



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited
March 31, 2018



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Errata

The Federal Reserve corrected this report on March 17, 2019, to reflect corrected data. The correction is listed below.

On p. 14, under “Loans,” the average interest rate for the three months ended March 31, 2018, has been revised from 0.48 percent to 1.94 percent.

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

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Abbreviations

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

Combined Quarterly Financial Statements

Combined statements of condition (in millions)			March 31, 2018	December 31, 2017
Assets				
Gold certificates			\$ 11,037	\$ 11,037
Special drawing rights certificates			5,200	5,200
Coin			1,838	1,892
Loans	Note 1		17	134
System Open Market Account:		Note 2		
Treasury securities, net (of which \$26,437 and \$28,053 is lent as of March 31, 2018, and December 31, 2017, respectively)			2,513,407	2,545,733
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of March 31, 2018, and December 31, 2017)			4,743	4,752
Federal agency and government-sponsored enterprise mortgage-backed securities, net			1,806,010	1,817,700
Foreign currency denominated investments, net			22,139	21,316
Central bank liquidity swaps			5,011	12,067
Accrued interest receivable			23,258	24,744
Other assets			3	13
Investments held by consolidated variable interest entity (of which \$1,722 and \$1,720 is measured at fair value as of March 31, 2018, and December 31, 2017, respectively)	Note 3		1,725	1,722
Prepaid pension benefit costs			32	14
Bank premises and equipment, net			2,556	2,571
Items in process of collection			98	81
Other assets			1,044	1,001
Total assets			<u>\$4,398,118</u>	<u>\$4,449,977</u>
Liabilities and capital				
Federal Reserve notes outstanding, net	Note 4		\$1,589,330	\$1,570,727
System Open Market Account:				
Securities sold under agreements to repurchase	Note 2		273,381	563,958
Other liabilities			365	558
Liabilities of consolidated variable interest entity (of which \$7 and \$8 is measured at fair value as of March 31, 2018, and December 31, 2017, respectively)			8	9
Deposits:				
Depository institutions	Note 5		2,107,065	1,954,431
Treasury, general account	Note 6		289,647	228,933
Other deposits			93,265	83,018
Interest payable to depository institutions and others			316	1,006
Accrued benefit costs			2,393	2,332
Deferred credit items			798	1,001
Accrued remittances to the Treasury			1,873	2,337
Other liabilities			510	278
Total liabilities			<u>4,358,951</u>	<u>4,408,588</u>
Capital paid-in	Note 7		31,667	31,389
Surplus (including accumulated other comprehensive loss of \$3,288 and \$3,334 at March 31, 2018, and December 31, 2017, respectively)	Note 7		7,500	10,000
Total capital			<u>39,167</u>	<u>41,389</u>
Total liabilities and capital			<u>\$4,398,118</u>	<u>\$4,449,977</u>

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Combined statements of operations			
(in millions)			
		Three months ended	
		March 31, 2018	March 31, 2017
Interest income			
Loans	Note 8(A)	\$ —	\$ —
System Open Market Account:	Note 8(B)		
Treasury securities, net		15,616	16,005
Government-sponsored enterprise debt securities, net		54	152
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,538	12,156
Foreign currency denominated investments, net		(6)	(2)
Central bank liquidity swaps		8	3
Investments held by consolidated variable interest entity	Note 3	6	3
Total interest income		<u>28,216</u>	<u>28,317</u>
Interest expense			
System Open Market Account:	Note 8(B)		
Securities sold under agreements to repurchase		914	589
Other		1	1
Deposits:			
Depository institutions and others	Note 8(C)	8,687	4,481
Term Deposit Facility		—	2
Total interest expense		<u>9,602</u>	<u>5,073</u>
Net interest income		<u>18,614</u>	<u>23,244</u>
Non-interest income			
System Open Market Account:			
Treasury securities gains, net		—	—
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net		—	(2)
Foreign currency translation gains, net		832	545
Other		10	5
Investments held by consolidated variable interest entity losses, net	Note 3	(2)	(5)
Income from services		112	111
Reimbursable services to government agencies		167	169
Other		16	16
Total non-interest income		<u>1,135</u>	<u>839</u>
Operating expenses	Note 8(D)		
Salaries and benefits		805	787
Occupancy		79	79
Equipment		44	42
Net periodic pension expense		134	133
Other		160	156
Assessments:			
Board of Governors operating expenses and currency costs		357	318
Bureau of Consumer Financial Protection		—	146
Total operating expenses		<u>1,579</u>	<u>1,661</u>
Net income before providing for remittances to the Treasury		18,170	22,422
Earnings remittances to the Treasury		20,509	22,287
Net income after providing for remittances to the Treasury		<u>(2,339)</u>	<u>135</u>
Change in prior service costs related to benefit plans		7	15
Change in actuarial gains related to benefit plans		39	58
Total other comprehensive income		<u>46</u>	<u>73</u>
Comprehensive income		<u>\$ (2,293)</u>	<u>\$ 208</u>

Combined statements of changes in capital

(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive (loss)	Total surplus	
Balance at December 31, 2016 (608,848,261 shares)	\$30,442	\$13,985	\$(3,985)	\$10,000	\$40,442
Net change in capital stock issued (18,923,950 shares)	947	—	—	—	947
Comprehensive income:					
Net income	—	133	—	133	133
Other comprehensive loss	—	—	651	651	651
Dividends on capital stock	—	(784)	—	(784)	(784)
Net change in capital	947	(651)	651	—	947
Balance at December 31, 2017 (627,772,211 shares)	\$31,389	\$13,334	\$(3,334)	\$10,000	\$41,389
Net change in capital stock issued (5,566,878 shares)	278	—	—	—	278
Comprehensive income:					
Net income	—	(2,339)	—	(2,339)	(2,339)
Other comprehensive income	—	—	46	46	46
Dividends on capital stock	—	(207)	—	(207)	(207)
Net change in capital	278	(2,546)	46	(2,500)	(2,222)
Balance at March 31, 2018 (633,339,089 shares)	\$31,667	\$10,788	\$(3,288)	\$ 7,500	\$39,167

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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 March 31, 2018, and December 31, 2017, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
March 31, 2018	\$ 17	\$—	\$ 17
December 31, 2017	133	1	134

At March 31, 2018, and December 31, 2017, the Reserve Banks did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the period ended March 31, 2018, and year ended December 31, 2017.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the Combined statements of condition. SOMA portfolio holdings at March 31, 2018, and December 31, 2017, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	March 31, 2018			December 31, 2017		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury Securities						
Notes	\$1,593,558	\$1,575,791	\$(17,767)	\$1,629,571	\$1,624,540	\$(5,031)
Bonds	919,849	979,931	60,082	916,162	1,008,468	92,306
Total Treasury securities	\$2,513,407	\$2,555,722	\$ 42,315	\$2,545,733	\$2,633,008	\$87,275
GSE debt securities	4,743	5,275	532	4,752	5,383	631
Federal agency and GSE MBS	1,806,010	1,762,701	(43,309)	1,817,700	1,809,918	(7,782)
Total domestic SOMA portfolio securities holdings	\$4,324,160	\$4,323,698	\$ (462)	\$4,368,185	\$4,448,309	\$80,124
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ 19,130	\$ 19,159	\$ 29	\$ 11,447	\$ 11,467	\$ 20
Purchases of federal agency and GSE MBS	12,979	13,015	36	19,257	19,285	28
Sales of federal agency and GSE MBS	—	—	—	—	—	—

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

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	March 31, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 8,607	\$ 8,243	\$ 8,968	\$ 8,739
2.5%	106,566	102,710	110,452	108,371
3.0%	661,937	634,876	674,138	660,939
3.5%	637,009	622,528	630,590	630,245
4.0%	293,145	290,735	289,819	291,868
4.5%	64,917	67,935	68,069	71,896
5.0%	26,924	28,351	28,352	30,048
5.5%	5,973	6,320	6,318	6,739
6.0%	815	876	870	939
6.5%	117	127	124	134
Total	<u>\$1,806,010</u>	<u>\$1,762,701</u>	<u>\$1,817,700</u>	<u>\$1,809,918</u>

The Federal Reserve Bank of New York (FRBNY) may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds (primary dealer and expanded counterparties reverse repurchase agreements). Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Financial information related to reverse repurchase agreements at March 31, 2018, and December 31, 2017, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	March 31, 2018	December 31, 2017
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$ 32,631	\$319,595
Securities pledged (par value), end of period	33,145	302,690
Securities pledged (fair value), end of period	32,678	320,048
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$240,750	\$244,363
Securities pledged (par value), end of period	237,544	240,660
Securities pledged (fair value), end of period	240,789	244,417
Total contract amount outstanding, end of period	\$273,381	\$563,958

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at March 31, 2018, and December 31, 2017, was as follows:

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

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
March 31, 2018:							
Treasury securities (par value)	\$ 31,430	\$ 89,052	\$320,818	\$1,065,907	\$291,266	\$ 626,479	\$2,424,952
GSE debt securities (par value)	—	1,982	62	—	—	2,347	4,391
Federal agency and GSE MBS (par value) ¹	—	—	1	66	36,139	1,718,162	1,754,368
Securities sold under agreements to repurchase (contract amount)	273,381	—	—	—	—	—	273,381
December 31, 2017:							
Treasury securities (par value)	\$ 20,601	\$107,658	\$315,420	\$1,077,270	\$310,375	\$ 622,884	\$2,454,208
GSE debt securities (par value)	—	—	1,982	62	—	2,347	4,391
Federal agency and GSE MBS (par value) ¹	—	—	1	173	20,013	1,744,742	1,764,929
Securities sold under agreements to repurchase (contract amount)	563,958	—	—	—	—	—	563,958

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

Federal agency and GSE MBS are reported at stated maturity in table 5 above. The estimated weighted-average life of these securities, which differs from the stated maturity in table 5 primarily because it factors in scheduled payments and prepayment assumptions, was approximately 7.8 years and 6.9 years as of March 31, 2018, and December 31, 2017, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the three months ended March 31, 2018, and during the year ended December 31, 2017, 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, 2016	\$1,647,339	\$920,083	\$2,567,422	\$ 16,648	\$1,795,003
Purchases ¹	161,378	15,849	177,227	—	324,524
Sales ¹	(124)	(326)	(450)	—	(331)
Realized gains (losses), net ²	(2)	30	28	—	2
Principal payments and maturities	(175,933)	(13,402)	(189,335)	(11,789)	(290,939)
Amortization of premiums and accretion of discounts, net	(3,796)	(7,917)	(11,713)	(107)	(10,559)
Inflation adjustment on inflation-indexed securities	709	1,845	2,554	—	—
Subtotal of activity ¹	(17,768)	(3,921)	(21,689)	(11,896)	22,697
Balance December 31, 2017	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases ¹	61,718	5,166	66,884	—	53,516
Sales ¹	—	—	—	—	—
Realized gains (losses), net ²	—	—	—	—	—
Principal payments and maturities	(97,059)	—	(97,059)	—	(62,893)
Amortization of premiums and accretion of discounts, net	(847)	(1,941)	(2,788)	(9)	(2,313)
Inflation adjustment on inflation-indexed securities	175	462	637	—	—
Subtotal of activity ¹	(36,013)	3,687	(32,326)	(9)	(11,690)
Balance March 31, 2018	<u>\$1,593,558</u>	<u>\$919,849</u>	<u>\$2,513,407</u>	<u>\$ 4,743</u>	<u>\$1,806,010</u>
Year ended December 31, 2017					
Supplemental information—par value of transactions					
Purchases ³	\$ 161,796	\$ 15,976	\$ 177,772	\$ —	\$ 314,797
Sales	(125)	(275)	(400)	—	(320)
Three months ended March 31, 2018					
Supplemental information—par value of transactions					
Purchases ³	\$ 61,922	\$ 5,243	\$ 67,165	\$ —	\$ 52,332
Sales	—	—	—	—	—
¹ Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales of Treasury securities and federal agency and GSE MBS are recorded on a settlement date basis; unsettled commitments related to those securities are excluded from the reported purchases and sales.					
² Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount.					
³ Includes inflation compensation.					

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at March 31, 2018, and December 31, 2017, was as follows:

Table 7. Foreign currency denominated investments (in millions)		
	March 31, 2018	December 31, 2017
Euro:		
Foreign currency deposits	\$ 6,444	\$ 6,070
French government debt instruments	2,088	3,089
German government debt instruments	3,152	2,239
Dutch government debt instruments	1,656	1,626
Japanese yen:		
Foreign currency deposits	7,245	6,765
Japanese government debt instruments	1,554	1,527
Total	<u>\$22,139</u>	<u>\$21,316</u>

The remaining maturity distribution of foreign currency denominated investments at March 31, 2018, and December 31, 2017, was as follows:

Table 8. Maturity distribution of foreign currency denominated investments (in millions)						
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
March 31, 2018:						
Euro	\$ 6,898	\$334	\$ 594	\$3,176	\$2,338	\$13,340
Japanese yen	7,245	113	258	1,183	—	8,799
Total	<u>\$14,143</u>	<u>\$447</u>	<u>\$ 852</u>	<u>\$4,359</u>	<u>\$2,338</u>	<u>\$22,139</u>
December 31, 2017:						
Euro	\$ 6,162	\$102	\$1,228	\$3,134	\$2,398	\$13,024
Japanese yen	6,765	62	263	1,202	—	8,292
Total	<u>\$12,927</u>	<u>\$164</u>	<u>\$1,491</u>	<u>\$4,336</u>	<u>\$2,398</u>	<u>\$21,316</u>

At March 31, 2018, and December 31, 2017, the fair value of foreign currency denominated investments held in the SOMA was \$22,163 million and \$21,348 million, respectively.

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

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Reserve Banks at March 31, 2018, and December 31, 2017, was as follows:

Table 9. Maturity distribution of liquidity swaps

(in millions)

	March 31, 2018 Within 15 days	December 31, 2017 Within 15 days
Euro	\$5,011	\$11,907
Japanese yen	—	160
Total	<u>\$5,011</u>	<u>\$12,067</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 March 31, 2018, and March 31, 2017:

Table 10. Realized gains and change in unrealized gain position

(in millions)

	Three months ended March 31, 2018		Three months ended March 31, 2017	
	Realized gains (losses), net	Change in cumulative unrealized gains (losses) ¹	Realized gains (losses), net	Change in cumulative unrealized gains (losses) ¹
Treasury securities ²	\$—	\$(44,960)	\$—	\$ 5,344
GSE debt securities	—	(99)	—	(55)
Federal agency and GSE MBS ³	—	(35,527)	(2)	(2,949)
Total	<u>\$—</u>	<u>\$(80,586)</u>	<u>\$ (2)</u>	<u>\$ 2,340</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 March 31, 2018, and December 31, 2017, is summarized in the following table:

Table 11. Assets and liabilities of consolidated VIE		
(in millions)		
	March 31, 2018	December 31, 2017
Assets		
Short-term investments	\$1,648	\$ 998
Swap contracts	7	5
Other investments	1	1
Subtotal	\$1,656	\$1,004
Cash, cash equivalents, accrued interest receivable, and other receivables	69	716
Cash collateral on swap contracts	—	2
Total investments held by consolidated VIE	\$1,725	\$1,722
Liabilities		
Swap contracts	\$ 6	\$ 8
Cash collateral on swap contracts	1	—
Other liabilities	1	1
Total liabilities held by consolidated VIE	\$ 8	\$ 9

ML had net income of \$4 million and incurred net losses of \$2 million for the three months ended March 31, 2018, and March 31, 2017, 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 March 31, 2018, and December 31, 2017, 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 Bipartisan Budget Act of 2018 (Budget Act), which was enacted on February 9, 2018, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Budget Act reduced the statutory limit on aggregate Reserve Bank surplus from \$10.0 billion to \$7.5 billion, which required the Reserve Banks to make a lump sum payment to the Treasury in the amount of \$2.5 billion. This lump sum payment is reported as a component of "Earnings remittances to the Treasury" in the Combined statements of operations.

(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 three months ended March 31, 2018 and 2017, primary, secondary, and seasonal credit average daily balances were \$32 million and \$15 million, respectively, and average interest rates were 1.94 percent and 1.16 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)		
	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest income:		
Treasury securities, net	\$ 15,616	\$ 16,005
GSE debt securities, net	54	152
Federal agency and GSE MBS, net	12,538	12,156
Foreign currency denominated investments, net ¹	(6)	(2)
Central bank liquidity swaps	8	3
Total interest income	\$ 28,210	\$ 28,314
Average daily balance:		
Treasury securities, net ²	\$2,525,384	\$2,558,156
GSE debt securities, net ³	4,748	15,187
Federal agency and GSE MBS, net ³	1,816,527	1,810,448
Foreign currency denominated investments, net ⁴	22,037	19,863
Central bank liquidity swaps ⁵	1,616	1,092
Average interest rate:		
Treasury securities, net	2.47%	2.50%
GSE debt securities, net	4.58%	4.00%
Federal agency and GSE MBS, net	2.76%	2.69%
Foreign currency denominated investments, net	-0.11%	-0.04%
Central bank liquidity swaps	1.92%	1.20%
<p>¹ As a result of negative interest rates on certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$10 million and \$7 million for the three months ended March 31, 2018 and 2017, respectively.</p> <p>² Face value, net of unamortized premiums and discounts.</p> <p>³ Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities, net of premiums and discounts.</p> <p>⁴ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁵ Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.</p>		

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

Table 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 101	\$ 246
Foreign official and international accounts ²	813	343
Total interest expense	\$ 914	\$ 589
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$ 31,858	\$175,224
Foreign official and international accounts ²	234,067	250,664
Average interest rate:		
Primary dealers and expanded counterparties ¹	1.27%	0.56%
Foreign official and international accounts ²	1.39%	0.55%
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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