



Federal Reserve Banks  
Combined Financial Statements

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

# Federal Reserve Banks

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## Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System  
and the Boards of Directors of the Federal Reserve Banks:

We have audited the accompanying combined statements of condition of the Federal Reserve Banks (the "Reserve Banks") as of December 31, 2020 and 2019, and the related combined statements of operations and changes in capital for the years then ended. These combined financial statements are the responsibility of the Division of Reserve Bank Operations and Payment Systems' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3 to the combined financial statements, the Division of Reserve Bank Operations and Payment Systems has prepared these combined financial statements in conformity with the 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 basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Reserve Banks as of December 31, 2020 and 2019, and the results of its operations and changes in capital for the years then ended, on the basis of accounting described in Note 3.

**KPMG LLP**

Washington, DC  
March 17, 2021

## Federal Reserve Banks

### Abbreviations

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

## Federal Reserve Banks

# Combined Statements of Condition

As of December 31, 2020 and December 31, 2019

(in millions)

	2020	2019
<b>ASSETS</b>		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,563	1,657
Loans:		
Loans to depository institutions	Note 4 1,602	42
Other loans	54,535	-
System Open Market Account:		
Securities purchased under agreements to resell	Note 5 1,000	255,619
Treasury securities, net (of which \$33,603 and \$41,602 is lent as of December 31, 2020 and 2019, respectively)	4,955,871	2,401,604
Federal agency and government-sponsored enterprise mortgage-backed securities, net	2,109,715	1,446,989
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of December 31, 2020 and 2019)	2,634	2,657
Foreign currency denominated investments, net	22,204	20,711
Central bank liquidity swaps	17,883	3,728
Accrued interest receivable	30,057	20,746
Other assets	2	-
Consolidated variable interest entities: Assets held, net (including \$9,345 million measured at fair value as of December 31, 2020)	Note 6 140,335	-
Other accrued interest receivable	122	-
Bank premises and equipment, net	Note 7 and 8 2,596	2,544
Items in process of collection	132	82
Deferred asset - remittances to the Treasury	926	-
Other assets	978	1,025
Total assets	<u>\$ 7,358,392</u>	<u>\$ 4,173,641</u>
<b>LIABILITIES AND CAPITAL</b>		
Federal Reserve notes outstanding, net	\$ 2,040,275	\$ 1,759,427
System Open Market Account:		
Securities sold under agreements to repurchase	Note 5 216,051	336,649
Other liabilities	5,781	129
Deposits:		
Depository institutions	2,994,932	1,548,849
Treasury, general account	1,728,569	403,853
Other deposits	216,165	79,256
Interest payable to depository institutions and others	9	954
Consolidated variable interest entities: Other liabilities	Note 6 213	-
Deposit - Treasury funding of lending facility credit protection	Note 4 1,500	-
Accrued benefit costs	Notes 9, 10, and 11 3,886	2,862
Deferred credit items	698	725
Accrued remittances to the Treasury	-	2,114
Other liabilities	466	300
Total liabilities	<u>7,208,545</u>	<u>4,135,118</u>
Reserve Bank capital		
Capital paid-in	32,376	31,698
Surplus (including accumulated other comprehensive loss of \$4,419 and \$3,143 at December 31, 2020 and 2019, respectively)	6,825	6,825
Total Reserve Bank capital	<u>39,201</u>	<u>38,523</u>
Consolidated variable interest entities formed to administer credit and liquidity facilities:		
Non-controlling interest	Note 6 110,646	-
Total Reserve Bank capital and consolidated variable interest entities non-controlling interest	<u>149,847</u>	<u>38,523</u>
Total liabilities and capital	<u>\$ 7,358,392</u>	<u>\$ 4,173,641</u>

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

## Federal Reserve Banks

# Combined Statements of Operations

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

(in millions)

		2020	2019
<b><u>INTEREST INCOME</u></b>			
Loans:	Note 4		
Loans to depository institutions		\$ 22	\$ 1
Other loans		336	-
System Open Market Account:	Note 5		
Securities purchased under agreements to resell		723	971
Treasury securities, net		67,539	58,532
Federal agency and government-sponsored enterprise mortgage-backed securities, net		32,338	43,124
Government-sponsored enterprise debt securities, net		135	137
Foreign currency denominated investments, net		(40)	(33)
Central bank liquidity swaps		489	6
Total interest income		<u>101,542</u>	<u>102,738</u>
<b><u>INTEREST EXPENSE</u></b>			
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		\$ 711	\$ 6,012
Other		5	1
Deposits:			
Depository institutions and others		7,883	34,937
Term Deposit Facility		-	2
Total interest expense		<u>8,599</u>	<u>40,952</u>
Net interest income		<u>92,943</u>	<u>61,786</u>
<b><u>OTHER ITEMS OF INCOME (LOSS)</u></b>			
System Open Market Account:	Note 5		
Treasury securities gains, net		\$ 2	\$ -
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		664	9
Foreign currency translation gains (losses), net		1,542	(168)
Other		44	34
Income from services		446	444
Reimbursable services to government agencies		732	729
Other components of net benefit costs	Notes 9, 10, and 11	68	112
Other		(64)	70
Total other items of income		<u>3,434</u>	<u>1,230</u>
<b><u>OPERATING EXPENSES</u></b>			
Salaries and benefits		\$ 3,565	\$ 3,331
System pension service cost	Note 9	662	510
Occupancy		348	347
Equipment		194	193
Other		830	763
Assessments:			
Board of Governors operating expenses and currency costs		1,778	1,651
Bureau of Consumer Financial Protection		517	519
Total operating expenses		<u>7,894</u>	<u>7,314</u>
Total Reserve Bank net income from operations		88,483	55,458
Consolidated variable interest entities: (Loss), net	Note 6	(1,785)	-
Consolidated variable interest entities: Non-controlling interest loss, net	Note 6	1,854	-
Reserve Bank and consolidated variable interest entities net income before providing for remittances to the Treasury		88,552	55,458
Earnings remittances to the Treasury		86,890	54,893
Net income after providing for remittances to the Treasury		<u>1,662</u>	<u>565</u>
Change in prior service costs related to benefit plans	Note 9, 10, and 11	72	17
Change in actuarial (losses) gains related to benefit plans	Note 9, 10, and 11	(1,348)	132
Total other comprehensive (loss) income		<u>(1,276)</u>	<u>149</u>
Comprehensive income		<u>\$ 386</u>	<u>\$ 714</u>

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

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# Combined Statements of Changes in Capital

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

(in millions, except share data)

	Reserve Bank Capital Surplus				Total Reserve Bank capital	Consolidated variable interest entities: Non-controlling interest	Total Reserve Bank capital and consolidated variable interest entities non-controlling interest
	Capital paid-in	Net income retained	Accumulated other comprehensive income (loss)	Total surplus			
Balance at December 31, 2018 (646,704,007 shares of Reserve Bank capital stock)	\$ 32,335	\$ 10,117	\$ (3,292)	\$ 6,825	\$ 39,160	\$ -	\$ 39,160
Net change in capital stock (redeemed) (12,742,050 shares)	(637)	-	-	-	(637)	-	(637)
Comprehensive income:							
Net income after providing for remittances to the Treasury	-	565	-	565	565	-	565
Other comprehensive income	-	-	149	149	149	-	149
Dividends on capital stock	-	(714)	-	(714)	(714)	-	(714)
Net change in capital	(637)	(149)	149	-	(637)	-	(637)
Balance at December 31, 2019 (633,961,957 shares of Reserve Bank capital stock)	\$ 31,698	\$ 9,968	\$ (3,143)	\$ 6,825	\$ 38,523	\$ -	\$ 38,523
Net change in capital stock issued (13,563,424 shares)	678	-	-	-	678	-	678
Comprehensive income:							
Reserve Bank net income after providing for remittances to the Treasury	-	1,593	-	1,593	1,593	-	1,593
Consolidated variable interest entities: Income, net	-	69	-	69	69	(1,854)	(1,785)
Other comprehensive income (loss)	-	-	(1,276)	(1,276)	(1,276)	-	(1,276)
Dividends on capital stock	-	(386)	-	(386)	(386)	-	(386)
Consolidated variable interest entities: Non-controlling interest - capital contribution	-	-	-	-	-	112,500	112,500
Net change in Reserve Bank capital and non-controlling interest	678	1,276	(1,276)	-	678	110,646	111,324
Balance at December 31, 2020 (647,525,381 shares of Reserve Bank capital stock)	\$ 32,376	\$ 11,244	\$ (4,419)	\$ 6,825	\$ 39,201	\$ 110,646	\$ 149,847

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

# Federal Reserve Banks

## Notes to Combined Financial Statements

### (1) STRUCTURE

The Federal Reserve Banks are part of the Federal Reserve System (System) created by Congress under the Federal Reserve Act of 1913 (FRA), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics.

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

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

### (2) OPERATIONS AND SERVICES

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

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



## Federal Reserve Banks

### Notes to Combined Financial Statements

these securities under agreements to repurchase; and the exchange, at market prices, of these securities that are maturing. The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

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

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

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

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

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

- On March 17, 2020, the Board of Governors authorized the FRBNY to establish and operate the Primary Dealer Credit Facility (PDCF). The PDCF is a term loan facility that provides funding to primary dealers in exchange for a broad range of collateral and is intended to foster the functioning of financial markets more generally.
- On March 17, 2020, the Board of Governors authorized the FRBNY to establish and operate the Commercial Paper Funding Facility (CPFF). The purpose of the CPFF is to provide liquidity to short-term funding markets. The CPFF provides a liquidity backstop to U.S. issuers of commercial paper, including municipalities, by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY established the CP Funding Facility II Limited Liability Company (LLC) (CPFF II) to administer the CPFF. The Treasury, using the Exchange Stabilization Fund (ESF), made an equity investment in the CPFF II. The CPFF II will cease purchasing commercial paper on March 31, 2021.
- On March 18, 2020, the Board of Governors authorized the Federal Reserve Bank of Boston (FRBB) to establish and operate the Money Market Mutual Fund Liquidity Facility (MMLF). The MMLF provides funding to U.S. depository institutions and bank holding companies to finance

## Federal Reserve Banks

### Notes to Combined Financial Statements

their purchases of certain types of assets from money market mutual funds under certain conditions. No new credit extensions under the MMLF will be made after March 31, 2021.

- On March 22, 2020, the Board of Governors authorized the FRBNY to establish and operate the Term Asset-Backed Securities Loan Facility to provide loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by recently originated consumer and business loans. The FRBNY established the Term Asset-Backed Securities Loan Facility II LLC (TALF II) to administer the facility. The Treasury, using funds appropriated to the ESF through the Coronavirus Aid, Relief, and Economic Security (CARES Act), made an equity investment in TALF II. TALF II ceased extending new loans on December 31, 2020.
- On March 23, 2020, the Board of Governors authorized the FRBNY to establish two facilities to support credit to large employers – the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Money Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds. The FRBNY established the Corporate Credit Facilities LLC (CCF) to administer the PMCCF and SMCCF. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in CCF. The CCF ceased purchasing eligible assets on December 31, 2020.
- On April 8, 2020, the Board of Governors authorized the FRBNY to establish the Municipal Liquidity Facility to support lending to state, city, and county governments, certain multistate entities, and other issuers of municipal securities. The FRBNY established the Municipal Liquidity Facility LLC (MLF) to administer the facility. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in MLF. MLF ceased purchasing eligible assets on December 31, 2020.
- On April 8, 2020, the Board of Governors authorized each of the 12 Federal Reserve Banks to establish and operate the Paycheck Protection Program Liquidity Facility (PPPLF). The PPPLF offers a source of liquidity to financial institution lenders that lend to small businesses through the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). No new extensions of credit will be made under the PPPLF after June 30, 2021.
- The Board of Governors authorized the Main Street Lending Program (MSLP) to support lending to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the coronavirus pandemic. The MSLP lending program involves the purchase of participations in loans originated by eligible lenders. The MSLP includes five facilities: Main Street New Loan Facility (MSNLF), Main Street Expanded Loan Facility (MSELF), Main Street Priority Loan Facility (MSPLF), Nonprofit Organization New Loan Facility (NONLF), and Nonprofit Organization Expanded Loan Facility (NOELF). The FRBB established the MS Facilities LLC (Main Street) to administer the facilities. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in Main Street. Main Street ceased purchasing participations on January 8, 2021.

Additional information related to the lending facilities is provided in Notes 4, 6, and 13.

Although the Reserve Banks are separate legal entities, they collaborate on the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service

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### Notes to Combined Financial Statements

agreements among the Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks.

#### **(3) SIGNIFICANT ACCOUNTING POLICIES**

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the Financial Accounting Manual for Federal Reserve Banks (FAM), which is issued by the Board of Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM. The combined financial statements and associated disclosures have been prepared in accordance with the FAM.

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

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

Preparing the combined 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 combined financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## Federal Reserve Banks

### Notes to Combined Financial Statements

Certain amounts relating to the prior year have been reclassified in the Combined Statements of Operations to conform to the current year presentation. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, \$122 million of net cost related to the Benefit Equalization Retirement Plan (BEP) and the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP) previously reported as “Operating expenses: Salaries and benefits” for the year ended December 31, 2019 has been reclassified to “Other items of income (loss): Other components of net benefit costs.”

Significant accounts and accounting policies are explained below.

#### **a. Consolidation**

The combined financial statements include the accounts and results of operations of the Reserve Banks as well as several variable interest entities (VIEs), which include the CPFF II, CCF, MLF, TALF II and Main Street. The consolidation of the VIEs were assessed in accordance with FASB Accounting Standards Codification (ASC) Topic 810 (ASC 810), *Consolidation*, which requires VIEs to be consolidated by its controlling financial interest holder. Intercompany balances and transactions have been eliminated in consolidation. See Notes 6 and 13 for additional information on the VIEs. The assets and liabilities of each LLC have been accounted for and consolidated with the assets and liabilities of the Reserve Banks. The combined financial statements of the Reserve Banks include accounts and results of operations of Maiden & Nassau LLC, a Delaware LLC wholly-owned by the FRBNY, which was formed to own and operate the 33 Maiden Lane building.

The Reserve Banks consolidate a VIE if the Reserve Bank has a controlling financial interest, which is defined as the power to direct the significant economic activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. To determine whether it is the controlling financial interest holder of a VIE, the Reserve Bank evaluates the VIEs’ design, capital structure, and relationships with the variable interest holders. The Reserve Bank reconsiders whether it has a controlling financial interest in a VIE, as required by ASC 810, *Consolidation*, at each reporting date or if there is an event that requires consideration.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory authority over some institutions previously supervised by the Reserve Banks in connection with those institutions’ compliance with consumer protection statutes. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. The Board of Governors funds the Bureau through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationship to the Bureau and determined that it should not be consolidated in the Reserve Banks’ combined financial statements.

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

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury’s account is charged, and the Reserve Banks’ gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at \$42 2/9 per fine troy ounce. Gold certificates are recorded by the Reserve

## **Federal Reserve Banks**

### **Notes to Combined Financial Statements**

Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding 12 months.

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

#### **c. Coin**

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

#### **d. Loans**

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

Loans are impaired when current information and events indicate that it is probable that the Reserve Banks will not receive the principal and interest that are due in accordance with the contractual terms of the loan agreement. Impaired loans are evaluated to determine whether an allowance for loan loss is required. The Reserve Banks have developed procedures for assessing the adequacy of any allowance for loan losses using all available information to identify incurred losses. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values. Generally, the Reserve Banks would discontinue recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest would be received in accordance with the terms of the loan agreement. If the Reserve Banks discontinue 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.

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

The FRBNY may engage in purchases of securities under agreements to resell (repurchase agreements) with primary dealers and foreign official and international account holders. Transactions under these repurchase agreements are typically settled through a tri-party arrangement, in which a commercial custodial bank manages the collateral clearing, settlement, pricing, and pledging, and provides cash and securities custodial services for and on behalf of the FRBNY and the counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repurchase agreements primarily includes Treasury securities (including Treasury Inflation-Protected Securities

## Federal Reserve Banks

### Notes to Combined Financial Statements

(TIPS), Separate Trading of Registered Interest and Principal of Securities (STRIPS), and Treasury Floating Rate Notes); direct obligations of several federal agencies and GSEs, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE MBS. The repurchase agreements are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Combined Statements of Condition. Interest income is reported as “System Open Market Account: Securities purchased under agreements to resell” in the Combined Statements of Operations.

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

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

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

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

Interest income on Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign currency denominated investments included in the SOMA is recorded when earned and includes inflation compensation on TIPS and amortization of premiums and accretion of discounts using the effective interest method. Interest income on federal agency and GSE MBS also includes gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized or

## Federal Reserve Banks

### Notes to Combined Financial Statements

accreted over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, federal agency and GSE MBS, and GSE debt securities are reported net of premiums and discounts in the Combined Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts in the Combined Statements of Operations.

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

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

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

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

The Reserve Banks are authorized to hold foreign currency working balances and execute foreign exchange contracts to facilitate international payments and currency transactions it makes on behalf of foreign central bank and U.S. official institution customers. These foreign currency working balances and contracts are not related to the Reserve Banks’ monetary policy operations. Foreign currency working balances are reported as a component of “Other assets” in the Consolidated Statements of Condition and the related foreign currency translation gains and losses that result from the daily revaluation of the foreign currency working

## Federal Reserve Banks

### Notes to Combined Financial Statements

balances and contracts are reported as a component of “Other items of income (loss): Other” in the Consolidated Statements of Operations.

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

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

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

#### ***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 foreign currency amounts that the FRBNY acquires are reported as “System Open Market Account: Central bank liquidity swaps” in the Combined Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

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

#### ***Foreign currency liquidity swaps***

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

#### **h. Consolidated Variable Interest Entities: Assets Held, Net**

The consolidated VIEs hold assets that result from the associated purchase and lending activities and from the Treasury’s preferred equity contributions. In addition to loans and securities directly related to program activities, assets may include cash and cash equivalents, short-term investments, and short-term investments in non-marketable securities. Cash equivalents and short-term investments in money market funds and other investments are recorded at fair value in accordance with FASB ASC 825, *Financial Instruments*. Short-term investments in non-marketable securities are accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. CPFF II investments in short-term commercial paper are designated as held-to-maturity and are accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. CCF investments in corporate debt securities are accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. CCF also holds exchange-traded funds (ETFs) that are recorded at fair value in accordance with FASB ASC 825, *Financial Instruments*. MLF holds municipal notes designated as held-to-maturity and accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. TALF II



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offers loans to borrowers, which are designated as held-for-investment and accounted for at the loan's principal balance in accordance with FASB ASC 310, *Receivables*. The original principal amount of each TALF loan is recorded as a loan receivable. Main Street holds loan participations through the various programs that are classified as held-for-investment and measured at principal amount outstanding, net of allowance including interest, in accordance with FASB ASC 310, *Receivables*. Additional information related to the assets held by consolidated VIEs is provided in Notes 6 and 13.

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

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

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

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

#### **j. Leases**

Leases are identified in accordance with ASC 842, *Leases*. The Reserve Banks' material leases involve lessor and lessee arrangements for premises that are classified as operating leases and lessee arrangements for equipment that are classified as finance leases. When Reserve Banks are the lessee, the discount rate is based on a risk-free Treasury borrowing rate at lease commencement using a period comparable to the lease term. The Reserve Banks elected the short-term lease recognition exemption and to not separate lease components from non-lease components for all leases. For 2019, leased assets were capitalized and amortized over the shorter of the useful life of the asset or the term of the lease.

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

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

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

## **Federal Reserve Banks**

### **Notes to Combined Financial Statements**

notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government.

“Federal Reserve notes outstanding, net” in the Combined Statements of Condition represents the Reserve Banks’ Federal Reserve notes outstanding, reduced by the Reserve Banks’ currency holdings of \$152 billion and \$196 billion at December 31, 2020 and 2019, respectively.

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

#### **l. Deposits**

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

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

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

##### ***Treasury General Account***

The Treasury general account is the primary operational account of the Treasury and is held at FRBNY.

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

Other deposits include foreign central bank and foreign government deposits held at the FRBNY. Other deposits also include cash collateral, deposits of designated financial market utilities (DFMUs), and GSE deposits held by the Reserve Banks. The Reserve Banks pay interest on deposits held by DFMUs at the rate paid on balances maintained by depository institutions or another rate determined by the Board of Governors from time to time, not to exceed the general level of short term interest rates. Interest payable is reported as a component of “Interest payable to depository institutions and others” in the Combined Statements of Condition.

#### **m. Items in Process of Collection and Deferred Credit Items**

Items in process of collection primarily represent 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

## Federal Reserve Banks

### Notes to Combined Financial Statements

credit items represent 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.

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

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

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

#### **o. Consolidated Variable Interest Entities Formed to Administer Credit and Liquidity Facilities: Non-controlling interest**

The Treasury's preferred equity contribution to the consolidated VIEs are reported as a component of "Consolidated variable interest entities formed to administer credit and liquidity facilities: Non-controlling interest" in the Combined Statements of Condition.

The reported amount also includes Treasury's allocated portion of undistributed net VIE assets, determined in accordance with VIE agreements and accounting policies adopted by the VIEs. The Treasury's non-controlling interest is reported as "Consolidated variable interest entities: Non-controlling interest" in the Combined Statements of Changes in Capital. Treasury's allocated portion of undistributed net assets is determined in accordance with the hypothetical liquidation at book value methodology. A calculation is prepared to determine the amounts that would be received if the VIE liquidated all of its assets, measured as of the balance sheet date, and distributed the proceeds to the members based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Reserve Banks' share of the earnings or losses from the equity investments for the period.

#### **p. Surplus**

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

Accumulated other comprehensive income is reported as a component of "Surplus" in the Combined Statements of Condition and the Combined Statements of Changes in Capital. Additional information

## Federal Reserve Banks

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regarding the classifications of accumulated other comprehensive income is provided in Notes 9, 10, and 11.

#### q. Earnings Remittances to the Treasury

The FRA requires that any amounts of the surplus funds of the Reserve Banks that exceed, or would exceed, the aggregate surplus limitation shall be transferred to the Board of Governors for transfer to the Treasury. The Reserve Banks remit excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain surplus. Remittances to the Treasury are made on a weekly basis. The amount of the remittances to the Treasury is reported as “Earnings remittances to the Treasury” in the Combined Statements of Operations. The amount due to the Treasury is reported as “Accrued remittances to the Treasury” in the Combined Statements of Condition. See Note 12 and 13 for additional information on earnings remittances to the Treasury.

If earnings during the year are not sufficient to provide for the costs of operations, payment of dividends, and maintaining surplus at an amount equal to the aggregate surplus limitation, remittances to the Treasury are suspended. This decrease in earnings remittances to the Treasury results in a deferred asset that represents the amount of net earnings Reserve Banks will need to realize before remittances to the Treasury resume. The amount of the deferred asset is reported as “Deferred asset – remittance to the Treasury” in the Combined Statements of Condition.

#### r. Income and Costs Related to Treasury Services

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

#### s. Assessments

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

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

#### t. Fair Value

Assets of the Retirement Plan for Employees of the System and certain assets of the credit facilities, discussed in Note 6, are measured at fair value in accordance with FASB ASC Topic 820 (ASC 820), *Fair Value Measurement*. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC

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820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Reserve Banks' assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

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

The inputs or methodology used for valuing assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

#### u. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Reserve Banks' real property taxes were \$57 million and \$56 million for the years ended December 31, 2020 and 2019, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Combined Statements of Operations.

#### v. Restructuring Charges

The Reserve Banks had no significant restructuring activities in 2020 and 2019.

#### w. Recently Issued Accounting Standards

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs, including ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*; ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This revenue recognition accounting guidance was effective for the Reserve Banks for the year ended December 31, 2019, and did not have a material effect on the Reserve Banks' combined financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this

## Federal Reserve Banks

### Notes to Combined Financial Statements

update eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This update was effective for the Reserve Banks for the year ended December 31, 2019 and did not have a material effect on the Reserve Banks' combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet based on the value of discounted future lease payments. Lessor accounting is largely unchanged. Subsequently, the FASB issued a number of related ASUs, including in July 2018, ASU 2018-11, *Leases (Topic 842) Targeted Improvements*; in November 2018, ASU 2018-20, *Leases (Topic 842): Narrow-scope Improvements for Lessors*; and in November, 2019, ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This guidance was effective for the Reserve Banks for the year ending December 31, 2020. The Reserve Banks used the modified retrospective transition approach to recognize material leases existing on January 1, 2020 with no adjustment to prior periods presented. There were no cumulative effect adjustments required. The Reserve Banks elected not to reassess prior determinations of whether an existing contract contains a lease, lease clarification, and initial direct costs. This update did not have a material effect on the Reserve Banks' combined financial statements. The relevant disclosures have been included prospectively in Note 8 to the Reserve Banks' combined financial statements.

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

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update requires an employer to disaggregate the service cost component from the other components of net benefit cost. It also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. This update was effective for the Reserve Banks for the year ended December 31, 2019, and the relevant disclosures have been included in Notes 9 and 10 to the Reserve Banks' combined financial statements. Adoption of ASU 2017-07 occurred in multiple phases. ASU 2017-07 was effective in 2019 for the System's pension and postretirement plans, then subsequently effective in 2020 for the BEP and SERP plans.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This update modifies disclosure requirements for fair value measurements in Topic 820 to provide users of financial statements with information about assets and liabilities measured at fair value, including the valuation techniques, the uncertainty in fair value measurements, and how changes in the measurements will affect financial performance. This update was effective for the Reserve Banks for the year ending December 31, 2020, and relevant disclosure updates have been included in Notes 6 and 9 to the Reserve Banks' combined financial statements.

In August 2018, the FASB issued ASU 2018-14, *Retirement Benefits-Defined Benefits Plans-General (Subtopic 715-20)*. This update modifies the disclosure requirements for pension and postretirement plans.

## Federal Reserve Banks

### Notes to Combined Financial Statements

The Board of Governors has early adopted this standard for the year ending December 31, 2020. Relevant disclosure updates have been included in Notes 9 and 10.

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

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This update broadens the existing accounting alternative available to private companies. This update is effective for the Federal Reserve Banks for the year ended December 31, 2021, and it is not expected to have an effect on the Reserve Banks' combined financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients to apply to contract modifications and hedging relationships that reference the London Inter-Bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The Board of Governors has not yet adopted the new standard as the Board of Governors is continuing to evaluate the effect of this new guidance on the Reserve Banks' combined financial statements.

#### (4) LOANS

##### Loans to Depository Institutions

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

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

Interest income attributable to loans to depository institutions was \$22 million and \$1 million as of December 31, 2020 and 2019, respectively.

## Federal Reserve Banks

### Notes to Combined Financial Statements

#### Other Loans

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

PPPLF loans are non-recourse loans and only PPP loans guaranteed by the SBA are eligible to serve as collateral for the PPPLF. An eligible borrower may pledge SBA-guaranteed PPP loans that it has originated or purchased. Each PPPLF loan is equal to the maturity of the PPP loan pledged and has a term of two years or five years based on the PPP loan origination date. In an event of default, PPP covered loans are fully guaranteed as to principal and accrued interest by the SBA. The Reserve Banks' have the rights to any such loan forgiveness reimbursement by the SBA to the eligible borrower. The eligible borrower shall pay fully collected funds to the Reserve Banks. Interest income attributable to the PPPLF was \$141 million during the year ended December 31, 2020. At December 31, 2020, no PPPLF loans were over 90 days past due or on nonaccrual status.

##### ***Primary Dealer Credit Facility***

Each PDCF loan has a term of up to 90 days. PDCF loans provide overnight and term loans on a recourse basis, with terms up to 90 days. PDCF loans are collateralized by securities eligible to be pledged in open market operations, which include investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities; and certain equity securities. Interest income attributable to the PDCF was \$13 million during the year ended December 31, 2020. At December 31, 2020, no PDCF loans were past due or on nonaccrual status.

##### ***Money Market Mutual Fund Liquidity Facility***

Under the MMLF, the FRBB extends loans to eligible financial institutions secured by high-quality assets purchased by the borrowing financial institution from money market mutual funds. Eligible collateral comprises U.S. Treasuries securities and fully guaranteed agency debt; securities issued by GSEs; and the following assets in the top credit rating category for asset-backed commercial paper; unsecured commercial paper, negotiable certificate of deposits, U.S. municipal short-term debt, and variable rate demand notes. Each MMLF loan has a term equal to the maturity date of the collateral, but may not exceed 12 months. Interest income attributable to the MMLF was \$182 million during the year ended December 31, 2020. At December 31, 2020, no MMLF loans were over 90 days past due or on nonaccrual status. Additionally, the Treasury, using the ESF, committed \$10 billion as credit protection to the FRBB and has advanced \$1.5 billion as of December 31, 2020. The obligation to return any unused portion of the funded credit protection is reported as "Deposit – Treasury funding of lending facility credit protection" in the Combined Statements of Condition.

Facility fees attributable to the MMLF were \$130 million during the year ended December 31, 2020 and are reported as a component of "Other items of income (loss): Other" in the Combined Statements of Operations."



## Federal Reserve Banks

### Notes to Combined Financial Statements

The amounts outstanding at December 31, 2020 and December 31, 2019 for loans to depository institutions and other loans were as follows (in millions):

	2020	2019
Loans to depository institutions		
Primary, secondary, and seasonal credit	\$ 1,602	\$ 42
Other loans		
MMLF	\$ 3,621	-
PPPLF	50,429	-
PDCF	485	-
Total other loans	54,535	-
Total loans	<u>\$ 56,137</u>	<u>\$ 42</u>

The remaining maturity distribution of loans outstanding at December 31, 2020 and 2019, was as follows (in millions):

	Remaining Maturity				Total
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	
<b>December 31, 2020</b>					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ 821	\$ 781	\$ -	\$ -	\$ 1,602
Other loans					
MMLF	1,703	1,718	200	-	3,621
PPPLF	-	-	6,264	44,165	50,429
PDCF	235	250	-	-	485
Total other loans	1,938	1,968	6,464	44,165	54,535
Total loans	<u>\$ 2,759</u>	<u>\$ 2,749</u>	<u>\$ 6,464</u>	<u>\$ 44,165</u>	<u>\$ 56,137</u>
<b>December 31, 2019</b>					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ 42	\$ -	\$ -	\$ -	\$ 42

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

#### (5) SYSTEM OPEN MARKET ACCOUNT

##### a. Domestic Securities Holdings

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

of GSE debt and federal agency and GSE MBS received during each calendar month in Treasury securities and the remainder in federal agency and GSE MBS; and to roll over at auction all maturing Treasury securities in the SOMA portfolio. Beginning in October 2019, the FOMC also directed the FRBNY to purchase Treasury bills, at least to the second quarter of 2020, to maintain ample reserve balances at or above levels that prevailed in early September 2019.

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

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

	Total SOMA							
	2020				2019			
	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost
Treasury securities								
Bills	\$ 326,044	\$ -	\$ (107)	\$ 325,937	\$ 169,525	\$ -	\$ (1,064)	\$ 168,461
Notes	3,063,037	72,129	(1,590)	3,133,576	1,290,107	3,275	(3,181)	1,290,201
Bonds	1,299,848	200,197	(3,687)	1,496,358	869,301	82,422	(8,781)	942,942
Total Treasury securities	<u>\$ 4,688,929</u>	<u>\$ 272,326</u>	<u>\$ (5,384)</u>	<u>\$ 4,955,871</u>	<u>\$ 2,328,933</u>	<u>\$ 85,697</u>	<u>\$ (13,026)</u>	<u>\$ 2,401,604</u>
Federal agency and GSE MBS								
Residential	\$ 2,029,627	\$ 69,274	\$ (148)	\$ 2,098,753	\$ 1,408,677	\$ 38,571	\$ (259)	\$ 1,446,989
Commercial	9,840	1,122	-	10,962	-	-	-	-
Total federal agency and GSE MBS	<u>\$ 2,039,467</u>	<u>\$ 70,396</u>	<u>\$ (148)</u>	<u>\$ 2,109,715</u>	<u>\$ 1,408,677</u>	<u>\$ 38,571</u>	<u>\$ (259)</u>	<u>\$ 1,446,989</u>
GSE debt securities	\$ 2,347	\$ 287	\$ -	\$ 2,634	\$ 2,347	\$ 310	\$ -	\$ 2,657

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

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	<u>Total SOMA</u>	
	<u>2020</u>	<u>2019</u>
<u>Primary dealers:</u>		
Contract amount outstanding, end of year	\$ -	\$ 255,619
Average daily amount outstanding, during the year	97,711	56,971
Maximum balance outstanding, during the year	495,700	259,950
<u>FIMA Repo Facility:</u>		
Contract amount outstanding, end of year	\$ 1,000	\$ -
Average daily amount outstanding, during the year	292	-
Maximum balance outstanding, during the year	1,404	-
Total repurchase agreement contract amount outstanding, end of year	<u>\$ 1,000</u>	<u>\$ 255,619</u>
Supplemental information - interest income:		
Primary dealers	\$ 722	\$ 971
FIMA Repo Facility	<u>1</u>	<u>-</u>
Total interest income - securities purchased under agreements to resell	<u>\$ 723</u>	<u>\$ 971</u>

The contract amount outstanding as of December 31, 2020 for FIMA Repo had a remaining term of one business day and matured on January 4, 2021.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	<u>Total SOMA</u>	
	<u>2020</u>	<u>2019</u>
<u>Primary dealers and expanded counterparties:</u>		
Contract amount outstanding, end of year	\$ 9,651	\$ 64,087
Average daily amount outstanding, during the year	8,749	4,981
Maximum balance outstanding, during the year	284,908	64,087
Securities pledged (par value), end of year	6,351	60,490
Securities pledged (fair value), end of year	9,666	64,008
<u>Foreign official and international accounts:</u>		
Contract amount outstanding, end of year	\$ 206,400	\$ 272,562
Average daily amount outstanding, during the year	226,215	269,399
Maximum balance outstanding, during the year	290,113	306,311
Securities pledged (par value), end of year	200,673	265,139
Securities pledged (fair value), end of year	206,410	272,579
 Total reverse repurchase agreement contract amount outstanding, end of year	 <u>\$ 216,051</u>	 <u>\$ 336,649</u>
 Supplemental information - interest expense:		
Primary dealers and expanded counterparties	\$ 14	\$ 102
Foreign official and international accounts	<u>697</u>	<u>5,910</u>
Total interest expense - securities sold under agreements to repurchase	<u>\$ 711</u>	<u>\$ 6,012</u>

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
<b>December 31, 2020:</b>							
Treasury securities (par value)	\$ 49,850	\$ 323,013	\$ 661,325	\$ 1,759,737	\$ 836,893	\$ 1,058,111	\$ 4,688,929
Federal agency and GSE residential MBS (par value) <sup>1</sup>	-	-	4	1,913	67,584	1,960,126	2,029,627
Federal agency and GSE commercial MBS (par value) <sup>1</sup>	-	-	-	103	4,460	5,277	9,840
GSE debt securities (par value)	-	-	-	-	1,818	529	2,347
Securities purchased under agreements to resell (contract amount)	1,000	-	-	-	-	-	1,000
Securities sold under agreements to repurchase (contract amount)	216,051	-	-	-	-	-	216,051
<b>December 31, 2019:</b>							
Treasury securities (par value)	\$ 8,260	\$ 115,689	\$ 349,014	\$ 893,832	\$ 321,591	\$ 640,547	\$ 2,328,933
Federal agency and GSE residential MBS (par value) <sup>1</sup>	-	-	12	1,135	73,528	1,334,002	1,408,677
GSE debt securities (par value)	-	-	-	-	486	1,861	2,347
Securities purchased under agreements to resell (contract amount)	205,619	50,000	-	-	-	-	255,619
Securities sold under agreements to repurchase (contract amount)	336,649	-	-	-	-	-	336,649

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

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

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

	Total SOMA	
	2020	2019
Treasury securities (amortized cost)	\$ 33,603	\$ 41,602
Treasury securities (par value)	31,635	41,450

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

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

The FRBNY enters into commitments to buy and sell federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2020, the total purchase price of the RMBS under outstanding purchase commitments was \$202,127 million, of which \$10,433 million was related to dollar rolls. As of December 31, 2020, there were no outstanding purchase commitments for CMBS. The RMBS commitments, which had contractual settlement dates extending through February 18, 2021, are for the

## Federal Reserve Banks

### Notes to Combined Financial Statements

purchase of TBA RMBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. As of December 31, 2020, the total sales price of RMBS under outstanding sales commitments was \$88 million. These commitments had contractual settlement dates extending through January 14, 2021. As of December 31, 2020, there were no outstanding sales commitments for CMBS. RMBS and CMBS commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash margin for RMBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets held in the SOMA consist primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio and were \$2 million and immaterial at December 31, 2020 and 2019, respectively. Other liabilities include the Reserve Banks' accrued interest payable related to repurchase agreements transactions, obligations to return cash margin posted by counterparties as collateral under commitments to purchase and sell RMBS, and obligations that arise from the failure of a seller to deliver Treasury securities, RMBS, and CMBS to the Reserve Banks' on the settlement date. Although the Reserve Banks have ownership of and record their investments in Treasury securities, RMBS, and CMBS as of the contractual settlement date, they are not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the Reserve Banks' obligation to pay for the securities when delivered. The amount of other liabilities held in the SOMA at December 31, 2020 and 2019 was as follows (in millions):

	<u>Total SOMA</u>	
	<u>2020</u>	<u>2019</u>
<b>Other liabilities:</b>		
Accrued interest payable	\$ -	\$ 14
Cash margin	5,778	115
Obligations from residential MBS transaction fails	3	-
Obligations from commercial MBS transaction fails	-	-
Total other liabilities	<u>\$ 5,781</u>	<u>\$ 129</u>

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

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

#### Year-ended December 31, 2019

Supplemental information - par value of transactions:

Purchases <sup>3</sup>	\$ 191,399	\$ 273,096	\$ 48,430	\$ 512,925
Sales	(50)	(50)	-	(100)

#### Year-ended December 31, 2020

Supplemental information - par value of transactions:

Purchases <sup>3</sup>	\$ 962,924	\$ 2,209,074	\$ 452,695	\$ 3,624,693
Sales	-	(50)	-	(50)

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

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

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

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

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

#### b. Foreign Currency Denominated Investments

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

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



## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	Total SOMA	
	2020	2019
<b>Euro:</b>		
Foreign currency deposits	\$ 6,597	\$ 6,892
Dutch government debt instruments	2,738	1,443
French government debt instruments	2,746	2,629
German government debt instruments	1,066	1,145
<b>Japanese yen:</b>		
Foreign currency deposits	\$ 8,436	\$ 7,752
Japanese government debt instruments	621	850
Total	<u>\$ 22,204</u>	<u>\$ 20,711</u>

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

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

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

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

Accrued interest receivable on foreign currency denominated investments, net was \$74 million and \$66 million as of December 31, 2020 and 2019, respectively. These amounts are reported as a component of “System Open Market Account: Accrued interest receivable” in the Combined Statements of Condition. The remaining maturity distribution of foreign currency denominated investments at December 31, 2020 and 2019 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
<b>December 31, 2020:</b>						
Euro	\$ 1,635	\$ 235	\$ 5,822	\$ 2,202	\$ 3,253	\$ 13,147
Japanese yen	8,435	578	38	6	-	9,057
Total	<u>\$ 10,070</u>	<u>\$ 813</u>	<u>\$ 5,860</u>	<u>\$ 2,208</u>	<u>\$ 3,253</u>	<u>\$ 22,204</u>
<b>December 31, 2019:</b>						
Euro	\$ 6,892	\$ 48	\$ 365	\$ 2,744	\$ 2,060	\$ 12,109
Japanese yen	7,752	110	739	1	-	8,602
Total	<u>\$ 14,644</u>	<u>\$ 158</u>	<u>\$ 1,104</u>	<u>\$ 2,745</u>	<u>\$ 2,060</u>	<u>\$ 20,711</u>

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

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

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

Foreign currency working balances held and foreign exchange contracts executed by the Reserve Banks to facilitate international payments and currency transactions made on behalf of foreign central banks and U.S. official institution customers were immaterial as of December 31, 2020 and 2019.

#### c. Central Bank Liquidity Swaps

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

The total foreign currency held in the SOMA under U.S. dollar liquidity swaps at December 31, 2020 and 2019 was \$17,883 million and \$3,728 million, respectively.

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

Currency swap transacted in	2020			2019		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Australian dollar	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
British pound	-	-	-	-	-	-
Danish krone	-	350	350	-	-	-
Euro	3,161	1,029	4,190	3,728	-	3,728
Japanese yen	-	-	-	-	-	-
Mexican peso	-	1,130	1,130	-	-	-
Norwegian krone	-	-	-	-	-	-
Singapore dollar	972	1,203	2,175	-	-	-
South Korean won	-	-	-	-	-	-
Swiss franc	3,033	7,005	10,038	-	-	-
Total	\$ 7,166	\$ 10,717	\$ 17,883	\$ 3,728	\$ -	\$ 3,728

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

##### *Foreign Currency Liquidity Swaps*

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

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

The fair value amounts below are presented solely for informational purposes and are not intended to comply with the fair value disclosures required by FASB ASC 820, *Fair Value Measurement*. Although

## Federal Reserve Banks

### Notes to Combined Financial Statements

the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Combined Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Combined Statements of Operations.

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

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

	Total SOMA					
	2020			2019		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities						
Bills	\$ 325,937	\$ 325,974	\$ 37	\$ 168,461	\$ 168,479	\$ 18
Notes	3,133,576	3,191,929	58,353	1,290,201	1,303,576	13,375
Bonds	1,496,358	1,736,653	240,295	942,942	1,068,675	125,733
Total Treasury securities	4,955,871	5,254,556	298,685	2,401,604	2,540,730	139,126
Federal agency and GSE MBS						
Residential	\$ 2,098,753	\$ 2,152,965	\$ 54,212	\$ 1,446,989	\$ 1,467,802	\$ 20,813
Commercial	10,962	11,152	190	-	-	-
Total federal agency and GSE MBS	2,109,715	2,164,117	54,402	1,446,989	1,467,802	20,813
GSE debt securities	2,634	3,544	910	2,657	3,344	687
Total domestic SOMA portfolio securities holdings	\$ 7,068,220	\$ 7,422,217	\$ 353,997	\$ 3,851,250	\$ 4,011,876	\$ 160,626
Memorandum—Commitments for purchases of:						
Treasury securities	\$ 5,232	\$ 5,232	\$ -	\$ 1	\$ 1	\$ -
Federal agency and GSE MBS	202,127	203,084	957	4,177	4,187	10
Memorandum—Commitments for sales of:						
Treasury securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency and GSE MBS	88	88	-	-	-	-

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

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

At December 31, 2020 and 2019, the fair value of foreign currency denominated investments held in the SOMA was \$22,374 million and \$20,829 million, respectively. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative

## Federal Reserve Banks

### Notes to Combined Financial Statements

quotes from various market participants. Due to the short-term nature of foreign currency deposits, the cost basis is estimated to approximate fair value.

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

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

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### Notes to Combined Financial Statements

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

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

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

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

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

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

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

## (6) CONSOLIDATED VARIABLE INTEREST ENTITIES

### a. Summary Information for Consolidated Variable Interest Entities

The consolidated financial statements include the accounts and operations of CPFF II, CCF, Main Street, MLF, and TALF II. Purchases of portfolio assets and extensions of loans by the LLCs are funded by loans extended by FRBB and FRBNY. FRBB is the managing member of Main Street and FRBNY is the managing member of CPFF II, CCF, MLF, and TALF II. Intercompany balances and transactions are eliminated in consolidation. The assets and liabilities held by the LLCs are reported as “Consolidated variable interest entities: Assets held, net” and “Consolidated variable interest entities: Other liabilities”, respectively, in the Combined Statements of Condition.

## Federal Reserve Banks

### Notes to Combined Financial Statements

The classification of assets and liabilities of the consolidated VIEs as of December 31, 2020 are as follows (in millions):

	CPFF II	CCF	Main Street	MLF	TALF II	Total
<b>Assets</b>						
Cash and cash equivalents <sup>1</sup>	\$ 4	\$ 238	\$ 5,754	\$ 81	\$ 13	\$ 6,090
Short-term investments in non-marketable securities <sup>2</sup>	8,504	31,890	31,889	14,882	8,503	95,668
Short-term investments <sup>3</sup>	49	50	-	6	-	105
Commercial paper <sup>4</sup>	-	-	-	-	-	-
Corporate bonds <sup>4</sup>	-	5,540	-	-	-	5,540
Exchange-traded funds <sup>3</sup>	-	8,776	-	-	-	8,776
Loan participations <sup>5</sup>	-	-	14,147	-	-	14,147
Municipal notes <sup>4</sup>	-	-	-	6,283	-	6,283
Loans <sup>6</sup>	-	-	-	-	3,552	3,552
Other assets	-	41	-	26	107	174
Total assets, net	\$ 8,557	\$ 46,535	\$ 51,790	\$ 21,278	\$ 12,175	\$ 140,335
<b>Liabilities</b>						
Net assets and liabilities	\$ 14	\$ 2	\$ 187	\$ 6	\$ 4	\$ 213
	\$ 8,543	\$ 46,533	\$ 51,603	\$ 21,272	\$ 12,171	\$ 140,122

<sup>1</sup> Includes \$464 million of cash equivalents and \$5,626 million of cash which primarily consists of Treasury's preferred equity contribution held on deposit.

<sup>2</sup> Represents the portion of the Treasury preferred equity contribution to the credit facilities which are held as short-term investments in non-marketable securities at amortized cost and the related earnings on those investments.

<sup>3</sup> Reported at fair value.

<sup>4</sup> Reported at amortized cost.

<sup>5</sup> Reported at principal amount outstanding, net of allowance.

<sup>6</sup> Reported at principal amount outstanding.

The following table presents the components of the LLCs' net operating income (loss) recorded for the year ended December 31 (in millions):

	CPFF II	CCF	Main Street	MLF	TALF II	Total
Interest income <sup>1</sup>	\$ 17	\$ 39	\$ 73	\$ 38	\$ 18	\$ 185
<b>Other items of income (loss):</b>						
Dividends	-	147	-	-	-	147
Fees	36	-	4	1	1	42
Provision for loan losses	-	-	(2,413)	-	-	(2,413)
Other <sup>2</sup>	-	343	(10)	-	-	333
Total other items of income (loss)	36	490	(2,419)	1	1	(1,891)
Less: expenses <sup>3</sup>	8	9	54	4	4	79
Net income (loss) attributable to consolidated VIEs	\$ 45	\$ 520	\$ (2,400)	\$ 35	\$ 15	\$ (1,785)
Allocated to non-controlling Treasury interest	\$ 40	\$ 463	\$ (2,402)	\$ 32	\$ 13	\$ (1,854)
Allocated to Reserve Banks	\$ 5	\$ 57	\$ 2	\$ 3	\$ 2	\$ 69

<sup>1</sup> Recorded when earned and includes amortization of premiums and accretion of discounts.

<sup>2</sup> Includes realized and unrealized gains and losses on portfolio holdings.

<sup>3</sup> Includes fees, participation loan servicing costs, and other expenses.

## Federal Reserve Banks

### Notes to Combined Financial Statements

At December 31, 2020, the maturity distribution of the LLCs' holdings is as follows (in millions):

	Within 15 days	16 days to 90 days	90 days to 1 year	Over 1 year to 5 years	Non-specified term	Total
Cash equivalents	\$ 410	\$ 54	\$ -	\$ -	\$ -	\$ 464
Short-term investments in non-marketable securities	95,668	-	-	-	-	95,668
Short-term investments	-	79	26	-	-	105
Commercial paper	-	-	-	-	-	-
Corporate bonds	17	82	425	5,016	-	5,540
Exchange-traded funds	-	-	-	-	8,776	8,776
Loan participations	-	-	-	14,147	-	14,147
Municipal notes	-	-	925	5,358	-	6,283
Loans	-	-	-	3,552	-	3,552
Total	<u>\$ 96,095</u>	<u>\$ 215</u>	<u>\$ 1,376</u>	<u>\$ 28,073</u>	<u>\$ 8,776</u>	<u>\$ 134,535</u>

#### ***Credit Impairment***

Investments held by the CPFF II, CCF, and MLF are subject to review each reporting period to identify indications of possible credit impairment. Impairment is evaluated using numerous factors including collectability, liquidity and credit support, collateral, and the financial condition and near-term prospects of the issuer. If, after analyzing the above factors, an investment is determined to be impaired, then an evaluation is performed to determine if the impairment is other-than-temporary by considering whether it is probable that the LLC will be unable to collect substantially all of the contractual interest and principal payment on the maturity date of the investment. If the impairment is deemed to be other-than-temporary, the amortized cost of the individual security is written down to estimated fair value and a realized loss is recorded.

As of December 31, 2020, there were no assets for which the Reserve Banks considered impairment to be other-than-temporary and no assets were impaired, restructured, past due, or on non-accrual status, and no allowance for credit impairment was required.

#### ***Allowance for Loan Losses***

TALF II's loans are subject to review each reporting period to identify and evaluate loans that had indications of possible impairment. TALF II will recognize an allowance for loan loss for the loans when it is probable that TALF II will be unable to collect all amounts due, including both the contractual interest and principal payments under the loan agreement. Based on current information and events, if it is probable that a loan loss has been or will be incurred and the amount of the loss can be reasonably estimated, a loan loss is recorded. As of December 31, 2020, no loans were considered impaired and there were no allowances for loan losses.

Main Street's allowance for loan losses consists of specific allowances for impaired loan participations and a general allowance for all other loan participations and collectively reflects management's estimate of probable loan losses inherent in the loan portfolio at reporting date.

A loan is considered impaired when it is determined to be probable that the LLC will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. For purposes of the MSLP, a loss is generally deemed probable when (1) an individual loan is assigned a doubtful classification or below, (2) it is placed on nonaccrual status due to delinquency status or management judgment, for factors including a decline in its fair value to 80 percent of its outstanding balance (or below), and the decline is determined to be credit-related. For loans purchased by the LLC that have been deemed impaired and meet a certain threshold, a loss allowance is measured at the individual loan level on a quarterly basis. Loans reviewed through this process deemed not to be impaired and all other loans not

## Federal Reserve Banks

### Notes to Combined Financial Statements

subject to individual evaluation are subject to a general allowance. The LLC's general allowance includes both quantitative and qualitative components.

Main Street continuously evaluates and challenges inputs and assumptions in these calculations. The process to determine the allowance for loan losses requires Main Street to exercise considerable judgment regarding the risk characteristics of the loan portfolios and the effect of relevant internal and external factors. While Main Street evaluates currently available information in establishing the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Main Street performs a comprehensive review of the allowance for loan losses on a quarterly basis. As of December 31, 2020, there was approximately \$2.4 billion in allowance for loan losses, consisting of approximately \$1.4 billion in a general allowance, and approximately \$1.0 million of specific impairments.

#### ***Liabilities: Deferred Revenue / Fees***

The LLCs collect registration, origination, and administrative fees, which are recorded as deferred revenue and amortized using the effective interest method. As of December 31, 2020, the LLCs recognized \$42 million as income and have \$186 million remaining to amortize.

For all Main Street loans equal to or above \$250,000, eligible lenders pay the LLC a transaction fee of 75-100 basis points of the principal amount of the loans. In addition, the LLC pays 25 basis points per annum to each eligible lender for servicing the outstanding principal amount of the loan participation. Servicing fees are paid annually, in arrears, and are accrued on a monthly basis.

#### **b. Fair Value**

The following table presents the LLC's holdings at December 31, 2020, reported at fair value (in millions). Amortized cost is provided as supplemental information.

Assets at fair value	Amortized cost <sup>1</sup>	Unrealized gains <sup>2</sup>	Fair value
Cash equivalents	\$ 464	\$ -	\$ 464
Short-term investments	105	-	105
Exchange-traded funds	8,435	341	8,776
Total	<u>\$ 9,004</u>	<u>\$ 341</u>	<u>\$ 9,345</u>

<sup>1</sup> Original cost for CCF's exchange-traded funds.

<sup>2</sup> Unrealized gains (losses) are reported as a component of "Consolidated variable interest entities: Income, net" in the Consolidated Statement of Operations.

The following table presents the LLC's holdings at December 31, 2020, reported at amortized cost (in millions). Fair value is provided as supplemental information.

Assets at amortized cost	Amortized cost	Unrealized gains <sup>1</sup>	Unrealized losses <sup>1</sup>	Fair value
Short-term investments in non-marketable securities	\$ 95,668	\$ -	\$ -	\$ 95,668
Corporate bonds	5,540	45	(1)	5,584
Municipal notes	6,283	145	(3)	6,425
Total	<u>\$ 107,491</u>	<u>\$ 190</u>	<u>\$ (4)</u>	<u>\$ 107,677</u>

<sup>1</sup> Because the LLCs' holdings are recorded at amortized cost, unrealized gains (losses) are not reported in the Consolidated Statement of Operations.



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Collateral associated with loans were assigned a lending value, reduced by a margin, upon initial extension of credit to determine the maximum amount TALF II can lend. The following table presents the loan principal and collateral fair value on TALF II's loans at December 31, 2020 (in millions):

	Loan principal	Collateral fair value <sup>1</sup>
TALF II: Loans <sup>2</sup>	\$ 3,552	\$ 4,215

<sup>1</sup> Collateral fair value reflects the market value of collateral including accrued interest.

<sup>2</sup> All loans are fully collateralized.

The following table presents the financial instruments recorded at fair value as of December 31, 2020 by the FASB ASC 820, *Fair Value Measurements & Disclosures* hierarchy (in millions):

Description	Level 1	Level 2	Total
Cash equivalents	\$ 410	\$ 54	\$ 464
Short-term investments		105	105
Exchange-traded funds	8,776	-	8,776
Total investments at fair value	<u>\$ 9,186</u>	<u>\$ 159</u>	<u>\$ 9,345</u>

At December 31, 2020, the ratings breakdown of LLC holdings are as follows (in millions):

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Government/ agency	Not rated <sup>1</sup>	Total
Cash equivalents	\$ -	-	\$ -	\$ -	\$ -	335	\$ 129	\$ 464
Short-term investments in non-marketable securities	-	-	-	-	-	95,668	-	95,668
Short-term investments	-	-	-	-	-	105	-	105
Commercial paper	-	-	-	-	-	-	-	-
Corporate bonds	26	443	1,615	3,232	224	-	-	5,540
Exchange-traded funds	-	-	-	-	-	-	8,776	8,776
Municipal notes	-	-	-	3,376	-	-	2,907	6,283

<sup>1</sup> Not rated categorization includes municipal notes with private ratings.

Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

At December 31, 2020, the ratings breakdown of the fair value of collateral securing TALF II's loans are as follows (in millions):

Collateral sector	AAA	Government/ agency	Total
SBA loans	\$ -	\$ 2,338	\$ 2,338
Commercial mortgages	998	-	998
Leveraged loans	602	-	602
Student loans	221	-	221
Premium finance	56	-	56
Total	<u>\$ 1,877</u>	<u>\$ 2,338</u>	<u>\$ 4,215</u>

Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

#### c. Risk Profile

Short-term investments are subject to minimal interest rate and credit risk as these are principally short-term government-guaranteed investments.

Under the CCF, credit-related risk on corporate bonds arises from losses due to defaults by corporate borrowers under the bond indentures pursuant to which the corporate bonds are issued. Credit-related risk on ETFs arises from the ETFs holdings of corporate bonds. The rate of defaults on corporate bonds will be affected by a number of factors, including general economic conditions, industry sector conditions, particularly those sectors affected by COVID-19, and the individual financial circumstances of the borrowers. The loss severity on corporate bonds that default is affected by the valuation of assets and business units, the borrower's credit structure, and the outcomes of negotiations and legal proceedings,

## Federal Reserve Banks

### Notes to Combined Financial Statements

among other factors. A small portion of bonds are non-investment grade and some ETFs target non-investment grade bonds, which have a heightened risk of default and loss.

Additionally, the rate of interest payable on corporate bonds is generally fixed at the time of issuance, although a small number of bonds owned by CCF carry a floating rate of interest. ETFs are typically benchmarked to an index with regular rebalancing that involves purchases of new bond issues, acquisition of existing issues that are underweight in the index, and disposal of issues no longer eligible for the index or overweight in the index. CCF is exposed to uncertainties in the rebalancing process including variations in the purchase and sale prices of bonds acquired or sold by an ETF and changes in the risk profile and composition of ETF bond holdings over time. ETFs do not mature and will require market exit, which is subject to market pricing at the time of exit.

The fair value of any particular corporate bond or ETF is also subject to substantial variation due to numerous market factors that have little or no correlation to the performance of a particular instrument. Adverse developments in the corporate bond or ETF markets could have a considerable effect on CCF due to its investment concentration in the corporate bond and corporate bond ETF markets.

Main Street's interest income earned on the invested portion of preferred equity member contributions are subject to interest rate risk as these are principally short-term government-guaranteed investments. The average internal risk rating for loan participations held as of December 31, 2020 was equivalent to a Moody's rating of B2. The following table shows rating distribution using internally derived risk ratings on a scale comparable to a Moody's rating scale as of December 31:

<u>Rating</u>	<u>Percentage of loan participations</u>
Ba or higher	27%
B	41%
Caa	20%
Ca	12%
Total	<u>100%</u>

Under the MLF, credit-related risk on municipal securities arises from losses due to an inability of a particular issuer to repay its debt. Primary factors affecting a state's ability to repay its debt include the general economic condition of the state, which impacts key tax revenues, the state's own financial condition and the level of political and financial support from the federal government. The MLF's portfolio is subject to changes in general municipal market conditions. Certain notes may be repayable from proceeds of future bond issuances, or take-out bonds, and lack of market access would greatly increase risk of non-payment. In addition, deteriorating market conditions may make it more costly, or not possible, for issuers to raise liquidity or fund necessary capital projects.

TALF II investments are exposed to credit risk from the commercial mortgage backed securities, collateralized loan obligations, and certain ABS collateralizing TALF loans. Credit losses far in excess of expectations on the pools of loans and receivables underlying these securities may result in a default on the payment of principal or interest on the securities, which in turn could result in credit impairment on the related loans. SBA ABS are backed by Small Business Administration loans guaranteed by the U.S. Government and therefore do not expose TALF II to credit losses. TALF II is also exposed to interest rate risk from the securities collateralizing loans, particularly securities that pay fixed rate coupons, as an increase in interest rates would lower the securities' fair value. TALF program terms permit borrowers to satisfy obligations under their loans by surrendering collateral securities in lieu of payment, and borrowers

## Federal Reserve Banks

### Notes to Combined Financial Statements

would be incented to do so if credit or market risk factors caused a decline in the securities' value in excess of margin on the related loans. As of December 31, 2020, all TALF loans were fully collateralized and no securities collateralizing TALF loans had been thus surrendered.

#### d. Equity Contributions

The following table presents the Treasury's capital contributions as of December 31, 2020 (in millions), which are reported as "Consolidated variable interest entities: Non-controlling interest - capital contribution" in the Combined Statements of Changes in Capital.

	<u>Treasury's capital contributions</u>
CPFF II	\$ 10,000
CCF	37,500
Main Street	37,500
MLF	17,500
TALF II	10,000
Total	<u>\$ 112,500</u>

The assets of the VIE and the amounts provided by the Treasury as credit protection are used to secure the loans from the Reserve Banks. Funds provided by the Treasury's preferred equity contribution are invested as mutually agreed upon by each LLC and Treasury and consented by the FRBNY and FRBB. Additionally, the managing member has contributed a nominal amount to each LLC.

#### e. Short-Term Investments in Non-Marketable Securities

In accordance with the terms of the Preferred Equity Investment Agreements for CPFF II, CCF, Main Street, MLF and TALF II, approximately 85 percent of the Treasury's initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to the LLCs. These investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The remaining equity contribution of approximately 15 percent of the initial equity contribution was held in cash on deposit at FRBNY to support the liquidity needs of the LLC. Due to the short-term nature of cash equivalents and non-marketable securities, the cost basis is estimated to approximate fair value.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

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

	<u>2020</u>	<u>2019</u>
Bank premises and equipment:		
Land and land improvements	\$ 424	\$ 420
Buildings	3,108	3,058
Building machinery and equipment	750	700
Construction in progress	85	63
Furniture and equipment	<u>1,184</u>	<u>1,113</u>
Subtotal	5,551	5,354
Accumulated depreciation	<u>(2,955)</u>	<u>(2,810)</u>
Bank premises and equipment, net	<u>\$ 2,596</u>	<u>\$ 2,544</u>
Depreciation expense, for the years ended December 31	<u>\$ 228</u>	<u>\$ 227</u>

Bank premises and equipment at December 31, 2020 and 2019 included the following amounts for finance (in 2020) or capital (in 2019) leases (in millions):

	<u>2020</u>	<u>2019</u>
Leased premises and equipment under finance (2020) / capital (2019) leases	\$ 43	\$ 31
Accumulated depreciation	<u>(25)</u>	<u>(20)</u>
Leased premises and equipment under finance (2020) / capital (2019) leases, net	<u>\$ 18</u>	<u>\$ 11</u>
Depreciation expense related to leased premises and equipment under finance (2020) / capital (2019) leases, for the years ended December 31	<u>\$ 6</u>	<u>\$ 5</u>

The Reserve Banks lease space to outside tenants with remaining lease terms ranging from 1 to 14 years, which reflect any renewal options the lessee is reasonably certain to exercise or termination options not reasonably certain to exercise. Rental income from such leases was \$39 million and \$42 million for the years ended December 31, 2020 and 2019, respectively, and is reported as a component of “Other items of income (loss): Other” in the Combined Statements of Operations. Future minimum lease payments that the Reserve Banks will receive under non-cancelable lease agreements in existence at December 31, 2020, are as follows (in millions):

2021	\$ 36
2022	32
2023	28
2024	25
2025	22
Thereafter	<u>86</u>
Total	<u>\$ 229</u>

## Federal Reserve Banks

### Notes to Combined Financial Statements

The Bank had capitalized software assets, net of amortization, of \$343 million and \$428 million at December 31, 2020 and 2019, respectively. Amortization expense was \$111 million and \$122 million for the years ended December 31, 2020 and 2019, respectively. Capitalized software assets are reported as a component of “Other assets” in the Combined Statements of Condition and the related amortization is reported as a component of “Operating expenses: Other” in the Combined Statements of Operations.

#### (8) COMMITMENTS AND CONTINGENCIES

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

At December 31, 2020, the Reserve Banks were obligated under non-cancelable leases for premises with remaining terms ranging from 1 to approximately 9 years. These lease terms and the recorded amount of right-of-use assets and lease liabilities include any renewal options reasonably certain to be exercised or termination options not reasonably certain to be exercised. These leases provide for increased lease payments based upon increases in real estate taxes, operating costs, or selected price indexes.

Rental expense for certain operating facilities, warehouses, and data processing (including taxes, insurance, and maintenance when included in rent) was \$14 million for both years ended December 31, 2020 and 2019.

Lease right-of-use assets were \$22 million at December 31, 2020, and are reported as a component of “Other assets” in the Combined Statements of Condition, while lease liabilities are disclosed below and are reported as a component of “Other liabilities” in the Combined Statements of Condition. Future minimum lease payments and total lease liabilities under non-cancelable operating leases at December 31, 2020, are as follows (in millions):

	<u>Operating leases</u>
2021	\$ 6
2022	6
2023	4
2024	4
2025	3
Thereafter	2
Future minimum lease payments	<u>\$ 25</u>

At December 31, 2020, the Reserve Banks had unrecorded unconditional purchase commitments and long-term obligations extending through the year 2025 with a remaining fixed commitment of \$197 million. Purchases of \$48 million and \$50 million were made against these commitments during 2020 and 2019, respectively. These commitments represent maintenance of currency processing machines and development of new equipment and have variable and fixed components. The fixed payments for the next five years under these commitments are as follows (in millions):

2021	\$ 21
2022	51
2023	52
2024	36
2025	37

## **Federal Reserve Banks**

### **Notes to Combined Financial Statements**

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

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

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

##### **Retirement Plans**

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

The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its combined financial statements. The service cost related to the System Plan is reported as "Operating expenses: System pension service cost" in the Combined Statements of Operations, and other net benefit costs related to the System Plan as a component of "Other items of income (loss): Other components of net benefit costs" in the Combined Statements of Operations. The Reserve Banks report the service costs related to the BEP and SERP as a component of "Operating expenses: Salaries and benefits" in its Combined Statements of Operations. Accrued pension benefit costs are reported as a component of "Prepaid pension benefit costs" if the funded status is a net asset or "Accrued benefit costs" if the funded status is a net liability in the Combined Statements of Condition.

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	<u>2020</u>	<u>2019</u>
Estimated actuarial present value of projected benefit obligation at January 1	\$ 19,071	\$ 15,633
Service cost-benefits earned during the period	662	510
Interest cost on projected benefit obligation	684	699
Actuarial loss (gain)	3,677	2,708
Contributions by plan participants	5	4
Special termination benefits	19	14
Benefits paid	<u>(524)</u>	<u>(497)</u>
Estimated actuarial present value of projected benefit obligation at December 31	<u>\$ 23,594</u>	<u>\$ 19,071</u>

Annually, the Society of Actuaries Retirement Plan Experience Committee released updated mortality tables and mortality projection scales. This year, the System reviewed the mortality tables released in October 2019 relative to the System's actual retiree mortality experience, as part of the demographic experience study that is conducted every five years. As a result, the System adopted for year-end 2020 the modified MP-2019 projections scales and Pri-2012 mortality tables with various adjustments to reflect the recent mortality experience of System retirees. These adjustments resulted in a reduction to the Retirement Plan projected benefit obligation of approximately \$95 million in 2020.

Following is a reconciliation showing the beginning and ending balance of the System Plan assets, the funded status, and the accrued pension benefit costs for the years ended December 31, 2020 and 2019 (in millions):

	<u>2020</u>	<u>2019</u>
Estimated plan assets at January 1 (of which \$18,732 and \$15,389 is measured at fair value as of January 1, 2020 and 2019, respectively)	\$ 18,744	\$ 15,414
Actual return on plan assets	3,500	3,582
Contributions by the employers	935	241
Contributions by plan participants	5	4
Benefits paid	<u>(524)</u>	<u>(497)</u>
Estimated plan assets at December 31 (of which \$22,628 and \$18,732 is measured at fair value as of December 31, 2020 and 2019, respectively)	<u>\$ 22,660</u>	<u>\$ 18,744</u>
Funded status and accrued pension benefit costs	<u>\$ (934)</u>	<u>\$ (327)</u>
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	\$ (3)	\$ (11)
Net actuarial loss	<u>(4,201)</u>	<u>(3,030)</u>
Total accumulated other comprehensive loss	<u>\$ (4,204)</u>	<u>\$ (3,041)</u>

The FRBNY, on behalf of the System, funded \$900 million and \$220 million during the years ended December 31, 2020 and 2019, respectively. The Bureau is required by the Dodd-Frank Act to fund the System plan for each Bureau employee based on an established formula. During the years ended December

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### Notes to Combined Financial Statements

2020 and 2019, the Reserve Banks received contributions from the Bureau of \$35 million and \$21 million, respectively.

The accumulated benefit obligation for the System Plan differs from the estimated actuarial present value of projected benefit obligation because it is based on current rather than future compensation levels, was \$19,879 million and \$16,579 million at December 31, 2020 and 2019, respectively.

The weighted-average assumptions used in developing the accumulated pension benefit obligation for the System Plan as of December 31 were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.90%	3.48%
Rate of compensation increase	4.25%	4.25%

Net periodic benefit expenses for the years ended December 31, 2020 and 2019 were actuarially determined using a January 1 measurement date. The weighted-average assumptions used in developing net periodic benefit expenses for the System Plan for the years were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.48%	4.36%
Expected asset return	6.00%	6.00%
Rate of compensation increase	4.25%	4.25%

Discount rates reflect yields available on high-quality corporate and other taxable bonds that would generate the cash flows necessary to pay the System Plan's benefits when due. The expected long-term rate of return on assets is an estimate that is based on a combination of factors, including the System Plan's asset allocation strategy and historical returns; surveys of expected rates of return for various asset classes; and projected returns for equities and fixed income investments based on observable inputs for real interest rates, inflation expectations, and equity risk premiums.

The components of net periodic pension benefit expense for the System Plan for the years ended December 31, 2020 and 2019 are shown below (in millions):

	<u>2020</u>	<u>2019</u>
Service cost - benefits earned during the period	\$ 662	\$ 510
Other components of periodic pension benefit expense:		
Interest cost on projected benefit obligation	684	699
Amortization of prior service cost	8	9
Amortization of actuarial gain (loss)	132	176
Expected return on plan assets	(1,125)	(914)
Special termination benefits loss	19	14
Bureau of Consumer Financial Protection contributions	(35)	(21)
Other components of periodic pension benefit expense	(317)	(37)
Total periodic pension benefit expense	<u>\$ 345</u>	<u>\$ 473</u>

The service cost component of periodic pension benefit expense is reported as "Operating expenses: System pension service cost" in the Combined Statements of Operations and the other components of periodic pension benefit expense are reported as a component of "Other items of income (loss): Other components of net benefit costs" in the Combined Statements of Operations.



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### Notes to Combined Financial Statements

The recognition of special termination benefits is primarily the result of enhanced retirement benefits provided to employees in the normal course of operations. Following is a summary of expected benefit payments, excluding enhanced retirement benefits (in millions):

2021	\$ 562
2022	601
2023	642
2024	685
2025	729
2026 - 2030	<u>4,347</u>
Total	<u>\$ 7,566</u>

The System's Committee on Plan Administration is responsible for oversight of the operations of the Retirement Plan, which includes the Retirement Plan trust and for determining the amounts necessary to maintain the Retirement Plan on an actuarially sound basis and the amounts that employers must contribute to pay the expenses of OEB and the Retirement Plan.

The System's Committee on Investment Performance (CIP) is responsible for establishing investment policies, selecting investment managers, and monitoring the investment managers' compliance with its policies. At December 31, 2020, the System Plan's assets were held in "38 investment vehicles: 5 actively-managed long-duration fixed income portfolios, a passively-managed long-duration fixed income portfolio, an actively-managed high yield fixed income portfolio, an indexed U.S. equity fund, an indexed non-U.S. developed-markets equity fund, an indexed emerging-markets equity fund, 7 private equity limited partnerships, a private equity separate account, 4 core real estate funds, 15 real estate limited partnerships, and a money market fund.

The diversification of the System Plan's investments is designed to limit concentration of risk and the risk of loss related to an individual asset class. The five actively-managed long-duration fixed income portfolios are separate accounts benchmarked to a custom benchmark of 55 percent Bloomberg Barclays Long Credit Index and 45 percent of either Bloomberg, Barclays or Citigroup 15+ years Treasury STRIPS Index. This custom benchmark was selected as a proxy to match the liabilities of the System Plan and the guidelines for these portfolios are designed to limit portfolio deviations from the benchmark. The passively-managed long-duration fixed-income portfolio is invested in 2 commingled funds and is benchmarked to 55 percent Bloomberg Barclays Long Credit Index and 45 percent Bloomberg Barclays 20+ STRIPS Index. The actively-managed high yield fixed income portfolio is benchmarked to the ICE BofA BB U.S. High Yield Constrained Index. The indexed U.S. equity fund is intended to track the overall U.S. equity market across market capitalizations and is benchmarked to the CRSP U.S. Total Market Index. The indexed non-U.S. developed-markets equity fund is intended to track the Morgan Stanley Capital International (MSCI) World ex-US Investible Markets Index (IMI), which includes stocks from 22 markets deemed by MSCI to be "developed markets." The indexed emerging-markets equity fund is intended to track the MSCI Emerging Markets IMI Index, which includes stocks from 27 markets deemed by MSCI to be "emerging markets."

The 3 indexed equity funds include stocks from across the market capitalization spectrum (i.e., large-, mid- and small-cap stocks).

The 7 private equity limited partnerships invest globally across various private equity strategies and the private equity separate account invests in various private equity funds (both primary and secondary

## Federal Reserve Banks

### Notes to Combined Financial Statements

interests) and coinvestment opportunities globally in private companies and targets returns in excess of public markets over a complete market cycle.

The 4 core real estate funds invest in high quality, well leased, low leverage commercial real estate throughout the U.S.

The 15 real estate limited partnerships invest in non-core U.S. and international commercial real estate including development and repositioning of assets. Finally, the money market fund, which invests in short term Treasury and agency debt and repurchase agreements backed by Treasury and agency debt, is the repository for cash balances and adheres to a constant dollar methodology.

Permitted and prohibited investments, including the use of certain derivatives, are defined in either the trust agreement (for the passively-managed long-duration fixed income portfolio) or the investment guidelines (for the remaining investments). The CIP reviews the trust agreement and approves all investment guidelines as part of the selection of each investment to ensure that they are consistent with the CIP's investment objectives for the System Plan's assets.

The System Plan's policy weight and actual asset allocations at December 31, 2020 and 2019 by asset category, are as follows:

	2020	Actual asset allocations	
	Policy weight	2020	2019
Long-duration fixed income	50.0%	47.7%	46.1%
High yield fixed income	5.0%	3.4%	0.0%
U.S. equities	19.7%	22.4%	24.6%
International equities	10.6%	12.1%	14.8%
Emerging markets equities	4.7%	5.0%	5.1%
Private equity	5.0%	5.0%	5.1%
Real estate	5.0%	3.6%	3.9%
Cash	0.0%	0.8%	0.4%
Total	100.0%	100.0%	100.0%

Employer contributions to the System Plan may be determined using different assumptions than those required for financial reporting. The System Plan's anticipated funding level for 2021 is \$960 million. In 2021, the FRBNY plans to make monthly contributions of \$80 million and will reevaluate the monthly contributions upon completion of the 2020 actuarial valuation. The Reserve Banks' projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2020 and 2019, and for the years then ended, were immaterial.

#### Determination of Fair Value

The System Plan's publicly traded investments are valued on the basis of the last available bid prices or current market quotations provided by dealers, or pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

Collective trust funds are valued using the net asset value, calculated daily, based on the fair value of the underlying investments. Private equity and real estate investments are valued using the net asset value, as

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a practical expedient, which is based on the fair value of the underlying investments. The net asset value is adjusted for contributions, distributions, and both realized and unrealized gains and losses incurred during the period. The realized and unrealized gains and losses are based on reported valuation changes.

Because of the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ significantly from the values that would have been reported if a readily available fair value had existed for these investments and may differ materially from the values that may ultimately be realized.

The following tables present the financial instruments recorded at fair value as of December 31, 2020 and 2019 by ASC 820 hierarchy (in millions):

Description	2020			Total <sup>1</sup>
	Level 1	Level 2	Level 3	
Short-term investments	\$ 377	\$ -	\$ -	\$ 377
Treasury and Federal agency securities	58	3,834	-	3,892
Corporate bonds	-	5,063	-	5,063
Other fixed income securities	-	516	-	516
Collective trusts	10,841	-	-	10,841
Real Estate <sup>2</sup>	-	562	-	562
Investments measured at net asset value <sup>3</sup>	-	-	-	1,387
Total investments at fair value <sup>4</sup>	\$ 11,276	\$ 9,975	\$ -	\$ 22,638

<sup>1</sup> There were no transfers between Levels during the year ended December 31, 2020.

<sup>2</sup> Certain real estate investments measured at net asset value in 2019 have been reclassified to conform with current year presentation.

<sup>3</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

<sup>4</sup> In addition to total investments, the System Plan holds future margin receivable of \$2 million and future margin payable of \$4 million at December 31, 2020.

Description	2019			Total <sup>1</sup>
	Level 1	Level 2	Level 3	
Short-term investments	\$ 194	\$ -	\$ -	\$ 194
Treasury and Federal agency securities	71	3,247	-	3,318
Corporate bonds	-	3,563	-	3,563
Other fixed income securities	-	435	-	435
Collective trusts	9,539	-	-	9,539
Investments measured at net asset value <sup>2</sup>	-	-	-	1,690
Total investments at fair value <sup>3</sup>	\$ 9,804	\$ 7,245	\$ -	\$ 18,739

<sup>1</sup> There were no transfers between Levels during the year ended December 31, 2019.

<sup>2</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

<sup>3</sup> In addition to total investments at fair value, the System Plan holds future margin receivable of \$2 million and future margin payables of \$9 million at December 31, 2019.

The System Plan enters into futures contracts, traded on regulated exchanges, to manage certain risks and to maintain appropriate market exposure in meeting the investment objectives of the System Plan. The System Plan bears the market risk that arises from any unfavorable changes in the value of the securities or

## **Federal Reserve Banks**

### **Notes to Combined Financial Statements**

indexes underlying these futures contracts. The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recorded in the Consolidated Statements of Condition. The guidelines established by the CIP further reduce risk by limiting the net futures positions, for most fund managers, to 15 percent of the market value of the advisor's portfolio.

At December 31, 2020 and 2019, a portion of short-term investments was available for futures trading. There were \$13 million and \$5 million of Treasury securities pledged as collateral for the years ended December 31, 2020 and 2019, respectively.

The System Plan also enters into currency spot and forward transactions as a means of hedging currency exposure for securities denominated in a foreign currency.

Forward currency transactions are non-exchange-traded contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The forward contracts are customized for the specific asset(s) being hedged.

#### **Thrift Plan**

Employees of the Reserve Banks participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Reserve Banks match 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Reserve Banks' Thrift Plan contributions totaled \$159 million and \$148 million for the years ended December 31, 2020 and 2019, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Combined Statements of Operations.

#### **(10) POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS**

##### **Postretirement Benefits Other Than Retirement Plans**

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

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

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

	<u>2020</u>	<u>2019</u>
Accumulated postretirement benefit obligation at January 1	\$ 1,874	\$ 1,827
Service cost benefits earned during the period	90	76
Interest cost on accumulated benefit obligation	63	74
Net actuarial loss (gain)	188	8
Special termination benefits loss	1	1
Contributions by plan participants	32	30
Benefits paid	(102)	(104)
Medicare Part D subsidies	2	1
Plan amendments	(102)	(39)
Accumulated postretirement benefit obligation at December 31	<u>\$ 2,046</u>	<u>\$ 1,874</u>

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

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

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

	<u>2020</u>	<u>2019</u>
Fair value of plan assets at January 1	\$ -	\$ -
Contributions by the employer	70	73
Contributions by plan participants	32	30
Benefits paid	(102)	(104)
Medicare Part D subsidies	-	1
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Unfunded obligation and accrued postretirement benefit cost	<u>\$ 2,046</u>	<u>\$ 1,874</u>

Amounts included in accumulated other comprehensive loss are shown below:

Prior service cost	\$ 169	\$ 105
Net actuarial (loss)	(384)	(207)
Total accumulated other comprehensive loss	<u>\$ (215)</u>	<u>\$ (102)</u>

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs" in the Combined Statements of Condition.

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

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

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

	<u>2020</u>	<u>2019</u>
Service cost-benefits earned during the period	\$ 90	\$ 76
Other components of periodic postretirement benefit expense:		
Interest cost on accumulated benefit obligation	63	74
Amortization of prior service cost	(38)	(31)
Amortization of net actuarial loss	11	3
Special termination benefits loss	1	1
Other components of periodic postretirement benefit expense	<u>37</u>	<u>47</u>
Total periodic postretirement benefit expense	<u>\$ 127</u>	<u>\$ 123</u>

The service cost component of periodic postretirement benefit expense is reported as a component of “Operating expenses: Salaries and benefits” in the Combined Statements of Operations and the other components of periodic postretirement benefit expense are reported as a component of “Other items of income (loss): Other components of net benefit costs” in the Combined Statements of Operations.

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

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

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

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

	Without subsidy	With subsidy
2021	\$ 80	\$ 79
2022	84	82
2023	88	87
2024	92	91
2025	96	95
2026 - 2030	544	535
Total	<u>\$ 984</u>	<u>\$ 969</u>

#### Postemployment Benefits

The Reserve Banks offer benefits to former qualifying or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of providing disability; medical, dental, and vision insurance; survivor income benefits, and certain workers' compensation expenses. The accrued postemployment benefit costs recognized by the Reserve Banks at December 31, 2020 and 2019 were \$110 million and \$111 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Combined Statements of Condition. Net periodic postemployment benefit expense included in 2020 and 2019 operating expenses were \$17 million and are recorded as a component of "Operating expenses: Salaries and benefits" in the Combined Statements of Operations.

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

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

	2020			2019		
	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive income (loss)	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive income (loss)
Balance at January 1	\$ (3,041)	\$ (102)	\$ (3,143)	\$ (3,187)	\$ (105)	\$ (3,292)
Change in funded status of benefit plans:						
Prior service costs arising during the year	-	102	102	-	39	39
Amortization of prior service cost	8 <sup>1</sup>	(38) <sup>1</sup>	(30)	9 <sup>1</sup>	(31) <sup>1</sup>	(22)
Change in prior service costs related to benefit plans	8	64	72	9	8	17
Net actuarial gain (loss) arising during the year	(1,303)	(188)	(1,491)	(39)	(8)	(47)
Amortization of net actuarial loss	132 <sup>1</sup>	11 <sup>1</sup>	143	176 <sup>1</sup>	3 <sup>1</sup>	179
Change in actuarial gain (loss) related to benefit plans	(1,171)	(177)	(1,348)	137	(5)	132
Change in funded status of benefit plans - other comprehensive income (loss)	(1,163)	(113)	(1,276)	146	3	149
Balance at December 31	<u>\$ (4,204)</u>	<u>\$ (215)</u>	<u>\$ (4,419)</u>	<u>\$ (3,041)</u>	<u>\$ (102)</u>	<u>\$ (3,143)</u>

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

Additional detail regarding the classification of accumulated other comprehensive loss is included in Notes 9 and 10.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

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

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

	System total	
	2020	2019
Reserve Bank and consolidated variable interest entities net income before providing for remittances to the Treasury	\$ 88,552	\$ 55,458
Other comprehensive income (loss)	(1,276)	149
Comprehensive income	<u>\$ 87,276</u>	<u>\$ 55,607</u>
Distribution of comprehensive income:		
Dividends	386	714
Earnings remittances to the Treasury	86,890	54,893
Total distribution of comprehensive income	<u>\$ 87,276</u>	<u>\$ 55,607</u>

#### (13) SUBSEQUENT EVENTS

The PMCCF, SMCCF, MLF, and TALF II ceased extending credit on December 31, 2020. The MSNLF, MSELF, MSPLF, NONLF, and NOELF ceased purchasing participations in eligible loans on January 8, 2021. As a result, the Federal Reserve returned a portion of the Treasury's equity investment in each facility. The return of these funds occurred in early January 2021. These interim distributions reduced the Treasury's preferred equity to approximately the maximum risk to the Reserve Banks given the respective consolidated VIE holdings. The following table presents on a pro forma basis the effect on the amount reported as "Consolidated variable interest entities: Non-controlling interest – capital contribution" in the Combined Statements of Changes in Capital at December 31, 2020 (in millions):

	CPFF II <sup>1</sup>	CCF	Main Street	MLF	TALF II	Total
Consolidated variable interest entities: Non-controlling interest- capital contribution - as reported	\$ 10,000	\$ 37,500	\$ 37,500	\$ 17,500	\$ 10,000	\$ 112,500
Return of Treasury equity investment	-	(23,619)	(20,928)	(11,224)	(6,451)	(62,222)
Consolidated variable interest entities: Non-controlling interest - capital contribution - as adjusted	<u>\$ 10,000</u>	<u>\$ 13,881</u>	<u>\$ 16,572</u>	<u>\$ 6,276</u>	<u>\$ 3,549</u>	<u>\$ 50,278</u>

<sup>1</sup> CPFF II was unaffected by the return of capital.

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

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