



# Federal Reserve Banks Combined Financial Statements

As of and for the Years Ended  
December 31, 2021 and 2020 and  
Independent Auditors' Report

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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, 2021 and 2020, 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, 2021 and 2020, 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 10, 2022

## 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>	<b><i>Financial Accounting Manual for Federal Reserve Banks</i></b>
<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>Main Street</b>	<b>MS Facilities LLC</b>
<b>MBS</b>	<b>Mortgage-backed securities</b>
<b>MLF</b>	<b>Municipal Liquidity Facility LLC</b>
<b>MMLF</b>	<b>Money Market Mutual Fund Liquidity Facility</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>NOELF</b>	<b>Non-profit Organization Expanded Loan Facility</b>
<b>NONLF</b>	<b>Non-profit 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>TBA</b>	<b>To be announced</b>
<b>TIPS</b>	<b>Treasury Inflation-Protected Securities</b>
<b>VIE</b>	<b>Variable interest entity</b>

## Federal Reserve Banks

# Combined Statements of Condition

As of December 31, 2021 and December 31, 2020

(in millions)

		2021	2020
<b>ASSETS</b>			
Gold certificates		\$ 11,037	\$ 11,037
Special drawing rights certificates		5,200	5,200
Coin		1,232	1,563
Loans:	Note 4		
Loans to depository institutions		555	1,602
Other loans		33,853	54,535
System Open Market Account:	Note 5		
Securities purchased under agreements to resell		-	1,000
Treasury securities, net (of which \$40,737 and \$33,603 is lent as of December 31, 2021 and 2020, respectively)		5,917,426	4,955,871
Federal agency and government-sponsored enterprise mortgage-backed securities, net		2,685,268	2,109,715
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of December 31, 2021 and 2020, respectively)		2,610	2,634
Foreign currency denominated investments, net		20,330	22,204
Central bank liquidity swaps		3,340	17,883
Accrued interest receivable		30,976	30,057
Other assets		1	2
Consolidated variable interest entities: Assets held, net (including \$612 and \$9,345 measured at fair value as of December 31, 2021 and 2020, respectively)	Note 6	40,171	140,335
Prepaid pension benefit costs	Note 9	472	-
Other accrued interest receivable		89	122
Bank premises and equipment, net	Note 7,8	2,610	2,596
Items in process of collection		76	132
Deferred asset - remittances to the Treasury		-	926
Other assets		1,153	978
Total assets		<u>\$ 8,756,399</u>	<u>\$ 7,358,392</u>
<b>LIABILITIES AND CAPITAL</b>			
Federal Reserve notes outstanding, net		\$ 2,187,139	\$ 2,040,275
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		2,183,041	216,051
Other liabilities		2,374	5,781
Deposits:			
Depository institutions		3,644,277	2,994,932
Treasury, general account		406,108	1,728,569
Other deposits		264,593	216,165
Interest payable to depository institutions and others		34	9
Consolidated variable interest entities: Other liabilities	Note 6	156	213
Deposit - Treasury funding of lending facility credit protection	Note 4	-	1,500
Accrued benefit costs	Notes 9, 10	2,831	3,886
Deferred credit items		659	698
Accrued remittances to the Treasury		4,384	-
Other liabilities		340	466
Total liabilities		<u>8,695,936</u>	<u>7,208,545</u>
Reserve Bank capital			
Capital paid-in		\$ 33,877	\$ 32,376
Surplus (including accumulated other comprehensive loss of \$2,779 and \$4,419 at December 31, 2021 and 2020, respectively)		6,785	6,825
Total Reserve Bank capital		<u>40,662</u>	<u>39,201</u>
Consolidated variable interest entities formed to administer credit and liquidity facilities:	Note 6		
Non-controlling interest		19,801	110,646
Total Reserve Bank capital and consolidated variable interest entities non-controlling interest		60,463	149,847
Total liabilities and capital		<u>\$ 8,756,399</u>	<u>\$ 7,358,392</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, 2021 and December 31, 2020

(in millions)

		2021	2020
<b>INTEREST INCOME</b>			
Loans:	Note 4		
Loans to depository institutions		\$ 2	\$ 22
Other loans		227	336
System Open Market Account:	Note 5		
Securities purchased under agreements to resell		1	723
Treasury securities, net		92,610	67,539
Federal agency and government-sponsored enterprise mortgage-backed securities, net		29,619	32,338
Government-sponsored enterprise debt securities, net		134	135
Foreign currency denominated investments, net		(45)	(40)
Central bank liquidity swaps		7	489
Total interest income		122,555	101,542
<b>INTEREST EXPENSE</b>			
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		\$ 414	\$ 711
Other		2	5
Depository institutions and others		5,333	7,883
Total interest expense		5,749	8,599
Net interest income		116,806	92,943
<b>OTHER ITEMS OF INCOME (LOSS)</b>			
System Open Market Account:	Note 5		
Treasury securities gains, net		\$ -	\$ 2
Federal agency and government-sponsored enterprise mortgage-backed securities (losses) gains, net		(35)	664
Foreign currency translation (losses) gains, net		(1,856)	1,542
Other		45	44
Income from services		456	446
Reimbursable services to government agencies		787	732
Other components of net benefit costs	Notes 9, 10, 11	366	68
Other		50	(64)
Total other items of (loss) income		(187)	3,434
<b>OPERATING EXPENSES</b>			
Salaries and benefits		\$ 3,792	\$ 3,565
System pension service cost	Note 9	954	662
Occupancy		318	321
Equipment		231	221
Other		811	830
Assessments:			
Board of Governors operating expenses and currency costs		2,005	1,778
Bureau of Consumer Financial Protection		628	517
Total operating expenses		8,739	7,894
Reserve Bank net income from operations		107,880	88,483
Consolidated variable interest entities: Income (Loss), net	Note 6	975	(1,785)
Consolidated variable interest entities: Non-controlling interest (income) loss, net	Note 6	(927)	1,854
Reserve Bank and consolidated variable interest entities net income before providing for remittances to the Treasury		107,928	88,552
Earnings remittances to the Treasury		109,025	86,890
Net (loss) income after providing for remittances to the Treasury		(1,097)	1,662
Change in prior service costs related to benefit plans	Note 9, 10, 11	(91)	72
Change in actuarial gains (losses) related to benefit plans	Note 9, 10, 11	1,731	(1,348)
Total other comprehensive income (loss)		1,640	(1,276)
Comprehensive income		\$ 543	\$ 386

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

## Federal Reserve Banks

# Combined Statements of Changes in Capital

For the years ended December 31, 2021 and December 31, 2020

(in millions, except share data)

	Reserve Bank Capital				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, 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 (redeemed) (13,563,424 shares)	678	-	-	-	678	-	678
Comprehensive income:							
Reserve Bank net income (loss) after providing for remittances to the Treasury	-	1,593	-	1,593	1,593	-	1,593
Consolidated variable interest entities: Income (loss), net	-	69	-	69	69	-	69
Other comprehensive income (loss)	-	-	(1,276)	(1,276)	(1,276)	(1,854)	(3,130)
Dividends on capital stock	-	(386)	-	(386)	(386)	-	(386)
Consolidated variable interest entities: Non-controlling interest - capital contribution (distribution)	-	-	-	-	-	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
Net change in capital stock issued (redeemed) (30,008,722 shares)	1,501	-	-	-	1,501	-	1,501
Comprehensive income:							
Reserve Bank net income (loss) after providing for remittances to the Treasury	-	(1,145)	-	(1,145)	(1,145)	-	(1,145)
Consolidated variable interest entities: Income (loss), net	-	48	-	48	48	927	975
Other comprehensive income (loss)	-	-	1,640	1,640	1,640	-	1,640
Dividends on capital stock	-	(583)	-	(583)	(583)	-	(583)
Consolidated variable interest entities: Non-controlling interest - capital contribution (distribution)	-	-	-	-	-	(91,243)	(91,243)
Consolidated variable interest entities: Non-controlling interest - (earnings distribution)	-	-	-	-	-	(529)	(529)
Net change in Reserve Bank capital and non-controlling interest	1,501	(1,680)	1,640	(40)	1,461	(90,845)	(89,384)
Balance at December 31, 2021							
(677,534,103 shares of Reserve Bank capital stock)	\$ 33,877	\$ 9,564	\$ (2,779)	\$ 6,785	\$ 40,662	\$ 19,801	\$ 60,463

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 Act 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 and 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. In March 2020, the FOMC expanded standing U.S. dollar liquidity swap arrangements to enhance the provision of U.S. dollar liquidity to foreign markets as well as established temporary swap U.S. dollar liquidity lines to allow central banks to borrow U.S. currency against collateral in their respective jurisdictions. The temporary swap lines expired on December 31, 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 that began in 2020, the Board of Governors authorized the FRBNY and the Federal Reserve Bank of Boston (FRBB) to establish and operate several lending facilities under section 13(3) of the Federal Reserve Act.

The FRBNY established and operated the following five lending facilities:

- On March 17, 2020, the Primary Dealer Credit Facility (PDCF) was established as a term loan facility that provides funding to primary dealers in exchange for a broad range of collateral and was intended to foster the functioning of financial markets more generally. The PDCF's authority to extend loans ended March 31, 2021. All loans were subsequently repaid.
- On March 17, 2020, the Commercial Paper Funding Facility (CPFF) was established to provide liquidity to short-term funding markets. The CPFF provided 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. CP Funding Facility II Limited Liability Company (LLC) (CPFF II) was established to administer the CPFF. The Treasury, using the Exchange Stabilization Fund (ESF), made an equity investment in CPFF II. The CPFF's authority to purchase commercial paper ended March 31, 2021, and CPFF II was terminated on July 8, 2021.
- On March 22, 2020, the Term Asset-Backed Securities Loan Facility (TALF) was established to provide loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by consumer and business loans. Term Asset-Backed Securities Loan Facility II LLC (TALF II) was established 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. The TALF's authority to extend loans ended December 31, 2020.
- On March 23, 2020, the Corporate Credit Facilities was established to administer the Primary Market Corporate Credit Facility (PMCCF), which was established to support credit to employers

## Federal Reserve Banks

### Notes to Combined Financial Statements

through bond and loan issuances, and the Secondary Market Corporate Credit Facility (SMCCF), which was established to support credit to employers by providing liquidity for outstanding corporate bonds. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in Corporate Credit Facilities LLC (CCF), which was established to administer the PMCCF and SMCCF. The authority of the PMCCF and SMCCF to purchase eligible assets ended December 31, 2020; the PMCCF purchased no assets during 2020. CCF was terminated on December 17, 2021.

- On April 8, 2020, the Municipal Liquidity Facility was established to support lending to state, city, and county governments, certain multistate entities, and other issuers of municipal securities. Municipal Liquidity Facility LLC (MLF) was established to administer the facility. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in MLF. The facility's authority to purchase eligible assets ended December 31, 2020.

The FRBB established and operated the following two lending facilities:

- On March 18, 2020, the Money Market Mutual Fund Liquidity Facility (MMLF) was established to provide funding to U.S. depository institutions and bank holding companies to finance their purchases of certain types of assets from money market mutual funds under certain conditions. The MMLF's authority to extend loans ended March 31, 2021. All loans were subsequently repaid.
- On April 9, 2020, the Main Street Lending Program (MSLP) was established to support lending to small and medium-sized businesses and non-profit 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), Non-profit Organization New Loan Facility (NONLF), and Non-profit Organization Expanded Loan Facility (NOELF). The MS Facilities LLC (Main Street) was established to administer the facilities. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in Main Street. The facilities' authority to purchase loan participations ended January 8, 2021.

On April 8, 2020, each of the 12 Federal Reserve Banks established and commenced operation of 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). The PPPLF's authority to extend loans ended July 30, 2021.

Additional information related to the lending facilities that the Reserve Banks participate in is provided in Notes 4 and 6.

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 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.

## **Federal Reserve Banks**

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

#### **(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 of Governors 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.

Certain amounts relating to the prior year have been reclassified in the Combined Statements of Operations to conform to the current year presentation. Effective January 1, 2021, the Building Machinery and Equipment asset class was reclassified to Furniture and Equipment. As a result, \$27 million of depreciation expense related to Building Machinery and Equipment previously reported as "Operating expenses:

## Federal Reserve Banks

### Notes to Combined Financial Statements

Occupancy” for the year ended December 31, 2020 has been reclassified to “Operating expenses: Equipment.” See Note 7 for additional information on the reclassification.

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 CPFF II, CCF, MLF, TALF II, and Main Street. The consolidation of the VIEs was assessed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC 810), *Consolidation*, which requires VIEs to be consolidated by its controlling financial interest holder. The Reserve Banks are the managing members and the Treasury is the preferred equity member of the LLCs. Intercompany balances and transactions have been eliminated in consolidation. See Note 6 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 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.

## **Federal Reserve Banks**

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

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) under the standard monetary policy repurchase agreement operations and domestic standing repurchase agreement facility with primary dealers and eligible counterparties (repo operations), and foreign official and international account holders under the Foreign and International Monetary Authorities (FIMA) Repo Facility. Repo operations transactions are 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 repo operations primarily includes Treasury securities (including Treasury Inflation-Protected Securities (TIPS), Separate Trading of Registered Interest and Principal of Securities (STRIPS), and Treasury Floating Rate



## Federal Reserve Banks

### Notes to Combined Financial Statements

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 mortgage-backed securities (MBS). The FIMA Repo Facility is managed by the FRBNY, and acceptable collateral includes Treasury securities only. 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 repo operations. 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

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### 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, 2021 and 2020, 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 (losses) 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 (losses) gains, 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 transactions to facilitate international payments and currency transactions it makes with or on behalf of foreign central bank and U.S. official institution customers. These foreign currency working balances and transactions are not related to the Reserve Banks’ monetary policy operations. Foreign currency working balances are reported as a component of “Other assets” in the Combined Statements of Condition and the related foreign currency translation gains and losses that result from the daily revaluation of the foreign

## Federal Reserve Banks

### Notes to Combined Financial Statements

currency working balances and contracts are reported as a component of “Other items of income (loss): Other” in the Combined 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 Banks’ 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 are recorded at fair value in accordance with FASB ASC 825, *Financial Instruments*, while short-term investments in non-marketable securities are accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt Securities*.

CPFF II investments in short-term commercial paper were designated as held-to-maturity and accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt Securities*. MLF holds municipal notes designated as held-to-maturity and accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt Securities*. TALF II made loans to borrowers that are designated as



## Federal Reserve Banks

### Notes to Combined Financial Statements

held-for-investment and accounted for at the loan's principal balance in accordance with FASB ASC 310, *Receivables*.

During the period January 2020 to May 2021, CCF investments in corporate debt securities were accounted for at amortized cost in accordance with FASB ASC 320, *Investments - Debt Securities*. Due to the wind down of the CCF portfolio, effective June 2021, corporate bonds held by CCF under the SMCCF were reclassified as trading securities and, as a result, were recorded at fair value in accordance with FASB ASC 320, *Investments - Debt Securities*. Upon reclassification, any portion of the unrealized holding gains or losses at the transfer date of the securities, which occurred prior to year-end, is now recognized as a component of "Consolidated variable interest entities: Income (Loss), net" in the Combined Statements of Operations. CCF also held ETFs that were recorded at fair value in accordance with FASB ASC 825, *Financial Instruments*.

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 and charge-offs and including interest receivable, in accordance with FASB ASC 310, *Receivables* and FASB ASC 450, *Contingencies*.

Additional information related to the assets held by consolidated VIEs is provided in Note 6.

#### **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 FASB 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 the Reserve Banks are a 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.

#### **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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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 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 \$250 billion and \$152 billion at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2021 and 2020, all gold certificates, all SDR certificates, and \$2,171 billion and \$2,024 billion, respectively, of domestic securities held in the SOMA were pledged as collateral. At December 31, 2021 and 2020, no investments denominated in foreign currencies were pledged as collateral.

#### **I. Deposits**

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

Depository institutions’ deposits represent balances maintained by depository institutions in accounts at the Reserve Banks. Prior to March 26, 2020, balances maintained by customers in deposit accounts at depository institutions were subject to a reserve requirement. A reserve requirement is the amount of funds that a depository institution is required to maintain as a percentage of specified deposits and other liabilities. Effective March 26, 2020, the Board of Governors reduced all reserve requirement ratios to zero percent, effectively eliminating reserve requirements. Prior to that date, balances maintained by depository institutions at the Reserve Banks were divided into two types: required reserves (balances held to satisfy a reserve requirement) and excess reserve balances (balances maintained in excess of required reserves). With reserve requirements set to zero percent, the distinction between required reserves and excess reserves is no longer relevant.

The Board of Governors amended Regulation D (12 CFR Part 204), which governs reserve requirements, to eliminate references to an interest on required reserves rate and an interest on excess reserves rate and replaced them with a single interest on reserve balances (IORB) rate. The Board of Governors sets the rate at which balances maintained by depository institutions in accounts at Reserve Banks receive earnings at a rate not to exceed the general level of short-term interest rates. The Board of Governors has the discretion to change the IORB rate at any time. Interest on depository institution’s balances is calculated and accrued daily at the specified rate. Interest payable on deposits of depository institutions at Reserve Banks is reported as a component of “Interest payable to depository institutions and others” in the Combined Statements of Condition. Interest expense on deposits of depository institutions at Reserve Banks is reported as a component of “Depository institutions and others” in the Combined Statements of Operations.

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

## **Federal Reserve Banks**

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

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, 2021 and 2020.

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

The Treasury general account is the primary operational account of the Treasury and is maintained at the 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 a rate currently set equal to the interest rate paid on reserve balances maintained by depository institutions. The Board of Governors sets, and can change at its discretion, the rate paid to DFMUs. Interest payable on other deposits is reported as a component of “Interest payable to depository institutions and others” in the Combined Statements of Condition. Interest expense on other deposits is reported as a component of “Depository institutions and others” in the Combined Statements of Operations.

The FRBNY held other deposits for the FRBB’s MMLF, and during 2021, the balance was returned after the MMLF’s authority to extend loans ended on March 31, 2021.

#### **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 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 \$10.8 billion and \$10.7 billion for the years ended December 31, 2021 and 2020, 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.

## **Federal Reserve Banks**

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

#### **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 VIEs assets, determined in accordance with LLC 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 VIE investments for the period.

#### **p. Surplus**

As of December 31, 2020, the FRA limited aggregate Reserve Bank surplus to \$6.825 billion. Effective January 1, 2021, the National Defense Authorization Act for 2021 further reduced the statutory limit on aggregate Reserve Bank surplus from \$6.825 billion to \$6.785 billion. On February 5, 2021, the Reserve Banks made a \$40 million lump sum payment to the Treasury. 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 loss is reported as a component of "Surplus" in the Combined Statements of Condition and the Combined Statements of Changes in Capital. Additional information 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 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 the recognition of a deferred asset that represents the amount of net earnings the Reserve Banks will need to realize before remittances to the Treasury resume. As of December 31, 2020, such changes resulted in the Reserve Banks recording a deferred asset in the amount of \$926 million, which is reported as "Deferred asset – remittances to the Treasury" in the Combined Statements of Condition. This deferred asset is periodically reviewed for impairment and as of December 31, 2020, no impairment existed.

## Federal Reserve Banks

### Notes to Combined Financial Statements

#### 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 Banks' performance obligations are satisfied. During the years ended December 31, 2021 and 2020, the Reserve 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 is 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, 2021 and 2020 was 14.41 percent (\$717.5 million) and 13.97 percent (\$695.9 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 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.

## Federal Reserve Banks

### Notes to Combined Financial Statements

#### 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 for both years ended December 31, 2021 and 2020, 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 2021 and 2020.

#### 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 the FAM was or will be revised to be consistent with these standards.

In February 2016, the FASB issued Accounting Standards Update (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. 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 classification, and initial direct costs. Subsequently, the FASB issued in July 2021, ASU 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*; and in November 2021, ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*. These updates did not have a material effect on the Reserve Banks' combined financial statements. The relevant disclosures have been included 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 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. The Board of Governors adopted this standard for the year ending December 31, 2020. Relevant disclosure updates have been included in Notes 9 and 10.



## Federal Reserve Banks

### Notes to 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. The Board of Governors adopted this standard for the year ending December 31, 2021, and it did not have a material 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*; and in January 2021, ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. 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 offer primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or non-personal 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.

##### 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

## Federal Reserve Banks

### Notes to Combined Financial Statements

collected funds to the Reserve Banks. At December 31, 2021 and 2020, no PPPLF loans were over 90 days past due or on non-accrual status.

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

Under the MMLF, the FRBB extended loans to eligible financial institutions secured by high-quality assets purchased by the borrowing financial institution from money market mutual funds. Eligible collateral comprised 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 had a term equal to the maturity date of the collateral, not to exceed 12 months. Additionally, the Treasury, using the ESF, committed \$10 billion as credit protection and advanced \$1.5 billion to the FRBB as of December 31, 2020. The obligation to return any unused portion of the funded credit protection was reported as “Deposit – Treasury funding of lending facility credit protection” in the Combined Statements of Condition. On April 12, 2021, the MMLF returned the funded credit protection of \$1.5 billion to the Treasury. Additionally, the MMLF remitted facility fees of \$134 million to the Treasury, which are reported as a component of “Other items of income (loss): Other” in the Combined Statements of Operations. No MMLF loans were extended after March 31, 2021, and all loans were repaid by April 15, 2021.

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

Each PDCF loan had a term of up to 90 days. PDCF loans provided overnight and term loans on a recourse basis, with terms up to 90 days. PDCF loans were collateralized by securities eligible to be pledged in open market operations; plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities; and certain equity securities. No PDCF loans were extended after March 31, 2021, and all loans were repaid by April 15, 2021.

The amounts outstanding at December 31, 2021 and 2020 for loans to depository institutions and other loans were as follows (in millions):

	<u>2021</u>	<u>2020</u>
Loans to depository institutions		
Primary, secondary, and seasonal credit	\$ 555	\$ 1,602
Other loans		
PPPLF	33,853	50,429
MMLF	-	3,621
PDCF	-	485
Total other loans	<u>33,853</u>	<u>54,535</u>
Total loans	<u>\$ 34,408</u>	<u>\$ 56,137</u>



## Federal Reserve Banks

### Notes to Combined Financial Statements

The remaining maturity distribution of loans outstanding at December 31, 2021 and 2020, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
<b>December 31, 2021</b>					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ 252	\$ 303	\$ -	\$ -	\$ 555
Other loans					
PPPLF	-	-	1,445	32,408	33,853
Total loans	<u>\$ 252</u>	<u>\$ 303</u>	<u>\$ 1,445</u>	<u>\$ 32,408</u>	<u>\$ 34,408</u>
<b>December 31, 2020</b>					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ 821	\$ 781	\$ -	\$ -	\$ 1,602
Other loans					
PPPLF	-	-	6,264	44,165	50,429
MMLF	1,703	1,718	200	-	3,621
PDCF	235	250	-	-	485
Total other loans	<u>1,938</u>	<u>1,968</u>	<u>6,464</u>	<u>44,165</u>	<u>54,535</u>
Total loans	<u>\$ 2,759</u>	<u>\$ 2,749</u>	<u>\$ 6,464</u>	<u>\$ 44,165</u>	<u>\$ 56,137</u>

Interest income attributable to loans outstanding during the years ended December 31, 2021 and 2020 was as follows (in millions):

	2021	2020
<b>Interest income</b>		
Loans to depository institutions	\$ 2	\$ 22
Primary, secondary, and seasonal credit		
Other loans		
PPPLF	222	141
MMLF	5	182
PDCF	-	13
Total other loans	<u>227</u>	<u>336</u>
Total loans	<u>\$ 229</u>	<u>\$ 358</u>

At December 31, 2021 and 2020, 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, 2021 and 2020.

#### (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, at the beginning of 2020, the FOMC directed the FRBNY to continue purchasing Treasury bills to maintain ample reserve balances. Effective 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

## Federal Reserve Banks

### Notes to Combined Financial Statements

the System's holdings of agency debt and agency MBS in agency mortgage-backed securities. Effective 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. Effective December 2020, the FOMC directed the FRBNY to increase the SOMA portfolio by purchasing Treasury securities at a pace of \$80 billion per month and agency MBS at a pace of \$40 billion per month and to increase the SOMA portfolio by purchasing Treasury securities, RMBS, and CMBS as needed to sustain smooth functioning of markets for these securities.

Effective November 4, 2021, the FOMC directed the FRBNY to begin reducing the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for RMBS by purchasing Treasury securities and RMBS at a pace of \$70 billion and \$35 billion, respectively, per month. Effective December 16, 2021, the FOMC directed the FRBNY to further reduce the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for RMBS by purchasing Treasury securities and RMBS at a pace of \$60 billion and \$30 billion, respectively, per month. Additionally, as announced in December 2021, the FOMC directed the FRBNY starting in mid-January 2022 to further reduce the monthly pace of its net asset purchases by \$20 billion for Treasury securities and \$10 billion for RMBS by purchasing Treasury securities and RMBS at a pace of \$40 billion and \$20 billion, respectively, per month. As announced in January 2022, the FOMC directed the FRBNY starting in mid-February to further reduce the monthly pace of its net asset purchases by \$20 billion for Treasury securities and \$10 billion for RMBS by purchasing Treasury securities and RMBS at a pace of \$20 billion and \$10 billion, respectively, per month.

The total Treasury securities, federal agency and GSE MBS, and GSE debt securities, net, excluding accrued interest, held in the SOMA at December 31, 2021 and 2020 was as follows (in millions):

	Total SOMA							
	2021				2020			
	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost
Treasury securities								
Bills	\$ 326,044	\$ -	\$ (88)	\$ 325,956	\$ 326,044	\$ -	\$ (107)	\$ 325,937
Notes	3,748,992	69,017	(5,533)	3,812,476	3,063,037	72,129	(1,590)	3,133,576
Bonds	1,577,506	213,327	(11,839)	1,778,994	1,299,848	200,197	(3,687)	1,496,358
Total Treasury securities	5,652,542	282,344	(17,460)	5,917,426	4,688,929	272,326	(5,384)	4,955,871
Federal agency and GSE MBS								
Residential	\$ 2,606,309	\$ 69,316	\$ (568)	\$ 2,675,057	\$ 2,029,627	\$ 69,274	\$ (148)	\$ 2,098,753
Commercial	9,237	977	(3)	10,211	9,840	1,122	-	10,962
Total federal agency and GSE MBS	2,615,546	70,293	(571)	2,685,268	2,039,467	70,396	(148)	2,109,715
GSE debt securities	\$ 2,347	\$ 263	\$ -	\$ 2,610	\$ 2,347	\$ 287	\$ -	\$ 2,634

During the years ended December 31, 2021 and 2020, 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 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. On July 28, 2021, the FIMA Repo Facility was converted from temporary to a standing facility for repurchase agreements.

## Federal Reserve Banks

### Notes to Combined Financial Statements

Financial information related to repurchase agreements held in the SOMA for the years ended December 31, 2021 and 2020 was as follows (in millions):

	Total SOMA	
	2021	2020
Repo operations:		
Contract amount outstanding, end of year	\$ -	\$ -
Average daily amount outstanding, during the year	-	97,711
Maximum balance outstanding, during the year	46	495,700
FIMA Repo Facility:		
Contract amount outstanding, end of year	\$ -	\$ 1,000
Average daily amount outstanding, during the year	161	292
Maximum balance outstanding, during the year	1,000	1,404
Total repurchase agreement contract amount outstanding, end of year	<u>\$ -</u>	<u>\$ 1,000</u>
Supplemental information - interest income:		
Repo operations	\$ -	\$ 722
FIMA Repo Facility	<u>1</u>	<u>1</u>
Total interest income - securities purchased under agreements to resell	<u>\$ 1</u>	<u>\$ 723</u>

There were no outstanding repurchase agreement contracts that were transacted with primary dealers, eligible counterparties, and foreign official and international account holders as of December 31, 2021.

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### Notes to Combined Financial Statements

Financial information related to reverse repurchase agreements held in the SOMA for the years ended December 31, 2021 and 2020 was as follows (in millions):

	Total SOMA	
	2021	2020
<b>Primary dealers and expanded counterparties:</b>		
Contract amount outstanding, end of year	\$ 1,904,582	\$ 9,651
Average daily amount outstanding, during the year	717,540	8,749
Maximum balance outstanding, during the year	1,904,582	284,908
Securities pledged (par value), end of year	1,844,099	6,351
Securities pledged (fair value), end of year	1,905,973	9,666
<b>Foreign official and international accounts:</b>		
Contract amount outstanding, end of year	\$ 278,459	\$ 206,400
Average daily amount outstanding, during the year	251,068	226,215
Maximum balance outstanding, during the year	315,208	290,113
Securities pledged (par value), end of year	274,442	200,673
Securities pledged (fair value), end of year	278,472	206,410
<b>Total reverse repurchase agreement contract amount outstanding, end of year</b>	<b>\$ 2,183,041</b>	<b>\$ 216,051</b>
<b>Supplemental information - interest expense:</b>		
Primary dealers and expanded counterparties	\$ 337	\$ 14
Foreign official and international accounts	77	697
<b>Total interest expense - securities sold under agreements to repurchase</b>	<b>\$ 414</b>	<b>\$ 711</b>

Securities pledged as collateral, at December 31, 2021 and 2020, consisted solely of Treasury securities. The contract amount outstanding as of December 31, 2021 of reverse repurchase agreements that were transacted with primary dealers and expanded counterparties had a remaining term of one business day and matured on January 3, 2022. The contract amount outstanding as of December 31, 2021 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 3, 2022.

## Federal Reserve Banks

### Notes to Combined Financial Statements

The remaining maturity distribution of Treasury securities, federal agency and GSE MBS, GSE debt securities, repurchase agreements, and reverse repurchase agreements at December 31, 2021 and 2020 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, 2021:</b>							
Treasury securities (par value)	\$ 54,973	\$ 351,418	\$ 727,400	\$ 2,146,103	\$ 1,019,239	\$ 1,353,409	\$ 5,652,542
Federal agency and GSE residential MBS (par value) <sup>1</sup>	-	-	26	1,690	55,311	2,549,282	2,606,309
Federal agency and GSE commercial MBS (par value) <sup>1</sup>	-	-	-	113	5,017	4,107	9,237
GSE debt securities (par value)	-	-	-	-	2,134	213	2,347
Securities purchased under agreements to resell (contract amount)	-	-	-	-	-	-	-
Securities sold under agreements to repurchase (contract amount)	2,183,041	-	-	-	-	-	2,183,041
<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

<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 lives of RMBS and CMBS as of December 31, 2021 and 2020 were as follows (in years):

	2021	2020
Estimated weighted-average life of		
RMBS	5.7	3.1
CMBS	8.3	8.8

The amortized cost and par value of Treasury securities that were loaned from the SOMA under securities lending agreements at December 31, 2021 and 2020 were as follows (in millions):

	Total SOMA	
	2021	2020
Treasury securities (amortized cost)	\$ 40,737	\$ 33,603
Treasury securities (par value)	40,489	31,635

Securities pledged as collateral by the counterparties in the securities lending arrangements at December 31, 2021 and 2020 consisted solely of Treasury securities. The securities lending agreements outstanding as of December 31, 2021 had a term of one business day and matured on January 3, 2022.

## Federal Reserve Banks

### Notes to Combined Financial Statements

The FRBNY enters into commitments to buy and sell Treasury securities and federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2021, total purchases and sales under outstanding commitments were as follows (in millions):

	<u>Total SOMA</u>	<u>Contractual settlement dates through</u>
<b>Purchases under outstanding commitments</b>		
Treasury securities	\$ 4,674	January 4, 2022
TBA RMBS <sup>1</sup>	98,724	February 17, 2022
CMBS	-	
<b>Sales under outstanding commitments</b>		
RMBS	\$ 87	January 13, 2022
CMBS	-	

<sup>1</sup> Total TBA RMBS dollar rolls were \$5,871 million. TBA RMBS dollar rolls had contractual settlement dates extending through January 18, 2022. The number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade.

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 \$1 million and \$2 million at December 31, 2021 and 2020, respectively. Other liabilities include the FRBNY's 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 and RMBS and CMBS to the FRBNY on the settlement date. Although the FRBNY has ownership of and records its investments in Treasury securities and RMBS and CMBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered. The amount of other liabilities held in the SOMA at December 31, 2021 and 2020 was as follows (in millions):

	<u>Total SOMA</u>	
	<u>2021</u>	<u>2020</u>
<b>Other liabilities:</b>		
Accrued interest payable	\$ 3	\$ -
Cash margin	2,359	5,778
Obligations from residential MBS transaction fails	12	3
Total other liabilities	<u>\$ 2,374</u>	<u>\$ 5,781</u>

Accrued interest receivable on domestic securities held in the SOMA was \$30,929 million and \$29,978 million as of December 31, 2021 and 2020, respectively. Accrued interest receivable on repurchase agreements was zero and immaterial as of December 31, 2021 and 2020, respectively. 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, 2021 and 2020, is summarized as follows (in millions):

	Total SOMA			Total Treasury securities
	Bills	Notes	Bonds	
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
Purchases <sup>1</sup>	996,069	1,380,267	324,921	2,701,257
Sales <sup>1</sup>	-	(50)	-	(50)
Realized gains (losses), net <sup>2</sup>	-	-	-	-
Principal payments and maturities	(996,284)	(691,911)	(42,195)	(1,730,390)
Amortization of premiums and accretion of discounts, net	234	(23,435)	(10,772)	(33,973)
Inflation adjustment on inflation-indexed securities	-	14,029	10,682	24,711
Subtotal of activity	19	678,900	282,636	961,555
Balance at December 31, 2021	\$ 325,956	\$ 3,812,476	\$ 1,778,994	\$ 5,917,426
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)
Year-ended December 31, 2021				
Supplemental information - par value of transactions:				
Purchases <sup>3</sup>	\$ 996,284	\$ 1,363,886	\$ 309,172	\$ 2,669,342
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, 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
Purchases <sup>1</sup>	1,444,058	328	1,444,386	-
Sales <sup>1</sup>	(255)	-	(255)	-
Realized gains (losses), net <sup>2</sup>	1	-	1	-
Principal payments and maturities	(836,672)	(916)	(837,588)	-
Amortization of premiums and accretion of discounts, net	(30,828)	(163)	(30,991)	(24)
Subtotal of activity	576,304	(751)	575,553	(24)
Balance at December 31, 2021	\$ 2,675,057	\$ 10,211	\$ 2,685,268	\$ 2,610

#### Year-ended December 31, 2020

Supplemental information - par value of transactions:

Purchases	\$ 1,281,077	\$ 10,170	\$ 1,291,247	\$ -
Sales	(158)	-	(158)	-

#### Year-ended December 31, 2021

Supplemental information - par value of transactions:

Purchases	\$ 1,413,602	\$ 313	\$ 1,413,915	\$ -
Sales	(248)	-	(248)	-

<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 operations 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.



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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, 2021 and 2020 was as follows (in millions):

	Total SOMA	
	2021	2020
<b>Euro:</b>		
Foreign currency deposits	\$ 6,576	\$ 6,597
Dutch government debt instruments	1,791	2,738
French government debt instruments	2,910	2,746
German government debt instruments	932	1,066
<b>Japanese yen:</b>		
Foreign currency deposits	\$ 7,564	\$ 8,436
Japanese government debt instruments	557	621
<b>Total</b>	<b>\$ 20,330</b>	<b>\$ 22,204</b>

At December 31, 2021 and 2020, there were no repurchase agreements outstanding and, consequently, no related foreign securities held as collateral.

As of December 31, 2021 and 2020, total net interest income earned on foreign currency denominated investments held in the SOMA were as follows (in millions):

	Total SOMA	
	2021	2020
<b>Net interest income:</b> <sup>1</sup>		
Euro	\$ (44)	\$ (40)
Japanese yen	(1)	-
<b>Total net interest income</b>	<b>\$ (45)</b>	<b>\$ (40)</b>

<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 \$55 million and \$51 million for the years ended December 31, 2021 and 2020, respectively.

Accrued interest receivable on foreign currency denominated investments, net was \$47 million and \$74 million as of December 31, 2021 and 2020, respectively. These amounts are reported as a component of “System Open Market Account: Accrued interest receivable” in the Combined Statements of Condition.

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### Notes to Combined Financial Statements

The remaining maturity distribution of foreign currency denominated investments at December 31, 2021 and 2020 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
December 31, 2021:						
Euro	\$ 2,149	\$ -	\$ 5,329	\$ 2,163	\$ 2,568	\$ 12,209
Japanese yen	7,564	23	531	3	-	8,121
Total	<u>\$ 9,713</u>	<u>\$ 23</u>	<u>\$ 5,860</u>	<u>\$ 2,166</u>	<u>\$ 2,568</u>	<u>\$ 20,330</u>
December 31, 2020:						
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>

There were no foreign exchange contracts related to foreign currency operations outstanding as of December 31, 2021.

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, 2021, there were no outstanding commitments to purchase foreign government debt instruments. During 2021, there were purchases, sales, and maturities of foreign government debt instruments of \$3,043 million, \$13 million, and \$3,443 million, respectively. Sales of \$13 million includes immaterial realized gains.

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, 2021 and 2020.

#### c. Central Bank Liquidity Swaps

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

The FOMC authorized and directed the FRBNY to expand 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 as well as establish temporary swap U.S. dollar liquidity lines to the Reserve Bank of Australia, Banco Central de 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.

The total foreign currency held in the SOMA under U.S. dollar liquidity swaps at December 31, 2021 and 2020 was \$3,340 million and \$17,883 million, respectively.

## Federal Reserve Banks

### Notes to Combined Financial Statements

The remaining maturity distribution of U.S. dollar liquidity swaps at December 31, 2021 and 2020 was as follows (in millions):

Currency swap transacted in	2021			2020		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Danish krone	-	-	-	-	350	350
Euro	940	-	940	3,161	1,029	4,190
Mexican peso	-	50	50	-	1,130	1,130
Singapore dollar	-	-	-	972	1,203	2,175
Swiss franc	2,350	-	2,350	3,033	7,005	10,038
Total	\$ 3,290	\$ 50	\$ 3,340	\$ 7,166	\$ 10,717	\$ 17,883

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, 2021 and 2020, 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 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, 2021 and 2020, there are no credit impairments of SOMA securities holdings.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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, 2021 and 2020 (in millions):

	Total SOMA					
	2021			2020		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities						
Bills	\$ 325,956	\$ 325,929	\$ (27)	\$ 325,937	\$ 325,974	\$ 37
Notes	3,812,476	3,802,434	(10,042)	3,133,576	3,191,929	58,353
Bonds	1,778,994	1,923,692	144,698	1,496,358	1,736,653	240,295
Total Treasury securities	5,917,426	6,052,055	134,629	4,955,871	5,254,556	298,685
Federal agency and GSE MBS						
Residential	\$ 2,675,057	\$ 2,667,752	\$ (7,305)	\$ 2,098,753	\$ 2,152,965	\$ 54,212
Commercial	10,211	10,068	(143)	10,962	11,152	190
Total federal agency and GSE MBS	2,685,268	2,677,820	(7,448)	2,109,715	2,164,117	54,402
GSE debt securities	2,610	3,298	688	2,634	3,544	910
Total domestic SOMA portfolio securities holdings	\$ 8,605,304	\$ 8,733,173	\$ 127,869	\$ 7,068,220	\$ 7,422,217	\$ 353,997
Memorandum—Commitments for purchases of:						
Treasury securities <sup>1</sup>	\$ 4,674	\$ 4,674	\$ -	\$ 5,232	\$ 5,232	\$ -
Federal agency and GSE MBS <sup>1</sup>	98,724	98,693	(31)	202,127	203,084	957
Memorandum—Commitments for sales of:						
Treasury securities <sup>2</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency and GSE MBS <sup>2</sup>	87	87	-	88	88	-

<sup>1</sup> The amortized cost column presents unsettled purchase costs.

<sup>2</sup> The amortized cost column presents unsettled sales proceeds.

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, 2021 and 2020, the fair value of foreign currency denominated investments held in the SOMA was \$20,398 million and \$22,374 million, respectively. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. Due to the short-term nature of foreign currency deposits, the cost basis is estimated to approximate fair value.

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### Notes to Combined Financial Statements

The following table provides additional information on the amortized cost and fair value of the federal agency and GSE MBS portfolios held in the SOMA at December 31, 2021 and 2020 (in millions):

Distribution of MBS holdings by coupon rate	Total SOMA			
	2021		2020	
	Amortized cost	Fair value	Amortized cost	Fair value
<b>Residential</b>				
1.5%	\$ 176,227	\$ 172,999	\$ 20,021	\$ 20,156
2.0%	1,053,493	1,036,086	331,252	334,549
2.5%	736,648	728,310	517,579	525,374
3.0%	334,788	340,133	583,681	596,178
3.5%	216,456	223,964	380,033	395,114
4.0%	114,300	119,260	200,003	208,717
4.5%	29,973	32,369	47,732	51,934
5.0%	10,238	11,377	14,523	16,481
5.5%	2,521	2,794	3,390	3,853
6.0%	361	402	471	534
6.5%	52	58	68	75
Total	2,675,057	2,667,752	2,098,753	2,152,965
<b>Commercial</b>				
1.00% - 1.50%	\$ 92	\$ 87	\$ 84	\$ 83
1.51% - 2.00%	503	485	451	452
2.01% - 2.50%	1,128	1,104	1,330	1,352
2.51% - 3.00%	1,593	1,567	1,874	1,907
3.01% - 3.50%	3,151	3,119	3,263	3,330
3.51% - 4.00%	3,448	3,417	3,661	3,726
4.01% - 4.50%	296	289	299	302
Total	10,211	10,068	10,962	11,152
<b>Total MBS</b>	<b>\$ 2,685,268</b>	<b>\$ 2,677,820</b>	<b>\$ 2,109,715</b>	<b>\$ 2,164,117</b>

The following table presents 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, 2021 and 2020 (in millions):

	Total SOMA			
	2021		2020	
	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	\$ -	\$ (164,056)	\$ 2	\$ 159,559
Federal agency and GSE MBS				
Residential	(35)	(61,517)	664	33,399
Commercial	-	(333)	-	190
Total federal agency and GSE MBS	(35)	(61,850)	664	33,589
GSE debt securities	-	(222)	-	223
Total	\$ (35)	\$ (226,128)	\$ 666	\$ 193,371

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### Notes to Combined Financial Statements

<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 loss of \$102 million and a gain of \$52 million for the years ended December 31, 2021 and 2020. Realized gains, net related to foreign currency denominated investments was immaterial for the years ended December 31, 2021 and 2020.

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 combined financial statements include the accounts and operations of CPFF II, CCF, Main Street, MLF, and TALF II. Purchases of portfolio assets or extensions of loans by the LLCs are funded by loans extended by the Reserve Banks. 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.

The CPFF’s authority to purchase commercial paper ended March 31, 2021. Prior to the termination of CPFF II, when all obligations of CPFF II were repaid, the remaining net assets were allocated and distributed to the FRBNY and Treasury in accordance with the Amended and Restated LLC Agreement of CPFF II. During 2021, CPFF II returned in full the Treasury’s equity investment of \$10 billion and Treasury’s earnings since inception of \$49 million, which are reported as a component of “Consolidated variable interest entities: Non-controlling interest – capital contribution (distribution)” and “Consolidated variable interest entities: Non-controlling interest – (earnings distribution),” respectively, on the Combined Statements of Changes in Capital.

The SMCCF’s authority to purchase eligible assets ended on December 31, 2020. The Board announced in June 2021 plans to start winding down the CCF portfolio, and the SMCCF concluded sales in August 2021. Prior to the termination of CCF, when all obligations of CCF were repaid, the remaining net assets were allocated and distributed to the FRBNY and Treasury, in accordance with the Amended and Restated LLC Agreement of CCF. During 2021, CCF returned the Treasury’s equity investment of \$37.5 billion and Treasury’s earnings since inception of \$480 million, which are reported as a component of “Consolidated variable interest entities: Non-controlling interest – capital contribution (distribution)” and “Consolidated variable interest entities: Non-controlling interest - (earnings distribution),” respectively, on the Combined Statements of Changes in Capital.

During 2021, Main Street, MLF and TALF II returned portions of the Treasury’s equity investment of \$21.8 billion, \$13.3 billion and \$8.6 billion, respectively, which are reported as a component of “Consolidated

## Federal Reserve Banks

### Notes to Combined Financial Statements

variable interest entities: Non-controlling interest – capital contribution (distribution)” on the Combined Statements of Changes in Capital.

The classification of assets and liabilities of the consolidated VIE(s) as of December 31, 2021 and 2020 are as follows (in millions):

	2021			
	Main Street	MLF	TALF II	Total
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 2,931	\$ 1	\$ 32	\$ 2,964
Short-term investments in non-marketable securities <sup>2</sup>	13,332	3,594	1,163	18,089
Short-term investments <sup>3</sup>	-	59	-	59
Loan participations <sup>4</sup>	13,444	-	-	13,444
Municipal notes <sup>5</sup>	-	4,131	-	4,131
Loans <sup>6</sup>	-	-	1,346	1,346
Other assets	-	79	59	138
Total assets, net	<u>\$ 29,707</u>	<u>\$ 7,864</u>	<u>\$ 2,600</u>	<u>\$ 40,171</u>
<b>Liabilities</b>	<u>152</u>	<u>3</u>	<u>1</u>	<u>156</u>
Net assets and liabilities	<u>\$ 29,555</u>	<u>\$ 7,861</u>	<u>\$ 2,599</u>	<u>\$ 40,015</u>

<sup>1</sup> Includes \$553 million of cash equivalents and \$2,411 million of cash at December 31, 2021.

<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 principal amount outstanding, net of allowance and charge-offs and including interest receivable.

<sup>5</sup> Reported at amortized cost.

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

	2020					
	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	<u>\$ 8,557</u>	<u>\$ 46,535</u>	<u>\$ 51,790</u>	<u>\$ 21,278</u>	<u>\$ 12,175</u>	<u>\$ 140,335</u>
<b>Liabilities</b>	<u>14</u>	<u>2</u>	<u>187</u>	<u>6</u>	<u>4</u>	<u>213</u>
Net assets and liabilities	<u>\$ 8,543</u>	<u>\$ 46,533</u>	<u>\$ 51,603</u>	<u>\$ 21,272</u>	<u>\$ 12,171</u>	<u>\$ 140,122</u>

<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 and including interest receivable.

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

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### Notes to Combined Financial Statements

The following tables present the components of the LLCs' net operating income recorded for the years ended December 31 (in millions):

	2021					
	CPFF II	CCF	Main Street	MLF	TALF II	Total
Interest income <sup>1</sup>	\$ 1	\$ 37	\$ 442	\$ 109	\$ 22	\$ 611
Other items of income (loss):						
Dividends	-	93	-	-	-	93
Fees	11	-	48	3	2	64
Provision for loan losses	-	-	367	-	-	367
Other <sup>2</sup>	-	(101)	10	-	-	(91)
Total other items of income (loss)	11	(8)	425	3	2	433
Less: expenses <sup>3</sup>	2	1	63	1	2	69
Net income (loss) attributable to consolidated VIEs	\$ 10	\$ 28	\$ 804	\$ 111	\$ 22	\$ 975
Allocated to non-controlling Treasury interest	\$ 9	\$ 17	\$ 788	\$ 95	\$ 18	\$ 927
Allocated to Reserve Banks	\$ 1	\$ 11	\$ 16	\$ 16	\$ 4	\$ 48
Memorandum—Cumulative earnings distribution: <sup>4</sup>	\$ 54	\$ 532	\$ -	\$ -	\$ -	\$ 586
Non-controlling Treasury interest	49	480	-	-	-	529
Reserve Banks	5	52	-	-	-	57

<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, loan participations servicing costs, and other expenses.

<sup>4</sup> Represents distribution of cumulative LLC earnings upon dissolution in accordance with the LLCs' legal agreements.

	2020					
	CPFF II	CCF	Main Street	MLF	TALF II	Total
Interest income <sup>1</sup>	\$ 17	\$ 39	\$ 73	\$ 38	\$ 18	\$ 185
Other items of income (loss):						
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, loan participations servicing costs, and other expenses.

At December 31, 2021 and 2020, the maturity distribution of the LLCs' holdings are as follows (in millions):

	2021					
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Non-specified term	Total
Cash equivalents	\$ 553	\$ -	\$ -	\$ -	\$ -	\$ 553
Short-term investments in non-marketable securities	18,089	-	-	-	-	18,089
Short-term investments	-	-	59	-	-	59
Loan participations	-	-	-	13,444	-	13,444
Municipal notes	-	482	-	3,649	-	4,131
Loans	-	-	-	1,346	-	1,346
Total	\$ 18,642	\$ 482	\$ 59	\$ 18,439	\$ -	\$ 37,622



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### Notes to Combined Financial Statements

	2020					
	Within 15 days	16 days to 90 days	91 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
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 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, 2021 and 2020, there were no assets for which the Reserve Banks considered impairment to be other-than-temporary, no assets were impaired or restructured, and no allowance for credit impairment was required.

#### ***Allowance for Loan Losses and charge-offs***

TALF II's loans are subject to review each reporting period to identify and evaluate loans that had indications of possible impairment. TALF II recognizes 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 incurred and the amount of the loss can be reasonably estimated, a loan loss is recorded. As of December 31, 2021 and 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, collectively reflecting management's estimate of probable loan losses inherent in the loan portfolio at reporting date. In addition to the allowance for loan losses, Main Street also estimated and recorded a loan loss reserve for unfunded commitments for the year ended December 31, 2020.

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 participation agreement. For purposes of the MSLP, a loss is generally deemed probable when (1) an individual loan participation is assigned a doubtful classification or below, or (2) it is placed on non-accrual 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), that is determined to be credit-related. For loan participations purchased by Main Street that have been deemed impaired and meet a certain materiality threshold, a loss allowance is measured at the individual loan level on a quarterly basis. Loan participations reviewed through this

## Federal Reserve Banks

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process deemed not to be impaired and all other loans not subject to individual evaluation are subject to a general allowance. Main Street's general allowance determination considers both quantitative and qualitative factors.

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.

The principal exposure of loan participations in non-accrual status as of December 31, 2021 and 2020, was \$3.0 billion and \$2.0 billion, respectively. The evaluation of loan participations purchased by Main Street resulted in recording a loan loss allowance in the amount of \$2.0 billion and \$2.4 billion as of December 31, 2021 and 2020, respectively.

When a loan participation is charged off, any accrued but uncollected interest from both current and prior periods are charged against the allowance for loan losses as remaining interest receivable is specifically considered in the determination of the allowance for loan loss. The LLC realized losses of \$16.8 million and zero for charge-offs during the years ended December 31, 2021 and 2020, respectively.

#### b. Fair Value

There was no material difference between the cost and fair value amounts of \$553 million of cash equivalents and \$59 million of short-term investments at December 31, 2021.

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.

	2020			
Assets at fair value	Amortized cost <sup>1</sup>	Unrealized gains <sup>2</sup>	Unrealized losses <sup>2</sup>	Fair value
Cash equivalents	\$ 464	\$ -	\$ -	\$ 464
Short-term investments	105	-	-	105
Exchange-traded funds	8,435	341	-	8,776
Total	\$ 9,004	\$ 341	\$ -	\$ 9,345

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

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

The following tables present the LLC's holdings at December 31, 2021 and 2020, reported at amortized cost (in millions). Fair value is provided as supplemental information.

	2021			
Assets at amortized cost	Amortized cost	Cumulative unrealized gains <sup>1</sup>	Cumulative unrealized losses <sup>1</sup>	Fair value
Short-term investments in non-marketable securities	\$ 18,089	\$ -	\$ -	\$ 18,089
Corporate bonds	-	-	-	-
Municipal notes	4,131	83	-	4,214
Total	\$ 22,220	\$ 83	\$ -	\$ 22,303

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

	2020			
	Amortized cost	Unrealized gains <sup>1</sup>	Unrealized losses <sup>1</sup>	Fair value
Assets at amortized cost				
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	\$ 107,491	\$ 190	\$ (4)	\$ 107,677

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

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, 2021 and 2020 (in millions):

	2021		2020	
	Loan principal	Collateral fair value <sup>1</sup>	Loan principal	Collateral fair value <sup>1</sup>
Loans <sup>2</sup>	\$ 1,346	\$ 1,560	\$ 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, 2021 and 2020 by the FASB ASC 820, *Fair Value Measurements & Disclosures* hierarchy (in millions):

	2021		
Description	Level 1	Level 2	Total <sup>1</sup>
Cash equivalents	\$ 553	\$ -	\$ 553
Short-term investments	-	59	59
Total investments at fair value	\$ 553	\$ 59	\$ 612

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2021.

	2020		
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	\$ 9,186	\$ 159	\$ 9,345

At December 31, 2021 and 2020, the ratings breakdown of LLC holdings are as follows (in millions):

	2021			
	BBB+ to BBB-	Government/ agency	Not rated <sup>1</sup>	Total
Cash equivalents	\$ -	\$ 33	\$ 520	\$ 553
Short-term investments in non-marketable securities	-	18,089	-	18,089
Short-term investments	-	59	-	59
Municipal notes	1,224	-	2,907	4,131

<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.

## Federal Reserve Banks

### Notes to Combined Financial Statements

	2020						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Government/agency	Not rated <sup>1</sup>
Cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335	\$ 129
Short-term investments in non-marketable securities	-	-	-	-	-	95,668	-
Short-term investments	-	-	-	-	-	105	-
Commercial paper	-	-	-	-	-	-	-
Corporate bonds	26	443	1,615	3,232	224	-	-
Exchange-traded funds	-	-	-	-	-	-	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, 2021 and 2020, the ratings breakdown of the fair value of collateral securing TALF II's loans are as follows (in millions):

Collateral sector	2021			2020		
	AAA	Government/agency	Total	AAA	Government/agency	Total
SBA loans	\$ -	\$ 1,146	\$ 1,146	\$ -	\$ 2,338	\$ 2,338
Commercial mortgages	32	-	32	998	-	998
Leveraged loans	382	-	382	602	-	602
Student loans	-	-	-	221	-	221
Premium finance	-	-	-	56	-	56
Total	\$ 414	\$ 1,146	\$ 1,560	\$ 1,877	\$ 2,338	\$ 4,215

Note: Lowest of all ratings was 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.

The average internal risk rating for Main Street's loan participations at principal amount outstanding held as of December 31, 2021 and 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, 2021 and 2020:

Rating	Percentage of loan participations	
	2021	2020
Ba or higher	29%	27%
B	35%	41%
Caa	16%	20%
Ca	20%	12%
Total	100%	100%

Under MLF, credit-related risk on municipal securities arises from losses due to an inability of a particular issuer to repay its debt. MLF holds municipal securities issued by a state and transportation authority. 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.

## Federal Reserve Banks

### Notes to Combined Financial Statements

TALF II investments are exposed to credit risk from the CMBS, 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 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, 2021 and 2020, all TALF loans were fully collateralized and no securities collateralizing TALF loans had been thus surrendered.

#### d. Contributions and Distributions of Treasury Equity

The following table presents the Treasury's contributions and distributions of capital, distributions of LLC earnings, and current year undistributed LLC earnings as of December 31, 2021 and 2020 (in millions), which are reported as "Consolidated variable interest entities: Non-controlling interest - capital contribution (distribution)," "Consolidated variable interest entities: Non-controlling interest – (earnings distribution)," and "Consolidated variable interest entities: Income (loss), net," respectively, in the Combined Statements of Changes in Capital.

	CPFF II	CCF	Main Street	MLF	TALF II	Total
Treasury's equity, January 1, 2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital contribution, during the year	10,000	37,500	37,500	17,500	10,000	112,500
Capital (distribution)	-	-	-	-	-	-
Current year undistributed LLC earnings (loss)	40	463	(2,402)	32	13	(1,854)
Treasury's equity, December 31, 2020	<u>\$ 10,040</u>	<u>\$ 37,963</u>	<u>\$ 35,098</u>	<u>\$ 17,532</u>	<u>\$ 10,013</u>	<u>\$ 110,646</u>
Capital contribution, during the year	-	-	-	-	-	-
Capital (distribution)	(10,000)	(37,500)	(21,826)	(13,281)	(8,636)	(91,243)
Current year undistributed LLC earnings (loss)	9	17	788	95	18	927
Earnings distribution <sup>1</sup>	(49)	(480)	-	-	-	(529)
Treasury's equity, December 31, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,060</u>	<u>\$ 4,346</u>	<u>\$ 1,395</u>	<u>\$ 19,801</u>

<sup>1</sup> Represents distribution of cumulative LLC earnings upon dissolution in accordance with the LLCs' legal agreements.

The following table presents the Treasury's cumulative capital contributions and undistributed LLC earnings (loss) as of December 31, 2021 and 2020 (in millions):

	CPFF II	CCF	Main Street	MLF	TALF II	Total
Cumulative capital contributions	\$ 10,000	\$ 37,500	\$ 37,500	\$ 17,500	\$ 10,000	\$ 112,500
Cumulative undistributed LLC earnings (loss)	40	463	(2,402)	32	13	(1,854)
Treasury's equity, December 31, 2020	<u>\$ 10,040</u>	<u>\$ 37,963</u>	<u>\$ 35,098</u>	<u>\$ 17,532</u>	<u>\$ 10,013</u>	<u>\$ 110,646</u>
Cumulative capital contributions	-	-	15,674	4,219	1,364	21,257
Cumulative undistributed LLC earnings (loss)	-	-	(1,614)	127	31	(1,456)
Treasury's equity, December 31, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,060</u>	<u>\$ 4,346</u>	<u>\$ 1,395</u>	<u>\$ 19,801</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 to by the Reserve Banks. Additionally, the managing member has contributed a nominal amount to each LLC.

## Federal Reserve Banks

### Notes to Combined Financial Statements

#### 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 each LLC. 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 the Reserve Banks to support the liquidity needs of each LLC. Due to the short-term nature of cash equivalents and non-marketable securities, the cost basis is estimated to approximate fair value.

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

Bank premises and equipment at December 31, 2021 and 2020 were as follows (in millions):

	2021	2020
Bank premises and equipment:		
Land and land improvements	\$ 428	\$ 424
Buildings	3,207	3,108
Construction in progress	125	85
Furniture and equipment <sup>1</sup>	2,030	1,934
Subtotal	5,790	5,551
Accumulated depreciation	(3,180)	(2,955)
Bank premises and equipment, net	\$ 2,610	\$ 2,596
Depreciation expense, for the years ended December 31	\$ 236	\$ 228

<sup>1</sup> "Building machinery and equipment" of \$750 million was reported separately at December 31, 2020 but is now combined in "Furniture and equipment."

Bank premises and equipment at December 31, 2021 and 2020 included the following amounts for finance or capital leases (in millions):

	2021	2020
Leased premises and equipment under finance leases	\$ 46	\$ 43
Accumulated depreciation	(31)	(25)
Leased premises and equipment under finance leases, net	\$ 15	\$ 18
Depreciation expense related to leased premises and equipment under finance leases, for the years ended December 31	\$ 6	\$ 6

The Reserve Banks lease space to outside tenants with remaining lease terms ranging from 1 to 13 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 \$35 million and \$39 million for the years ended December 31, 2021 and 2020, 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

## Federal Reserve Banks

### Notes to Combined Financial Statements

Reserve Banks will receive under non-cancelable lease agreements in existence at December 31, 2021, are as follows (in millions):

2022	\$ 33
2023	31
2024	28
2025	24
2026	21
Thereafter	81
Total	<u>\$ 218</u>

The Reserve Banks had capitalized software assets, net of amortization, of \$372 million and \$343 million at December 31, 2021 and 2020, respectively. Amortization expense was \$106 million and \$111 million for the years ended December 31, 2021 and 2020, 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, 2021, the Reserve Banks were obligated under non-cancelable leases for premises with remaining terms ranging from 1 to approximately 8 years. The lease term 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 \$11 million and \$14 million for the years ended December 31, 2021 and 2020, respectively.

Lease right-of-use assets were \$19 million at December 31, 2021 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, 2021, are as follows (in millions):

	<u>Operating leases</u>
2022	\$ 6
2023	5
2024	4
2025	3
2026	2
Thereafter	2
Future minimum lease payments	<u>\$ 22</u>

At December 31, 2021, the Reserve Banks, acting on their own behalf, had unrecorded unconditional purchase commitments and long-term obligations extending through the year 2026 with a remaining fixed



## Federal Reserve Banks

### Notes to Combined Financial Statements

commitment of \$295 million. Purchases of \$56 million and \$48 million were made against these commitments during 2021 and 2020, 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):

2022	\$ 28
2023	55
2024	39
2025	39
2026	32

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, 2021 and 2020.

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 offer 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, 2021 and 2020, certain costs associated with the System Plan were reimbursed by the Bureau. In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (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 Reserve Banks report the service cost related to the System Plan as "Operating expenses: System pension service cost" in its 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 its 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, 2021 and 2020 (in millions):

	<u>2021</u>	<u>2020</u>
Estimated actuarial present value of projected benefit obligation at January 1	\$ 23,594	\$ 19,071
Service cost - benefits earned during the period	954	662
Interest cost on projected benefit obligation	708	684
Actuarial (gain) loss	(527)	3,677
Contributions by plan participants	3	5
Special termination benefits	24	19
Benefits paid	<u>(562)</u>	<u>(524)</u>
Estimated actuarial present value of projected benefit obligation at December 31	<u>\$ 24,194</u>	<u>\$ 23,594</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 2021 relative to the System's actual retiree mortality experience, as part of an annual review of the updated mortality tables and scales. As a result, the System retained for year-end 2021 the modified MP-2019 projections scales and Pri-2012 mortality tables with updated 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 \$126 million in 2021.

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, 2021 and 2020 (in millions):

	<u>2021</u>	<u>2020</u>
Estimated plan assets at January 1 (of which \$22,628 and \$18,732 is measured at fair value as of January 1, 2021 and 2020, respectively)	\$ 22,660	\$ 18,744
Actual return on plan assets	1,946	3,500
Contributions by the employers	619	935
Contributions by plan participants	3	5
Benefits paid	<u>(562)</u>	<u>(524)</u>
Estimated plan assets at December 31 (of which \$24,643 and \$22,628 is measured at fair value as of January 1, 2021 and 2020, respectively)	<u>\$ 24,666</u>	<u>\$ 22,660</u>
Funded status and accrued pension benefit costs	<u>\$ 472</u>	<u>\$ (934)</u>
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	\$ -	\$ (3)
Net actuarial loss	<u>(2,754)</u>	<u>(4,201)</u>
Total accumulated other comprehensive loss	<u>\$ (2,754)</u>	<u>\$ (4,204)</u>

The FRBNY, on behalf of the System, funded \$570 million and \$900 million during the years ended December 31, 2021 and 2020, 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

2021 and 2020, the FRBNY received contributions from the Bureau of \$49 million and \$35 million, respectively.

The accumulated benefit obligation for the System Plan, which differs from the estimated actuarial present value of projected benefit obligation because it is based on current rather than future compensation levels, was \$20,440 million and \$19,879 million at December 31, 2021 and 2020, respectively.

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

	2021	2020
Discount rate	3.09%	2.90%
Rate of compensation increase	4.25%	4.25%

Net periodic benefit expenses for the years ended December 31, 2021 and 2020 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:

	2021	2020
Discount rate	2.90%	3.48%
Expected asset return	5.25%	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, 2021 and 2020 are shown below (in millions):

	2021	2020
Service cost - benefits earned during the period	\$ 954	\$ 662
Other components of periodic pension benefit expense:		
Interest cost on projected benefit obligation	\$ 708	\$ 684
Amortization of prior service cost	3	8
Amortization of actuarial loss	173	132
Expected return on plan assets	(1,200)	(1,125)
Special termination benefits loss	24	19
Bureau of Consumer Financial Protection contributions	(49)	(35)
Other components of periodic pension benefit expense	(341)	(317)
Total periodic pension benefit expense	\$ 613	\$ 345

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

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.

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):

2022	\$ 615
2023	657
2024	701
2025	746
2026	793
2027 - 2031	<u>4,693</u>
Total	<u>\$ 8,205</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, 2021, 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 Downgrade Protected Index and 45 percent of either Bloomberg, Barclays or FTSE 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 a custom benchmark of 75 percent Bloomberg Barclays BB High Yield Index and 25 percent Bloomberg Barclays BBB 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 25 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).

## Federal Reserve Banks

### Notes to Combined Financial Statements

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 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, 2021 and 2020 by asset category, are as follows:

	2021	Actual asset allocations	
	Policy weight	2021	2020
Long-duration fixed income	50.0%	49.0%	47.7%
U.S. equities	19.9%	21.3%	22.4%
International equities	9.4%	10.1%	12.1%
Private equity	7.0%	6.7%	5.0%
High yield fixed income	5.0%	4.3%	3.4%
Real estate	5.0%	3.9%	3.6%
Emerging markets equities	3.7%	3.9%	5.0%
Cash	0.0%	0.8%	0.8%
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 2022 is \$420 million. In 2022, the FRBNY plans to make monthly contributions of \$35 million and will reevaluate the monthly contributions quarterly and upon completion of the 2022 actuarial valuation. The Reserve Banks' projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2021 and 2020, 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.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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 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, 2021 and 2020 by FASB ASC 820 hierarchy (in millions):

Description	2021			
	Level 1	Level 2	Level 3	Total <sup>1</sup>
Short-term investments	\$ 395	\$ -	\$ -	\$ 395
Treasury and federal agency securities	111	3,777	-	3,888
Corporate bonds	-	5,147	-	5,147
Other fixed income securities	-	449	-	449
Collective trusts	12,161	-	-	12,161
Real estate	-	643	-	643
Investments measured at net asset value <sup>2</sup>	-	-	-	1,957
Total investments at fair value <sup>3</sup>	\$ 12,667	\$ 10,016	\$ -	\$ 24,640

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2021.

<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, the System Plan holds future margin receivable of \$6 million, future margin payable of \$3 million, and foreign exchange forward payable of \$0.2 million at December 31, 2021.

Description	2020			
	Level 1	Level 2	Level 3	Total <sup>1</sup>
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	-	562	-	562
Investments measured at net asset value <sup>2</sup>	-	-	-	1,387
Total investments at fair value <sup>3</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 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 \$4 million at December 31, 2020.

## **Federal Reserve Banks**

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

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 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 Combined 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, 2021 and 2020, a portion of short-term investments was available for futures trading. There were \$9 million and \$13 million of Treasury securities pledged as collateral for the years ended December 31, 2021 and 2020, 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 \$167 million and \$159 million for the years ended December 31, 2021 and 2020, 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.



## Federal Reserve Banks

### Notes to Combined Financial Statements

Following is a reconciliation of the beginning and ending balances of the benefit obligation for the years ended December 31, 2021 and 2020 (in millions):

	2021	2020
Accumulated postretirement benefit obligation at January 1	\$ 2,046	\$ 1,874
Service cost - benefits earned during the period	109	90
Interest cost on accumulated benefit obligation	55	63
Net actuarial (gain) loss	(257)	188
Special termination benefits loss	1	1
Contributions by plan participants	32	32
Benefits paid	(92)	(102)
Medicare Part D subsidies	1	2
Plan amendments	36	(102)
Accumulated postretirement benefit obligation at December 31	<u>\$ 1,931</u>	<u>\$ 2,046</u>

At December 31, 2021 and 2020, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 2.91 percent and 2.61 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, 2021 and 2020 (in millions):

	2021	2020
Fair value of plan assets at January 1	\$ -	\$ -
Contributions by the employer	60	70
Contributions by plan participants	32	32
Benefits paid	(92)	(102)
Medicare Part D subsidies	-	-
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Unfunded obligation and accrued postretirement benefit cost	<u>\$ 1,931</u>	<u>\$ 2,046</u>

Amounts included in accumulated other comprehensive loss are shown below:

Prior service cost	\$ 74	\$ 169
Net actuarial (loss)	(99)	(384)
Total accumulated other comprehensive (loss)	<u>\$ (25)</u>	<u>\$ (215)</u>

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

## Federal Reserve Banks

### Notes to Combined Financial Statements

For measurement purposes, the assumed health-care cost trend rates at December 31, 2021 and 2020 are provided in the table below:

	2021	2020
Health-care cost trend rate assumed for next year	5.50%	5.75%
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	2028	2025

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31, 2021 and 2020 (in millions):

	2021	2020
Service cost - benefits earned during the period	\$ 109	\$ 90
Other components of periodic postretirement benefit expense:		
Interest cost on accumulated benefit obligation	\$ 55	\$ 63
Amortization of prior service cost	(58)	(38)
Amortization of net actuarial loss	27	11
Special termination benefits loss	1	1
Other components of periodic postretirement benefit expense	25	37
Total periodic postretirement benefit expense	\$ 134	\$ 127

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, 2021 and 2020, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 2.61 percent and 3.31 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, 2021 and 2020. Expected receipts in 2022, related to benefits paid in the years ended December 31, 2021 and 2020, are immaterial.

## Federal Reserve Banks

### Notes to Combined Financial Statements

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

	Without subsidy	With subsidy
2022	\$ 79	\$ 78
2023	83	82
2024	87	85
2025	91	89
2026	96	94
2027 - 2031	540	531
Total	<u>\$ 976</u>	<u>\$ 959</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, 2021 and 2020 were \$98 million and \$110 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 2021 and 2020 operating expenses were \$3 million and \$17 million, respectively, 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 (loss) as of December 31, 2021 and 2020 (in millions):

	2021			2020		
	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	\$ (4,204)	\$ (215)	\$ (4,419)	\$ (3,041)	\$ (102)	\$ (3,143)
Change in funded status of benefit plans:						
Prior service costs arising during the year	-	(36)	(36)	-	102	102
Amortization of prior service cost	3	(58)	(55)	8 <sup>1</sup>	(38)	(30)
Change in prior service costs related to benefit plans	3	(94)	(91)	8	64	72
Net actuarial gain (loss) arising during the year	1,274	257	1,531	(1,303)	(188)	(1,491)
Amortization of net actuarial loss	173	27	200	132 <sup>1</sup>	11	143
Change in actuarial gain (loss) related to benefit plans	1,447	284	1,731	(1,171)	(177)	(1,348)
Change in funded status of benefit plans - other comprehensive income (loss)	1,450	190	1,640	(1,163)	(113)	(1,276)
Balance at December 31	<u>\$ (2,754)</u>	<u>\$ (25)</u>	<u>\$ (2,779)</u>	<u>\$ (4,204)</u>	<u>\$ (215)</u>	<u>\$ (4,419)</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 remit excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain aggregate surplus. The following table presents the distribution of the System total comprehensive income for the years ended December 31, 2021 and 2020 (in millions):

	System total	
	2021	2020
Reserve Bank and consolidated variable interest entities net income before providing for remittances to the Treasury	\$107,928	\$ 88,552
Other comprehensive income (loss)	1,640	(1,276)
Total comprehensive income - available for distribution	<u>\$109,568</u>	<u>\$ 87,276</u>
Distribution of comprehensive income (loss):		
Transfer (from) surplus	\$ (40)	\$ -
Dividends	583	386
Earnings remittances to the Treasury <sup>1</sup>	109,025	86,890
Total distribution of comprehensive income	<u>\$109,568</u>	<u>\$ 87,276</u>

<sup>1</sup> Inclusive of lump-sum payments of \$40 million that was remitted to the Treasury on February 5, 2021, as required by the National Defense Authorization Act of 2021. As a result, aggregate surplus limitation in the FRA was reduced from \$6.825 billion to \$6.785 billion.

#### (13) SUBSEQUENT EVENTS

There were no subsequent events that required adjustments to or disclosures in the combined financial statements as of December 31, 2021. Subsequent events were evaluated through March 10, 2022, which is the date that the combined financial statements were available to be issued.