,305</u>
<u>INTEREST EXPENSE</u>		
System Open Market Account:		
Securities sold under agreements to repurchase	4	31
Depository institution deposits	36	9
Total interest expense	<u>40</u>	<u>40</u>
Net interest income	<u>2,154</u>	<u>1,265</u>
<u>NON-INTEREST INCOME (LOSS):</u>		
System Open Market Account:		
Treasury securities gains	-	162
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	44	-
Foreign currency (losses) gains, net	(3)	22
Compensation received for services provided	28	43
Reimbursable services to government agencies	14	15
Other income	10	35
Total non-interest income	<u>93</u>	<u>277</u>
<u>OPERATING EXPENSES:</u>		
Salaries and other benefits	126	119
Occupancy expense	25	25
Equipment expense	12	13
Assessments by the Board of Governors	33	25
Other expenses	29	43
Total operating expenses	<u>225</u>	<u>225</u>
Net income prior to distribution	<u>2,022</u>	<u>1,317</u>
Change in funded status of benefit plans	(3)	-
Comprehensive income prior to distribution	<u>\$ 2,019</u>	<u>\$ 1,317</u>
Distribution of comprehensive income:		
Dividends paid to member banks	\$ 17	\$ 17
Transferred to (from) surplus and change in accumulated other comprehensive loss	82	(92)
Payments to Treasury as interest on Federal Reserve notes	1,920	1,392
Total distribution	<u>\$ 2,019</u>	<u>\$ 1,317</u>

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

**FEDERAL RESERVE BANK OF DALLAS**  
**STATEMENTS OF CHANGES IN CAPITAL**  
For the years ended December 31, 2009 and December 31, 2008  
(in millions, except share data)

	Surplus				
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	Total capital
Balance at January 1, 2008 (7,268,613 shares)	\$ 363	\$ 378	\$ (15)	\$ 363	\$ 726
Net change in capital stock redeemed (1,849,175 shares)	(92)	-	-	-	(92)
Transferred from surplus and change in accumulated other comprehensive loss	-	(92)	-	(92)	(92)
Balance at December 31, 2008 (5,419,438 shares)	\$ 271	\$ 286	\$ (15)	\$ 271	\$ 542
Net change in capital stock issued (1,630,658 shares)	82	-	-	-	82
Transferred to surplus and change in accumulated other comprehensive loss	-	85	(3)	82	82
Balance at December 31, 2009 (7,050,096 shares)	\$ 353	\$ 371	\$ (18)	\$ 353	\$ 706

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



**FEDERAL RESERVE BANK OF DALLAS  
NOTES TO FINANCIAL STATEMENTS**

**1. STRUCTURE**

The Federal Reserve Bank of Dallas ("Bank") is part of the Federal Reserve System ("System") and is one of the twelve Federal Reserve Banks ("Reserve Banks") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act"), 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 and its branches in El Paso, Houston, and San Antonio serve the Eleventh Federal Reserve District, which includes Texas and portions of Louisiana and New Mexico.

In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a board of directors. The Federal Reserve Act 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 any 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 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 Federal Reserve Act 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 payments system, including large-dollar 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 individuals, partnerships, and corporations 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, and U.S. offices of foreign banking organizations. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the FRBNY to execute transactions. 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") debt securities, Federal agency and GSE mortgage-backed securities ("MBS"), the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The FRBNY executes these transactions at the direction of the FOMC and holds the resulting securities and agreements in a portfolio known as the System Open Market Account ("SOMA"). The FRBNY is authorized to lend the Treasury securities and Federal agency and GSE debt securities that are held in the SOMA.

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes the FRBNY to execute operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities.

**FEDERAL RESERVE BANK OF DALLAS**  
**NOTES TO FINANCIAL STATEMENTS**

Specifically, the FOMC authorizes and directs the FRBNY to hold balances of, and to execute spot and forward foreign exchange and securities contracts for, fourteen foreign currencies and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY is authorized and directed by the FOMC to maintain reciprocal currency arrangements (“FX swaps”) with two central banks and to “warehouse” foreign currencies for the Treasury and the Exchange Stabilization Fund (“ESF”). The FRBNY is also authorized and directed by the FOMC to maintain U.S. dollar currency liquidity swap arrangements with fourteen central banks. The FOMC has also authorized the FRBNY to maintain foreign currency liquidity swap arrangements with four foreign central banks.

Although the Reserve Banks are separate legal entities, they collaborate in 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 between 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 and for which the costs were not reimbursed by the other Reserve Banks include Check Automation Services; National Examination Data System; Desktop Services Center; Payment Application Modernization; Lawson Central Business Administration Function; Accounts, Risk and Credit System; and Go Direct®.

**3. FINANCIAL STABILITY ACTIVITIES**

The Reserve Banks have implemented the following programs that support the liquidity of financial institutions and foster improved conditions in financial markets.

*Expanded Open Market Operations and Support for Mortgage Related-Securities*

The Single-Tranche Open Market Operation Program allows primary dealers to initiate a series of 28-day term repurchase transactions while pledging Treasury securities, Federal agency and GSE debt securities, and Federal agency and GSE MBS as collateral.

The Federal Agency and GSE Debt Securities and MBS Purchase Program provides support to the mortgage and housing markets and fosters improved conditions in financial markets. Under this program, the FRBNY purchases housing-related GSE debt securities and Federal agency and GSE MBS. Purchases of housing-related GSE debt securities began in November 2008 and purchases of Federal agency and GSE MBS began in January 2009. The FRBNY is authorized to purchase up to \$200 billion in fixed rate, non-callable GSE debt securities and up to \$1.25 trillion in fixed rate Federal agency and GSE MBS. The activities of both of these programs are allocated to the other Reserve Banks.

*Central Bank Liquidity Swaps*

The FOMC authorized and directed the FRBNY to establish central bank liquidity swap arrangements, which may be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

U.S. dollar liquidity swap arrangements were authorized with fourteen foreign central banks to provide liquidity in U.S. dollars to overseas markets. Such arrangements were authorized with the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, the Sveriges Riksbank, and the Swiss National Bank. The maximum amount that could be drawn under these swap arrangements varied by central bank. The authorization for these swap arrangements expired on February 1, 2010.

Foreign currency liquidity swap arrangements provided the Reserve Banks with the capacity to offer foreign currency liquidity to U.S. depository institutions. Such arrangements were authorized with the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. The maximum amount that could be drawn under the swap arrangements varied by central bank. The authorization for these swap arrangements expired on February 1, 2010.

**FEDERAL RESERVE BANK OF DALLAS  
NOTES TO FINANCIAL STATEMENTS**

***Lending to Depository Institutions***

The Term Auction Facility (“TAF”) promotes the efficient dissemination of liquidity by providing term funds to depository institutions. Under the TAF, Reserve Banks auction term funds to depository institutions against any collateral eligible to secure primary, secondary, and seasonal credit less a margin, which is a reduction in the assigned collateral value that is intended to provide the Banks additional credit protection. All depository institutions that are considered to be in generally sound financial condition by their Reserve Bank and that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All loans must be collateralized to the satisfaction of the Reserve Banks.

***Lending to Primary Dealers***

The Term Securities Lending Facility (“TSLF”) promoted liquidity in the financing markets for Treasury securities. Under the TSLF, the FRBNY could lend up to an aggregate amount of \$200 billion of Treasury securities held in the SOMA to primary dealers secured for a term of 28 days. Securities were lent to primary dealers through a competitive single-price auction and were collateralized, less a margin, by a pledge of other securities, including Treasury securities, municipal securities, Federal agency and GSE MBS, non-agency AAA/Aaa-rated private-label residential MBS, and asset-backed securities (“ABS”). The authorization for the TSLF expired on February 1, 2010.

The Term Securities Lending Facility Options Program (“TOP”) offered primary dealers, through a competitive single-price auction, to purchase an option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The program enhanced the effectiveness of the TSLF by ensuring additional liquidity during periods of heightened collateral market pressures, such as around quarter-end dates. The program was suspended effective with the maturity of the June 2009 TOP options and the program authorization expired on February 1, 2010.

***Other Lending Facilities***

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (“AMLF”) provided funding to depository institutions and bank holding companies to finance the purchase of eligible high-quality asset-backed commercial paper (“ABCP”) from money market mutual funds. The program assisted money market mutual funds that hold such paper to meet the demands for investor redemptions and to foster liquidity in the ABCP market and money markets more generally. The Federal Reserve Bank of Boston (“FRBB”) administered the AMLF and was authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. All loans extended under the AMLF were non-recourse and were recorded as assets by the FRBB, and if the borrowing institution settles to a depository account in the Eleventh Federal Reserve District, the funds were credited to the depository institution account and settled between the Reserve Banks through the interdistrict settlement account. The credit risk related to the AMLF was assumed by the FRBB. The authorization for the AMLF expired on February 1, 2010.

**4. SIGNIFICANT ACCOUNTING POLICIES**

Accounting principles for entities with the unique powers and responsibilities of a 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 Banks* (“Financial Accounting Manual” or “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 and the financial statements have been prepared in accordance with the FAM.

Limited differences exist between the accounting principles and practices in the FAM and generally accepted accounting principles in the United States (“GAAP”), primarily due to the unique nature of the Bank’s powers and responsibilities as part of the nation’s central bank. The primary difference is the presentation of all SOMA securities holdings at amortized cost rather than the fair value presentation required by GAAP. Treasury securities, GSE debt securities, Federal agency and GSE MBS, and investments denominated in

**FEDERAL RESERVE BANK OF DALLAS**  
**NOTES TO FINANCIAL STATEMENTS**

foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis rather than the trade-date basis required by GAAP. The cost basis of Treasury securities, GSE debt securities, and foreign government debt instruments is adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Amortized cost more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Accounting for these securities on a settlement-date basis more appropriately reflects the timing of the transaction's effect on the quantity of reserves in the banking system. Although the application of fair value measurements to the securities holdings may result in values substantially above or below 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 prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to the open market operations and do not motivate decisions related to policy or open market activities.

In addition, the Bank has elected not to present a Statement of Cash Flows because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital. There are no other significant differences between the policies outlined in the FAM and 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 to conform to the current-year presentation. Unique accounts and significant accounting policies are explained below.

**a. *Gold and Special Drawing Rights Certificates***

The Secretary of the Treasury is authorized to issue gold and special drawing rights ("SDR") certificates to the Reserve Banks.

Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold of 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. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on the average Federal Reserve notes outstanding in each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (the "Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDR certificates 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 transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. There were no SDR transactions in 2008, and in 2009 the Treasury issued \$3 billion in SDR certificates to the Reserve Banks, of which \$184 million was allocated to the Bank.

**FEDERAL RESERVE BANK OF DALLAS**  
**NOTES TO FINANCIAL STATEMENTS**

**b. *Loans to Depository Institutions***

Loans are reported at their outstanding principal balances and interest income is recognized on an accrual basis.

Loans are impaired when, based on current information and events, it is probable that the Bank will not receive the principal or interest that is due in accordance with the contractual terms of the loan agreement. 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 reflect the assessment of credit risk. 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 for each program. Generally, the Bank discontinues recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest will be received in accordance with the term 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.

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

The FRBNY may engage in purchases of securities with primary dealers under agreements to resell ("repurchase transactions"). These repurchase transactions are typically executed through a tri-party arrangement ("tri-party transactions"). Tri-party transactions are conducted with two commercial custodial banks that manage the clearing, settlement, and pledging of collateral. The collateral pledged must exceed the principal amount of the transaction. Acceptable collateral under tri-party repurchase transactions primarily includes Treasury securities; pass-through mortgage securities of Fannie Mae, Freddie Mac, and Ginnie Mae; STRIP Treasury securities; and "stripped" securities of Federal agencies. The tri-party transactions are accounted for as financing transactions with the associated interest income accrued over the life of the transaction. Repurchase transactions are reported at their contractual amount as "System Open Market Account: Securities purchased under agreements to resell" in the Statements of Condition and the related accrued interest receivable is reported as a component of "Accrued interest receivables."

The FRBNY may engage in sales of securities with primary dealers under agreements to repurchase ("reverse repurchase transactions"). These reverse repurchase transactions may be executed through a tri-party arrangement, similar to repurchase transactions. Reverse repurchase transactions may also be executed with foreign official and international accounts. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts in the Statements of Condition and the related accrued interest payable is reported as a component of "Other liabilities."

Treasury securities and GSE debt securities held in the SOMA are lent to primary dealers to facilitate the effective functioning of the domestic securities market. Overnight securities lending transactions are fully collateralized by other Treasury securities. TSLF transactions are fully collateralized with investment-grade debt securities, collateral eligible for tri-party repurchase agreements arranged by the FRBNY, or both. The collateral taken in both overnight and term securities lending transactions is in excess of the fair value of the securities lent. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Other income." In addition, TOP fees are reported as a component of "Other income."

Activity related to securities purchased under agreements to resell, securities sold under agreements to repurchase, 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 April each year. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District.

**FEDERAL RESERVE BANK OF DALLAS**  
**NOTES TO FINANCIAL STATEMENTS**

**d. *Treasury Securities; Government-Sponsored Enterprise Debt Securities; Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities; Investments Denominated in Foreign Currencies; and Warehousing Agreements***

Interest income on Treasury securities, GSE debt securities, and investments denominated in foreign currencies comprising the SOMA is accrued on a straight-line basis. Interest income on Federal agency and GSE MBS is accrued using the interest method and includes amortization of premiums, accretion of discounts, and paydown gains or losses. Paydown gains or losses result from scheduled payment and prepayment of principal and represent the difference between the principal amount and the carrying value of the related security. Gains and losses resulting from sales of securities are determined by specific issue based on average cost.

In addition to outright purchases of Federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions (“dollar rolls”), which primarily involve an initial transaction to purchase or sell “to be announced” (“TBA”) MBS combined with an agreement to sell or purchase TBA MBS on a specified future date. The FRBNY’s participation in the dollar roll market furthers the MBS Purchase Program goal of providing support to the mortgage and housing markets and fostering improved conditions in financial markets. The FRBNY accounts for outstanding commitments to sell or purchase TBA MBS on a settlement-date basis. Based on the terms of the FRBNY dollar roll transactions, transfers of MBS upon settlement of the initial TBA MBS transactions are accounted for as purchases or sales in accordance with FASB ASC Topic 860 (ASC 860), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, (previously SFAS 140), and the related outstanding commitments are accounted for as sales or purchases upon settlement.

Activity related to Treasury securities, GSE debt securities, and Federal agency and GSE MBS, 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 April of each year. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District. Activity related to investments denominated in foreign currencies, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank based on the ratio of each Reserve Bank’s capital and surplus to aggregate capital and surplus at the preceding December 31.

Foreign-currency-denominated assets are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as “Foreign currency gains or losses, net” in the Statements of Income and Comprehensive Income.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

Warehousing agreements are designated as held-for-trading purposes and are valued daily at current market exchange rates. Activity related to these agreements is allocated to each Reserve Bank based on the ratio of each Reserve Bank’s capital and surplus to aggregate capital and surplus at the preceding December 31.

**e. *Central Bank Liquidity Swaps***

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

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Activity related to U.S. dollar and foreign currency swap transactions, including the related income and expense, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. Similar to investments denominated in foreign currencies, the foreign currency amounts associated with these central bank liquidity swap arrangements are revalued at current foreign currency market exchange rates.

***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 is reported as "Central bank liquidity swaps" on 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 foreign currency amounts held for the FRBNY. The FRBNY recognizes compensation during the term of the swap transaction and reports it as "Interest income: Central bank liquidity swaps" in the Statements of Income and Comprehensive Income.

***Foreign currency liquidity swaps***

At the initiation of each foreign currency liquidity swap transaction, the FRBNY will transfer, at the prevailing market exchange rate, a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency amount received would be reported as a liability by the Bank. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the FRBNY to return the foreign currency and the foreign central bank to return the U.S. dollars on a specified future date. The FRBNY compensates the foreign central bank based on the foreign currency transferred to the FRBNY. For each foreign currency swap transaction with a foreign central bank it is anticipated that the FRBNY will enter into a corresponding transaction with a U.S. depository institution in order to provide foreign currency liquidity to that institution. No foreign currency liquidity swap transactions occurred in 2008 or 2009.

***f. Interdistrict Settlement Account***

At the close of business each day, 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.

***g. 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 two to fifty years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are 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.

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Costs incurred for software during the application development stage, whether developed internally or acquired for internal use, are capitalized based on the purchase cost and 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 range from two to five years. Maintenance costs related to software are charged to 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.

***h. 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. Assets eligible to be pledged as collateral security include all of the Bank's assets. 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 for securities sold under agreements to repurchase is deducted.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the 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 Federal Reserve Act 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. At December 31, 2009 and 2008, all Federal Reserve notes issued to the Reserve Banks were fully collateralized.

"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 \$13,731 million and \$20,767 million at December 31, 2009 and 2008, respectively.

Other deposits represent amounts held in accounts at the Bank by GSEs and foreign central banks and governments.

***i. Items in Process of Collection and Deferred Credit Items***

"Items in process of collection" in the Statements of Condition primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. "Deferred credit items" are the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can vary significantly.

***j. Capital Paid-in***

The Federal Reserve Act 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.



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By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To reflect the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Statements of Income and Comprehensive Income.

**k. *Surplus***

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year. Accumulated other comprehensive income is reported as a component of surplus in the Statements of Condition and the Statements of Changes in Capital. The balance of accumulated other comprehensive income is comprised of expenses, gains, and losses related to other postretirement benefit plans that, under GAAP, are included in other comprehensive income, but excluded from net income. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12 and 13.

**l. *Interest on Federal Reserve Notes***

The Board of Governors requires the Reserve Banks to transfer excess earnings to the Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. This amount is reported as "Payments to U.S. Treasury as interest on Federal Reserve notes" in the Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued interest on Federal Reserve notes" in the Statements of Condition. If overpaid during the year, the amount is reported as "Prepaid interest on Federal Reserve notes" in the Statements of Condition. Payments are made weekly to the Treasury.

In the event of losses or an increase in capital paid-in at a Reserve Bank, payments to the Treasury are suspended and earnings are retained until the surplus is equal to the capital paid-in.

In the event of a decrease in capital paid-in, the excess surplus, after equating capital paid-in and surplus at December 31, is distributed to the Treasury in the following year.

**m. *Interest on Depository Institution Deposits***

On October 9, 2008, the Reserve Banks began paying interest to depository institutions on qualifying balances held at the Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the effective federal funds rate.

**n. *Income and Costs Related to Treasury Services***

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States Government. By statute, the Department of the Treasury has appropriations to pay for these services. During the years ended December 31, 2009 and 2008, the Bank was reimbursed for all services provided to the Department of the Treasury as its fiscal agent.

**o. *Compensation Received for Services Provided***

The Federal Reserve Bank of Atlanta ("FRBA") has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. Similarly, the FRBNY manages the Reserve Banks' provision of Fedwire funds and securities services and recognizes total System revenue for these services on its Consolidated Statements of Income and Comprehensive Income. The FRBA and the FRBNY compensate the applicable Reserve Banks for the costs incurred to provide these services. The Bank reports this compensation as "Compensation received for services provided" in the Statements of Income and Comprehensive Income.

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**p. Assessments by the Board of Governors**

The Board of Governors assesses the Reserve Banks to fund its operations based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year. The Board of Governors also assesses each Reserve Bank for the expenses incurred by the Treasury to produce and retire 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.

**q. 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 \$4 million for each of the years ended December 31, 2009 and 2008, and are reported as a component of "Occupancy expense."

**r. 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 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.

Note 14 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the FRBNY.

**s. Recently Issued Accounting Standards**

In February 2008, FASB issued FSP SFAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, (codified in FASB ASC Topic 860 (ASC 860), *Transfers and Servicing*). ASC 860 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met. These provisions of ASC 860 are effective for the Bank's financial statements for the year beginning on January 1, 2009 and have not had a material effect on the Bank's financial statements. The requirements of this standard have been reflected in the accompanying footnotes.

In June 2009, FASB issued SFAS 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140*, (codified in ASC 860). The new guidance modifies existing guidance to eliminate the scope exception for qualifying special purpose vehicles ("SPVs") and clarifies that the transferor must consider all arrangements of the transfer of financial assets when determining if the transferor has surrendered control. These provisions of ASC 860 are effective for the Bank's financial statements for the year beginning on January 1, 2010, and earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Bank's financial statements.

In May 2009, FASB issued SFAS No. 165, *Subsequent Events*, (codified in FASB ASC Topic 855 (ASC 855), *Subsequent Events*), which establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the

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financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The Bank adopted ASC 855 for the period ended December 31, 2009 and the required disclosures are reflected in Note 15.

In June 2009, the FASB issued SFAS No. 168, *The Statement of Financial Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. SFAS 168 is effective for financial statements issued for periods ending after September 15, 2009. As a result, both the ASC and the legacy standard are referenced in the Bank's financial statements and footnotes.

**5. LOANS**

The loan amounts outstanding at December 31 were as follows (in millions):

	2009	2008
Primary, secondary, and seasonal credit	\$ 2	\$ 692
TAF	390	4,335
Loans to depository institutions	<u>\$ 392</u>	<u>\$ 5,027</u>

***Loans to depository institutions***

The Bank offers primary, secondary, and seasonal credit to eligible borrowers. Each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every fourteen days by the board of directors of the Bank, subject to review and determination by the Board of Governors. Primary and secondary credit are extended on a short-term basis, typically overnight, whereas seasonal credit may be extended for a period of up to nine months.

Primary, secondary, and seasonal credit lending is 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; ABS; 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 or face value reduced by a margin.

Depository institutions that are eligible to borrow under the Bank's primary credit program are also eligible to participate in the TAF program. Under the TAF program, the Reserve Banks conduct auctions for a fixed amount of funds, with the interest rate determined by the auction process, subject to a minimum bid rate. TAF loans are extended on a short-term basis, with terms ranging from 28 to 84 days. All advances under the TAF program must be collateralized to the satisfaction of the Bank. Assets eligible to collateralize TAF loans include the complete list noted above for loans to depository institutions. Similar to the process used for primary, secondary, and seasonal credit, a lending value is assigned to each asset that is accepted as collateral for TAF loans reduced by a margin.

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Loans to depository institutions are monitored on a daily basis to ensure that borrowers continue to meet eligibility requirements for these programs. The financial condition of borrowers is monitored by the Bank and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or, for primary and seasonal credit lending, 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.

The remaining maturity distributions of loans outstanding at December 31 were as follows (in millions):

	2009	
	Primary, secondary, and seasonal credit	TAF
Within 15 days	\$ 2	\$ 390
Total loans	\$ 2	\$ 390

	2008	
	Primary, secondary, and seasonal credit	TAF
Within 15 days	\$ 160	\$ 2,010
16 days to 90 days	532	2,325
Total loans	\$ 692	\$ 4,335

***Allowance for loan loss and restructuring***

At December 31, 2009 and 2008, the Bank did not have any impaired loans and no allowance for loan losses was required.

**6. TREASURY SECURITIES; GOVERNMENT-SPONSORED ENTERPRISE DEBT SECURITIES; FEDERAL AGENCY AND GOVERNMENT-SPONSORED ENTERPRISE MORTGAGE-BACKED SECURITIES; SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL; SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE; AND SECURITIES LENDING**

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 4.835 percent and 4.148 percent at December 31, 2009 and 2008, respectively.

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

2009						
Treasury securities						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Par	\$ 891	\$ 27,479	\$ 9,179	\$ 37,549	\$ 7,730	\$ 43,921
Unamortized premiums	-	316	1,183	1,499	363	586
Unaccreted discounts	-	(48)	(30)	(78)	(1)	(75)
Total amortized cost	<u>\$ 891</u>	<u>\$ 27,747</u>	<u>\$ 10,332</u>	<u>\$ 38,970</u>	<u>\$ 8,092</u>	<u>\$ 44,432</u>
Fair Value	<u>\$ 891</u>	<u>\$ 28,191</u>	<u>\$ 11,155</u>	<u>\$ 40,237</u>	<u>\$ 8,096</u>	<u>\$ 44,207</u>

2008						
Treasury securities						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Par	\$ 764	\$ 13,887	\$ 5,091	\$ 19,742	\$ 817	\$ -
Unamortized premiums	-	12	278	290	44	-
Unaccreted discounts	-	(35)	(26)	(61)	(1)	-
Total amortized cost	<u>\$ 764</u>	<u>\$ 13,864</u>	<u>\$ 5,343</u>	<u>\$ 19,971</u>	<u>\$ 860</u>	<u>\$ -</u>
Fair Value	<u>\$ 764</u>	<u>\$ 14,838</u>	<u>\$ 7,029</u>	<u>\$ 22,631</u>	<u>\$ 865</u>	<u>\$ -</u>

The total of the Treasury securities, GSE debt securities, and Federal agency and GSE MBS, net, excluding accrued interest held in the SOMA at December 31 was as follows (in millions):

2009						
Treasury securities						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Amortized Cost	\$ 18,423	\$ 573,877	\$ 213,672	\$ 805,972	\$ 167,362	\$ 918,927
Fair Value	\$ 18,423	\$ 583,040	\$ 230,717	\$ 832,180	\$ 167,444	\$ 914,290

2008						
Treasury securities						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Amortized Cost	\$ 18,422	\$ 334,217	\$ 128,810	\$ 481,449	\$ 20,740	\$ -
Fair Value	\$ 18,422	\$ 357,709	\$ 169,433	\$ 545,564	\$ 20,863	\$ -

The fair value amounts in the above tables are presented solely for informational purposes. Although the fair value of 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. Fair value was determined by reference to quoted market values for identical securities, except for Federal agency and GSE MBS for which fair values were determined using a model-based approach based on observable inputs for similar securities.

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The fair value of the fixed-rate Treasury securities, GSE debt securities, and Federal agency and GSE MBS in the SOMA's holdings is subject to market risk, arising from movements in market variables, such as interest rates and securities prices. The fair value of Federal agency and GSE MBS is also affected by the rate of prepayments of mortgage loans underlying the securities.

The following table provides additional information on the amortized cost and fair values of the Federal agency and GSE MBS portfolio at December 31, 2009 (in millions):

Distribution of MBS holdings by coupon rate	Amortized cost	Fair value
Allocated to the Bank:		
4.0%	\$ 8,225	\$ 8,014
4.5%	21,002	20,870
5.0%	9,449	9,497
5.5%	4,998	5,057
6.0%	615	624
Other <sup>1</sup>	143	145
Total	<u>\$ 44,432</u>	<u>\$ 44,207</u>
System total:		
4.0%	\$ 170,119	\$ 165,740
4.5%	434,352	431,646
5.0%	195,418	196,411
5.5%	103,379	104,583
6.0%	12,710	12,901
Other <sup>1</sup>	2,949	3,009
Total	<u>\$ 918,927</u>	<u>\$ 914,290</u>

<sup>1</sup> - Represents less than one percent of the total portfolio

Financial information related to securities purchased under agreements to resell and securities sold under agreements to repurchase for the years ended December 31, 2009 and 2008, was as follows (in millions):

	Securities purchased under agreements to resell		Securities sold under agreements to repurchase	
	2009	2008	2009	2008
Allocated to the Bank:				
Contract amount outstanding, end of year	\$ -	\$ 3,318	\$ 3,758	\$ 3,665
Average daily amount outstanding, during the year	150	3,615	3,136	2,317
Maximum month-end balance outstanding, during the year	-	4,936	3,758	4,088
Securities pledged, end of year	-	-	3,765	3,273
System total:				
Contract amount outstanding, end of year	\$ -	\$ 80,000	\$ 77,732	\$ 88,352
Average daily amount outstanding, during the year	3,616	86,227	67,837	55,169
Maximum month-end balance outstanding, during the year	-	119,000	77,732	98,559
Securities pledged, end of year	-	-	77,860	78,896

The Bank has revised its disclosure of securities purchased under agreements to resell and securities sold under agreements to repurchase from a weighted average calculation, disclosed in 2008, to the simple daily average calculation, disclosed above. The previously reported System total 2008 weighted average amount outstanding for securities purchased under agreements to resell was \$97,037 million, of which \$4,025 million was allocated to the Bank. The previously reported System total 2008 weighted average amount outstanding for securities sold under agreements to repurchase was \$65,461 million, of which \$2,715 million was allocated to the Bank.

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The contract amounts for securities purchased under agreements to resell and securities sold under agreements to repurchase approximate fair value.

The remaining maturity distribution of Treasury securities, GSE debt securities, Federal agency and GSE MBS bought outright, securities purchased under agreements to resell, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2009 was as follows (in millions):

	Treasury securities (Par value)	GSE debt securities (Par value)	Federal agency and GSE MBS (Par value)	Securities purchased under agreements to resell (Contract amount)	Securities sold under agreements to repurchase (Contract amount)
Within 15 days	\$ 562	\$ 3	\$ -	\$ -	\$ 3,758
16 days to 90 days	1,395	147	-	-	-
91 days to 1 year	2,455	1,041	-	-	-
Over 1 year to 5 years	15,805	4,806	1	-	-
Over 5 years to 10 years	10,333	1,634	1	-	-
Over 10 years	6,999	99	43,919	-	-
Total allocated to the Bank	<u>\$ 37,549</u>	<u>\$ 7,730</u>	<u>\$ 43,921</u>	<u>\$ -</u>	<u>\$ 3,758</u>

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities at December 31, 2009, which differs from the stated maturity primarily because it factors in prepayment assumptions, is approximately 6.4 years.

At December 31, 2009 and 2008, Treasury securities and GSE debt securities with par values of \$21,610 million and \$180,765 million, respectively, were loaned from the SOMA, of which \$1,045 million and \$7,498 million, respectively, were allocated to the Bank.

At December 31, 2009, the total of other investments was \$5 million, of which the Bank's allocated share was immaterial. Other investments consist of cash and short-term investments related to the Federal agency and GSE MBS portfolio.

At December 31, 2009, the total of other liabilities was \$601 million, of which \$29 million was allocated to the Bank. These other liabilities, which are related to purchases of Federal agency and GSE MBS, arise from the failure of a seller to deliver securities to the FRBNY on the settlement date. Although the Bank has ownership of and records its investments in the MBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount reported as other liabilities represents the Bank's obligation to pay for the securities when delivered.

The FRBNY enters into commitments to buy Federal agency and GSE MBS and records the related MBS on a settlement-date basis. As of December 31, 2009, the total purchase price of the Federal agency and GSE MBS under outstanding commitments was \$160,099 million, of which \$32,838 million was related to dollar roll transactions. The amount of outstanding commitments allocated to the Bank was \$7,741 million, of which \$1,588 million was related to dollar roll transactions. These commitments, which had contractual settlement dates extending through March 2010, are primarily for the purchase of TBA MBS 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. These commitments are subject to market and counterparty risks that result from their future settlement. As of December 31, 2009, the fair value of Federal agency and GSE MBS under outstanding commitments was \$158,868 million, of which \$7,681 million was allocated to the Bank. During the year ended December 31, 2009, the Reserve Banks recorded net gains from dollar roll related sales of \$879 million, of which \$44 million was allocated to the Bank. These net gains are reported as "Non-Interest Income (Loss): Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

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**7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES**

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and with the Bank for International Settlements and invests in foreign government debt instruments. These investments are guaranteed as to principal and interest by the issuing foreign governments. In addition, the FRBNY enters into transactions to purchase foreign-currency-denominated government-debt securities under agreements to resell for which the accepted collateral is the debt instruments issued by the governments of Belgium, France, Germany, Italy, the Netherlands, and Spain.

The Bank's allocated share of investments denominated in foreign currencies was approximately 1.286 percent and 1.970 percent at December 31, 2009 and 2008, respectively.

The Bank's allocated share of investments denominated in foreign currencies, including accrued interest, valued at amortized cost and foreign currency market exchange rates at December 31, was as follows (in millions):

	<u>2009</u>	<u>2008</u>
Euro:		
Foreign currency deposits	\$ 95	\$ 110
Securities purchased under agreements to resell	33	80
Government debt instruments	64	91
Japanese yen:		
Foreign currency deposits	44	69
Government debt instruments	89	139
Total allocated to the Bank	<u>\$ 325</u>	<u>\$ 489</u>

At December 31, 2009 and 2008, the fair value of investments denominated in foreign currencies, including accrued interest, allocated to the Bank was \$328 million and \$493 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to the Treasury securities, GSE debt securities, and Federal agency and GSE MBS discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as the central bank, to meet its financial obligations and responsibilities. The fair value is presented solely for informational purposes.

Total Reserve Bank investments denominated in foreign currencies were \$25,272 million and \$24,804 million at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the fair value of the total Reserve Bank investments denominated in foreign currencies, including accrued interest, was \$25,480 million and \$25,021 million, respectively.



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The remaining maturity distribution of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2009 was as follows (in millions):

	<u>Euro</u>	<u>Japanese yen</u>	<u>Total</u>
Within 15 days	\$ 78	\$ 47	\$ 125
16 days to 90 days	32	6	38
91 days to 1 year	31	30	61
Over 1 year to 5 years	<u>51</u>	<u>50</u>	<u>101</u>
Total allocated to the Bank	<u>\$ 192</u>	<u>\$ 133</u>	<u>\$ 325</u>

At December 31, 2009 and 2008, the authorized warehousing facility was \$5.0 billion, with no balance outstanding.

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

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**8. CENTRAL BANK LIQUIDITY SWAPS**

*U.S. Dollar Liquidity Swaps*

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 1.286 percent and 1.970 percent at December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, the total Reserve Bank amount of foreign currency held under U.S. dollar liquidity swaps was \$10,272 million and \$553,728 million, respectively, of which \$132 million and \$10,908 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 was as follows (in millions):

	2009			2008		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Australian dollar	\$ -	\$ -	\$ -	\$ 197	\$ 253	\$ 450
Danish krone	-	-	-	-	296	296
Euro	84	-	84	2,974	2,765	5,739
Japanese yen	7	-	7	943	1,474	2,417
Korean won	-	-	-	-	204	204
Mexican peso	41	-	41	-	-	-
Norwegian krone	-	-	-	43	119	162
Swedish krona	-	-	-	197	295	492
Swiss franc	-	-	-	379	117	496
U.K. pound	-	-	-	3	649	652
Total	\$ 132	\$ -	\$ 132	\$ 4,736	\$ 6,172	\$ 10,908

*Foreign Currency Liquidity Swaps*

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2008 and 2009.

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**9. BANK PREMISES, EQUIPMENT, AND SOFTWARE**

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

	<u>2009</u>	<u>2008</u>
Bank premises and equipment:		
Land	\$ 63	\$ 61
Buildings	229	226
Building machinery and equipment	44	38
Construction in progress	1	2
Furniture and equipment	64	74
Subtotal	<u>401</u>	<u>401</u>
Accumulated depreciation	<u>(125)</u>	<u>(123)</u>
Bank premises and equipment, net	<u>\$ 276</u>	<u>\$ 278</u>
Depreciation expense, for the years ended December 31	<u>\$ 17</u>	<u>\$ 15</u>

The Bank leases space to outside tenants with remaining lease terms ranging from six to eight years. Rental income from such leases was \$3 million and \$2 million for the years ended December 31, 2009 and 2008, respectively, and is reported as a component of "Other income" in the Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2009 are as follows (in thousands):

2010	\$ 1,176
2011	1,178
2012	1,178
2013	1,178
2014	1,178
Thereafter	2,173
Total	<u>\$ 8,061</u>

The Bank had capitalized software assets, net of amortization, of \$3 million for each of the years ended December 31, 2009 and 2008. Amortization expense was \$2 million for each of the years ended December 31, 2009 and 2008. 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 "Other expenses" in the Statements of Income and Comprehensive Income.

**10. COMMITMENTS AND CONTINGENCIES**

In the normal course of 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, 2009, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from one to approximately two years. These leases provide for increased rental payments based upon increases in real estate taxes, operating costs, or selected price indices.

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Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was \$231 thousand and \$235 thousand for the years ended December 31, 2009 and 2008, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms of one year or more, at December 31, 2009 were not material.

At December 31, 2009, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under the Insurance Agreement of the Federal Reserve Banks, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of one 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, 2009 or 2008.

## **11. 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"). In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan ("BEP") and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Bank ("SERP").

The System Plan provides retirement benefits to employees of the Federal Reserve Banks, the Board of Governors, and OEB. The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its financial statements. Costs associated with the System Plan are not reimbursed by other participating employers.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2009 and 2008, and for the years then ended, were not material.

### *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 employee contributions based on a specified formula. For the year ended December 31, 2008 and for the first three months of the year ended December 31, 2009, the Bank matched 80 percent of the first 6 percent of employee contributions for employees with less than five years of service and 100 percent of the first 6 percent of employee contributions for employees with five or more years of service. Effective April 1, 2009, 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 one percent of eligible pay. The Bank's Thrift Plan contributions totaled \$4 million for each of the years ended December 31, 2009 and 2008, respectively, and are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

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**12. 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 benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation (in millions):

	2009	2008
Accumulated postretirement benefit obligation at January 1	\$ 83.8	\$ 77.8
Service cost benefits earned during the period	3.0	3.1
Interest cost on accumulated benefit obligation	5.0	5.0
Net actuarial loss	3.5	2.7
Curtailement gain	-	(1.5)
Contributions by plan participants	1.3	1.2
Benefits paid	(4.8)	(4.7)
Medicare Part D subsidies	0.3	0.2
Accumulated postretirement benefit obligation at December 31	\$ 92.1	\$ 83.8

At December 31, 2009 and 2008, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.75 percent and 6.00 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.

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Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	<u>2009</u>	<u>2008</u>
Fair value of plan assets at January 1	\$ -	\$ -
Contributions by the employer	3.2	3.3
Contributions by plan participants	1.3	1.2
Benefits paid	(4.8)	(4.7)
Medicare Part D subsidies	<u>0.3</u>	<u>0.2</u>
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Unfunded obligation and accrued postretirement benefit cost	<u>\$ 92.1</u>	<u>\$ 83.8</u>
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	\$ 1.5	\$ 1.9
Net actuarial loss	(19.6)	(17.2)
Deferred curtailment gain	-	0.2
Total accumulated other comprehensive loss	<u>\$ (18.1)</u>	<u>\$ (15.1)</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 are as follows:

	<u>2009</u>	<u>2008</u>
Health care cost trend rate assumed for next year	7.50%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2015	2014

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2009 (in millions):

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	\$ 1.4	\$ (1.1)
Effect on accumulated postretirement benefit obligation	12.0	(10.0)

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

	2009	2008
Service cost for benefits earned during the period	\$ 3.0	\$ 3.1
Interest cost on accumulated benefit obligation	5.0	5.0
Amortization of prior service cost	(0.4)	(0.5)
Amortization of net actuarial loss	1.1	1.3
Total periodic expense	<u>8.7</u>	<u>8.9</u>
Curtailement gain	(0.2)	-
Net periodic postretirement benefit expense	<u>\$ 8.5</u>	<u>\$ 8.9</u>

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense (credit) in 2010 are shown below:

Prior service cost	\$ (0.3)
Net actuarial loss	1.5
Total	<u>\$ 1.2</u>

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2009 and 2008, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 6.00 percent and 6.25 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

A net curtailment gain associated with restructuring programs that are described in Note 14 was recognized in net income in the year ended December 31, 2009, related to employees who terminated employment during 2009. A deferred curtailment gain was recorded in 2008 as a component of accumulated other comprehensive loss; the gain will be recognized in net income in future years when the related employees terminate employment.

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 actuarial gain in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were \$0.4 million and \$0.2 million in the years ended December 31, 2009 and 2008, respectively. Expected receipts in 2010, related to benefits paid in the years ended December 31, 2009 and 2008, are not material.

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

	<u>Without subsidy</u>	<u>With subsidy</u>
2010	\$ 4.4	\$ 4.1
2011	4.9	4.5
2012	5.3	4.8
2013	5.7	5.2
2014	6.1	5.6
2015 - 2019	<u>36.9</u>	<u>33.1</u>
 Total	 <u>\$ 63.3</u>	 <u>\$ 57.3</u>

***Postemployment Benefits***

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, disability benefits, and self-insured workers' compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2009 and 2008, were \$9 million and \$6 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 2009 and 2008 operating expenses were \$3 million and \$162 thousand, respectively, and are recorded as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.



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**13. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME**

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive loss (in millions):

	Amount related to postretirement benefits other than retirement plans
Balance at January 1, 2008	\$ (15)
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	(1)
Amortization of net actuarial loss	1
Change in funded status of benefit plans - other comprehensive loss	-
Balance at December 31, 2008	<u>\$ (15)</u>
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	\$ (4)
Amortization of net actuarial loss	1
Change in funded status of benefit plans - other comprehensive loss	<u>(3)</u>
Balance at December 31, 2009	<u><u>\$ (18)</u></u>

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 12.

**14. BUSINESS RESTRUCTURING CHARGES**

***2007 and Prior Restructuring Plans***

The Bank incurred various restructuring charges prior to 2008 related to restructuring to streamline its Houston operations and reduce costs.

***2008 Restructuring Plans***

In 2008, the Reserve Banks announced the acceleration of their check restructuring initiatives to align the check processing infrastructure and operations with declining check processing volumes. The new infrastructure consolidates operations into two regional Reserve Bank processing sites; in Cleveland, for paper check processing, and Atlanta, for electronic check processing.

***2009 Restructuring Plans***

In 2009, the Bank announced that in 2010 it will eliminate its check print-site function, which is the only remaining check operation performed by the Bank.

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Following is a summary of financial information related to the restructuring plans (in millions):

	2007 and prior restructuring plans	2008 restructuring plans	2009 restructuring plans	Total
<i>Information related to restructuring plans as of December 31, 2009:</i>				
Total expected costs related to restructuring activity	\$ 1.0	\$ 2.9	\$ 1.1	\$ 5.0
Estimated future costs related to restructuring activity	-	-	0.1	0.1
Expected completion date	2007	2009	2010	
<i>Reconciliation of liability balances:</i>				
Balance at January 1, 2008	\$ 0.2	\$ -	\$ -	\$ 0.2
Employee separation costs	-	2.5	-	2.5
Payments	(0.2)	-	-	(0.2)
Balance at December 31, 2008	\$ -	\$ 2.5	\$ -	\$ 2.5
Employee separation costs	-	-	1.0	1.0
Adjustments	-	(0.2)	-	(0.2)
Payments	-	(2.0)	-	(2.0)
Balance at December 31, 2009	\$ -	\$ 0.3	\$ 1.0	\$ 1.3

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

Adjustments to the accrued liability are primarily due to changes in the estimated restructuring costs and are shown as a component of the appropriate expense category in the Statements of Income and Comprehensive Income.

Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in Note 11.

## 15. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through April 21, 2010, which is the date that the Bank issued the financial statements.