



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2017



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Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(e-mail) Publications-BOG@frb.gov

Contents

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

Abbreviations

BAC	Committee on Federal Reserve Bank Affairs
FAST Act	Fixing America's Surface Transportation Act
FRA	Federal Reserve Act
FOMC	Federal Open Market Committee
FRBNY	Federal Reserve Bank of New York
GSE	Government-sponsored enterprise
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
LLC	Limited liability company
SOMA	System Open Market Account
TBA	To be announced
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition		
(in millions)		
	September 30, 2017	December 31, 2016
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,866	1,873
Loans	Note 1 196	63
System Open Market Account:	Note 2	
Treasury securities, net (of which \$27,138 and \$25,195 is lent as of September 30, 2017, and December 31, 2016, respectively)	2,559,838	2,567,422
Government-sponsored enterprise debt securities, net (of which \$0 and \$44 is lent as of September 30, 2017, and December 31, 2016, respectively)	7,131	16,648
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,821,363	1,795,003
Foreign currency denominated investments, net	21,112	19,442
Central bank liquidity swaps	3,620	5,563
Accrued interest receivable	23,632	25,598
Other assets	13	8
Investments held by consolidated variable interest entity (of which \$1,733 and \$1,742 is measured at fair value as of September 30, 2017, and December 31, 2016, respectively)	Note 3 1,733	1,742
Bank premises and equipment, net	2,552	2,564
Items in process of collection	74	118
Other assets	941	1,056
Total assets	<u>\$4,460,308</u>	<u>\$4,453,337</u>
Liabilities and capital		
Federal Reserve notes outstanding, net	Note 4 \$1,532,150	\$1,462,939
System Open Market Account:		
Securities sold under agreements to repurchase	Note 2 556,792	725,210
Other liabilities	665	1,012
Liabilities of consolidated variable interest entity (of which \$19 and \$32 is measured at fair value as of September 30, 2017 and December 31, 2016, respectively)	20	33
Deposits:		
Depository institutions	Note 5 2,072,844	1,759,675
Treasury, general account	Note 6 159,322	399,190
Other deposits	91,307	58,413
Interest payable to depository institutions and others	227	403
Accrued benefit costs	2,793	3,118
Deferred credit items	817	922
Accrued remittances to the Treasury	1,613	1,725
Other liabilities	570	255
Total liabilities	<u>4,419,120</u>	<u>4,412,895</u>
Capital paid-in	Note 7 31,188	30,442
Surplus (including accumulated other comprehensive loss of \$3,779 and \$3,985 at September 30, 2017 and December 31, 2016, respectively)	Note 7 10,000	10,000
Total capital	<u>41,188</u>	<u>40,442</u>
Total liabilities and capital	<u>\$4,460,308</u>	<u>\$4,453,337</u>

UNAUDITED

Combined statements of operations					
(in millions)					
		Three months ended		Nine months ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest income					
Loans	Note 8(A)	\$ 1	\$ 1	\$ 1	\$ 1
System Open Market Account:	Note 8(B)				
Treasury securities, net		15,519	16,070	47,928	47,996
Government-sponsored enterprise debt securities, net		85	220	349	775
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,096	11,075	36,730	35,618
Foreign currency denominated investments, net		(5)	(4)	(11)	(3)
Central bank liquidity swaps		1	2	6	3
Investments held by consolidated variable interest entity	Note 3	4	1	10	5
Total interest income		<u>27,701</u>	<u>27,365</u>	<u>85,013</u>	<u>84,395</u>
Interest expense					
System Open Market Account:	Note 8(B)				
Securities sold under agreements to repurchase		1,005	279	2,442	753
Other		3	1	6	3
Deposits:					
Depository institutions and others	Note 8(C)	7,523	2,973	18,088	9,086
Term Deposit Facility		3	6	9	19
Total interest expense		<u>8,534</u>	<u>3,259</u>	<u>20,545</u>	<u>9,861</u>
Net interest income		<u>19,167</u>	<u>24,106</u>	<u>64,468</u>	<u>74,534</u>
Non-interest income					
System Open Market Account:					
Treasury securities gains, net		—	—	7	3
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net		(1)	1	9	19
Foreign currency translation gains, net		421	366	1,670	1,877
Other		7	10	19	20
Consolidated variable interest entity losses, net	Note 3	—	(3)	(5)	(20)
Income from services		108	109	331	327
Reimbursable services to government agencies		169	164	504	491
Other		17	15	50	48
Total non-interest income		<u>721</u>	<u>662</u>	<u>2,585</u>	<u>2,765</u>
Operating expenses					
	Note 8(D)				
Salaries and benefits		760	738	2,313	2,226
Occupancy		80	82	232	239
Equipment		44	43	130	127
Net periodic pension expense		98	159	377	395
Other		165	151	487	445
Assessments:					
Board of Governors operating expenses and currency costs		390	358	1,075	1,021
Bureau of Consumer Financial Protection		85	62	356	350
Total operating expenses		<u>1,622</u>	<u>1,593</u>	<u>4,970</u>	<u>4,803</u>
Net income before providing for remittances to the Treasury		18,266	23,175	62,083	72,496
Earnings remittances to the Treasury		<u>18,137</u>	<u>23,099</u>	<u>61,724</u>	<u>72,266</u>
Net income after providing for remittances to the Treasury		129	76	359	230
Change in prior service costs related to benefit plans		13	21	41	63
Change in actuarial gains related to benefit plans		48	54	165	157
Total other comprehensive income		<u>61</u>	<u>75</u>	<u>206</u>	<u>220</u>
Comprehensive income		<u>\$ 190</u>	<u>\$ 151</u>	<u>\$ 565</u>	<u>\$ 450</u>

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Combined statements of changes in capital

(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive (loss)	Total surplus	
Balance at January 1, 2016 (590,166,055 shares)	\$29,508	\$13,802	\$(3,802)	\$10,000	\$39,508
Net change in capital stock issued (18,682,206 shares)	934	—	—	—	934
Comprehensive income:					
Net income	—	894	—	894	894
Other comprehensive loss	—	—	(183)	(183)	(183)
Dividends on capital stock	—	(711)	—	(711)	(711)
Net change in capital	934	183	(183)	—	934
Balance at December 31, 2016 (608,848,261 shares)	\$30,442	\$13,985	\$(3,985)	\$10,000	\$40,442
Net change in capital stock issued (14,917,710 shares)	746	—	—	—	746
Comprehensive income:					
Net income	—	359	—	359	359
Other comprehensive income	—	—	206	206	206
Dividends on capital stock	—	(565)	—	(565)	(565)
Net change in capital	746	(206)	206	—	746
Balance at September 30, 2017 (623,765,971 shares)	<u>\$31,188</u>	<u>\$13,779</u>	<u>\$(3,779)</u>	<u>\$10,000</u>	<u>\$41,188</u>

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Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or nonpersonal time deposits and have established discount window borrowing privileges). The remaining maturity distribution of loans to depository institutions outstanding as of September 30, 2017, and December 31, 2016, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
September 30, 2017	\$148	\$48	\$196
December 31, 2016	58	5	63

At September 30, 2017, and December 31, 2016, the Reserve Banks did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the period ended September 30, 2017, and year ended December 31, 2016.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the Combined statements of condition. SOMA portfolio holdings at September 30, 2017, and December 31, 2016, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	September 30, 2017			December 31, 2016		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury Securities						
Notes	\$1,644,179	\$1,650,807	\$ 6,628	\$1,647,339	\$1,657,026	\$ 9,687
Bonds	915,659	1,000,386	84,727	920,083	983,680	63,597
Total Treasury securities	\$2,559,838	\$2,651,193	\$91,355	\$2,567,422	\$2,640,706	\$73,284
GSE debt securities	7,131	7,806	675	16,648	17,442	794
Federal agency and GSE MBS	1,821,363	1,823,575	2,212	1,795,003	1,787,484	(7,519)
Total domestic SOMA portfolio securities holdings	\$4,388,332	\$4,482,574	\$94,242	\$4,379,073	\$4,445,632	\$66,559
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ 10,933	\$ 10,922	\$ (11)	\$ 11,679	\$ 11,719	\$ 40
Purchases of federal agency and GSE MBS	27,676	27,626	(50)	35,787	35,974	187
Sales of federal agency and GSE MBS	—	—	—	—	—	—

UNAUDITED

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at September 30, 2017, and December 31, 2016:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	September 30, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 9,350	\$ 9,195	\$ 10,556	\$ 10,243
2.5%	113,480	112,197	121,326	118,641
3.0%	680,684	670,129	693,524	676,572
3.5%	617,854	620,225	561,271	560,510
4.0%	290,169	294,497	275,650	279,877
4.5%	71,942	76,717	86,351	92,111
5.0%	30,091	32,216	36,708	39,159
5.5%	6,732	7,247	8,298	8,939
6.0%	929	1,009	1,155	1,253
6.5%	132	143	164	179
Total	<u>\$1,821,363</u>	<u>\$1,823,575</u>	<u>\$1,795,003</u>	<u>\$1,787,484</u>

The Federal Reserve Bank of New York (FRBNY) may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds (primary dealer and expanded counterparties reverse repurchase agreements). Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Financial information related to reverse repurchase agreements at September 30, 2017, and December 31, 2016, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	September 30, 2017	December 31, 2016
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$316,090	\$468,355
Securities pledged (par value), end of period	291,537	443,799
Securities pledged (fair value), end of period	315,987	469,282
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$240,702	\$256,855
Securities pledged (par value), end of period	233,175	249,417
Securities pledged (fair value), end of period	240,656	256,897
Total contract amount outstanding, end of period	\$556,792	\$725,210

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at September 30, 2017, and December 31, 2016, was as follows:

Table 5. Maturity distribution of domestic SOMA portfolio securities and securities sold under agreements to repurchase
(in millions)

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
September 30, 2017:							
Treasury securities (par value)	\$ 10,947	\$27,613	\$342,383	\$1,125,924	\$325,388	\$ 633,163	\$2,465,418
GSE debt securities (par value)	—	2,366	1,982	62	—	2,347	6,757
Federal agency and GSE MBS (par value) ¹	—	—	1	119	17,244	1,750,796	1,768,160
Securities sold under agreements to repurchase (contract amount)	556,792	—	—	—	—	—	556,792
December 31, 2016:							
Treasury securities (par value)	\$ 14,807	\$41,249	\$150,766	\$1,224,348	\$399,277	\$ 633,169	\$2,463,616
GSE debt securities (par value)	—	2,851	8,938	2,044	—	2,347	16,180
Federal agency and GSE MBS (par value) ¹	—	—	—	77	10,584	1,730,730	1,741,391
Securities sold under agreements to repurchase (contract amount)	725,210	—	—	—	—	—	725,210

¹ The par amount shown for federal agency and GSE MBS is the remaining principal balance of the securities.

Federal agency and GSE MBS are reported at stated maturity in table 5 above. The estimated weighted-average life of these securities, which differs from the stated maturity in table 5 primarily because it factors in scheduled payments and prepayment assumptions, was approximately 6.7 years and 7.2 years as of September 30, 2017, and December 31, 2016, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the nine months ended September 30, 2017, and during the year ended December 31, 2016, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities					
(in millions)					
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2015	\$1,649,228	\$931,448	\$2,580,676	\$ 33,748	\$1,800,449
Purchases ¹	190,992	13,882	204,874	—	387,210
Sales ¹	(534)	(62)	(596)	—	(213)
Realized gains (losses), net ²	(22)	7	(15)	—	6
Principal payments and maturities	(187,843)	(16,597)	(204,440)	(16,764)	(379,065)
Amortization of premiums and accretion of discounts, net	(5,049)	(10,033)	(15,082)	(336)	(13,384)
Inflation adjustment on inflation-indexed securities	567	1,438	2,005	—	—
Balance December 31, 2016	\$1,647,339	\$920,083	\$2,567,422	\$ 16,648	\$1,795,003
Purchases ¹	136,821	13,918	150,739	—	250,967
Sales ¹	(125)	(97)	(222)	—	(161)
Realized gains (losses), net ²	(2)	9	7	—	3
Principal payments and maturities	(137,373)	(13,402)	(150,775)	(9,423)	(216,604)
Amortization of premiums and accretion of discounts, net	(2,912)	(5,993)	(8,905)	(94)	(7,845)
Inflation adjustment on inflation-indexed securities	431	1,141	1,572	—	—
Balance September 30, 2017	\$1,644,179	\$915,659	\$2,559,838	\$ 7,131	\$1,821,363
Year ended December 31, 2016					
Supplemental information—par value of transactions					
Purchases ³	\$ 191,231	\$ 13,868	\$ 205,099	\$ —	\$ 373,197
Sales	(555)	(45)	(600)	—	(203)
Nine months ended September 30, 2017					
Supplemental information—par value of transactions					
Purchases ³	\$ 137,180	\$ 14,025	\$ 151,205	\$ —	\$ 243,527
Sales	(125)	(75)	(200)	—	(154)
¹ Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis. ² Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount. ³ Includes inflation compensation.					

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at September 30, 2017, and December 31, 2016, was as follows:

Table 7. Foreign currency denominated investments (in millions)		
	September 30, 2017	December 31, 2016
Euro:		
Foreign currency deposits	\$ 6,184	\$ 4,205
French government debt instruments	3,339	3,892
German government debt instruments	1,687	1,884
Dutch government debt instruments	1,607	1,462
Japanese yen:		
Foreign currency deposits	6,489	4,668
Japanese government debt instruments	1,806	3,331
Total	<u>\$21,112</u>	<u>\$19,442</u>

The remaining maturity distribution of foreign currency denominated investments at September 30, 2017, and December 31, 2016, was as follows:

Table 8. Maturity distribution of foreign currency denominated investments (in millions)						
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
September 30, 2017:						
Euro	\$ 6,184	\$346	\$ 949	\$3,414	\$1,924	\$12,817
Japanese yen	6,669	98	253	1,275	—	8,295
Total	<u>\$12,853</u>	<u>\$444</u>	<u>\$1,202</u>	<u>\$4,689</u>	<u>\$1,924</u>	<u>\$21,112</u>
December 31, 2016:						
Euro	\$ 4,253	\$334	\$1,170	\$3,174	\$2,512	\$11,443
Japanese yen	4,840	342	1,341	1,476	—	7,999
Total	<u>\$ 9,093</u>	<u>\$676</u>	<u>\$2,511</u>	<u>\$4,650</u>	<u>\$2,512</u>	<u>\$19,442</u>

At September 30, 2017, and December 31, 2016, the fair value of foreign currency denominated investments held in the SOMA was \$21,145 million and \$19,510 million, respectively.

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. The Federal Open Market Committee (FOMC) authorized and directed the FRBNY to maintain standing U.S. dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. The FRBNY holds amounts outstanding under these swap lines in the SOMA. These swap lines, which were originally established as temporary arrangements, were converted to standing arrangements on October 31, 2013, and will remain in place until further notice.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Reserve Banks at September 30, 2017, and December 31, 2016, was as follows:

Table 9. Maturity distribution of liquidity swaps (in millions)		
	September 30, 2017 Within 15 days	December 31, 2016 Within 15 days
Euro	\$3,220	\$4,340
Japanese yen	400	1,223
Total	<u>\$3,620</u>	<u>\$5,563</u>

The following table presents the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the periods ended September 30, 2017, and September 30, 2016:

Table 10. Realized gains and change in unrealized gain position (in millions)				
	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Realized gains, net	Change in cumulative unrealized gains (losses) ¹	Realized gains, net	Change in cumulative unrealized gains (losses) ¹
Treasury securities ²	\$ 7	\$18,071	\$ 3	\$114,014
GSE debt securities ³	—	(119)	—	(189)
Federal agency and GSE MBS	9	9,731	19	37,786
Total	<u>\$16</u>	<u>\$27,683</u>	<u>\$22</u>	<u>\$151,611</u>

¹ Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses), net is not reported in the Combined statements of operations.

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

³ Realized gains for federal agency and GSE MBS are reported in "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Combined statements of operations.

(3) Consolidated Variable Interest Entity (VIE)

The combined financial statements include the accounts and results of operations of a limited liability company (LLC), Maiden Lane LLC (ML), which is consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation.

The classification of significant assets and liabilities of ML at September 30, 2017, and December 31, 2016, is summarized in the following table:

Table 11. Assets and liabilities of consolidated VIE		
(in millions)		
	September 30, 2017	December 31, 2016
Assets		
Short-term investments	\$1,646	\$1,618
Swap contracts	20	28
Other investments	23	17
Subtotal	\$1,689	\$1,663
Cash, cash equivalents, accrued interest receivable, and other receivables	44	79
Total investments held by consolidated VIE	\$1,733	\$1,742
Liabilities		
Swap contracts	\$ 20	\$ 32
Cash collateral on swap contracts	—	1
Total liabilities held by consolidated VIE	\$ 20	\$ 33

ML had net income of \$4 million and incurred net losses of \$16 million for the nine months ended September 30, 2017, and September 30, 2016, respectively.

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

(4) Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Reserve Banks' assets are eligible to be pledged as collateral. At September 30, 2017, and December 31, 2016, all Federal Reserve notes, net, were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits are primarily comprised of required reserve balances and excess reserve balances. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Excess reserves are those held by the depository institutions in excess of their required reserve balances.

(6) Treasury Deposits

The Treasury holds deposits at the Reserve Banks in a general account pursuant to the Reserve Banks' role as fiscal agent and depository of the United States.

(7) Capital and Surplus

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

The FRA requires each Reserve Bank to pay each member bank an annual dividend on paid in capital stock. By law member banks with more than \$10 billion of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to the smaller of 6 percent or the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Member banks with \$10 billion or less of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to 6 percent. The dividend is paid semiannually and is cumulative.

The FRA limits aggregate Reserve Bank surplus to \$10 billion.

(8) Income and Expense

(A) Loans

Interest income on primary, secondary, and seasonal credit is accrued using the applicable rate established at least every 14 days by the Reserve Banks' boards of directors, subject to review and determination by the Board of Governors. For the nine months ended September 30, 2017 and 2016, primary, secondary, and seasonal credit average daily balances were \$106 million and \$113 million, respectively, and average interest rates were 1.08 percent and 0.61 percent, respectively.

(B) SOMA Holdings

The amount reported as interest income on SOMA portfolio holdings includes the amortization of premiums and discounts. Supplemental information on interest income on SOMA portfolio holdings is as follows:

Table 12. Interest income on SOMA portfolio		
(in millions)		
	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest income:¹		
Treasury securities, net	\$ 47,928	\$ 47,996
GSE debt securities, net	349	775
Federal agency and GSE MBS, net	36,730	35,618
Foreign currency denominated investments, net ²	(11)	(3)
Central bank liquidity swaps	6	3
Total interest income	\$ 85,002	\$ 84,389
Average daily balance:		
Treasury securities, net ³	\$2,555,313	\$2,572,618
GSE debt securities, net ³	11,268	27,431
Federal agency and GSE MBS, net ⁴	1,821,518	1,803,642
Foreign currency denominated investments, net ⁵	20,518	20,836
Central bank liquidity swaps ⁶	598	453
Average interest rate:		
Treasury securities, net	2.50%	2.49%
GSE debt securities, net	4.13%	3.77%
Federal agency and GSE MBS, net	2.69%	2.63%
Foreign currency denominated investments, net	-0.07%	-0.02%
Central bank liquidity swaps	1.34%	0.88%
<p>¹ The Board of Governors approved, effective January 2017, accounting for Treasury securities, GSE debt securities, and foreign government debt instruments held in the SOMA using the effective interest method. Previously, the cost bases of these securities were adjusted for amortization of premiums or accretion of discounts on a straight-line basis. This change has been applied prospectively.</p> <p>² As a result of negative interest rates on certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$26 million and \$23 million for the nine months ended September 30, 2017 and 2016, respectively.</p> <p>³ Face value, net of unamortized premiums and discounts.</p> <p>⁴ Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities, net of premiums and discounts.</p> <p>⁵ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁶ Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.</p>		

Supplemental information on interest expense on securities sold under agreement to repurchase (reverse repurchase agreements) is as follows:

Table 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 953	\$ 146
Foreign official and international accounts ²	1,489	607
Total interest expense	\$ 2,442	\$ 753
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$161,874	\$ 77,021
Foreign official and international accounts ²	245,272	241,418
Average interest rate:		
Primary dealers and expanded counterparties ¹	0.78%	0.25%
Foreign official and international accounts ²	0.81%	0.34%
¹ Overnight and term reverse repurchase agreements arranged as open market operations are settled through a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. ² Reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.		

(C) Depository Institution Deposits

The Reserve Banks pay interest to depository institutions on qualifying balances held at the Reserve Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on a FOMC-established target range for the federal funds rate.

In May 2010, the Reserve Banks commenced the auction of term deposits to be offered through its Term Deposit Facility. The interest rate paid on these deposits is determined by auction.

(D) Operating Expenses

The Federal Reserve Banks have established procedures for budgetary control and monitoring of operating expenses as part of their efforts to ensure appropriate stewardship and accountability. Reserve Bank and Board governance bodies provide budget guidance for major functional areas for the upcoming budget year. The Board's Committee on Federal Reserve Bank Affairs (BAC) reviews the Banks' budgets and the BAC chair submits the budgets to Board members for review and final action. Throughout the year, Reserve Bank and Board staffs monitor actual performance and compare it with approved budgets and forecasts.

Additional information regarding Reserve Bank operating expenses is available each year in the Annual Report of the Board of Governors of the Federal Reserve System at www.federalreserve.gov/publications/annual-report.htm, and on the Audit webpage of the Board's public website at www.federalreserve.gov/regreform/audit.htm.

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1117

