



# Federal Reserve Banks Combined Quarterly Financial Report

Unaudited  
September 30, 2019





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# 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 .....	13
(7) Capital and Surplus .....	13
(8) Income and Expense .....	14



# Abbreviations

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



# Combined Quarterly Financial Statements

<b>Combined statements of condition</b>			
<b>(in millions)</b>			
		September 30, 2019	December 31, 2018
<b>Assets</b>			
Gold certificates		\$ 11,037	\$ 11,037
Special drawing rights certificates		5,200	5,200
Coin		1,707	1,726
Loans	Note 1	107	61
<b>System Open Market Account: Note 2</b>			
Securities purchased under agreements to resell		202,500	—
Treasury securities, net (of which \$40,317 and \$25,102 is lent as of September 30, 2019, and December 31, 2018, respectively)		2,186,858	2,302,462
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of September 30, 2019, and December 31, 2018)		2,663	2,741
Federal agency and government-sponsored enterprise mortgage-backed securities, net		1,507,782	1,683,532
Foreign currency denominated investments, net		20,432	20,906
Central bank liquidity swaps		973	4,207
Accrued interest receivable		19,675	22,236
Other assets		19	—
Bank premises and equipment, net		2,516	2,553
Items in process of collection		70	236
Other assets		964	983
<b>Total assets</b>		<b>\$3,962,503</b>	<b>\$4,057,880</b>
<b>Liabilities and capital</b>			
Federal Reserve notes outstanding, net	Note 4	\$1,714,316	\$1,671,437
<b>System Open Market Account:</b>			
Securities sold under agreements to repurchase	Note 2	313,368	304,012
Other liabilities		176	34
<b>Deposits:</b>			
Depository institutions	Note 5	1,427,255	1,555,954
Treasury, general account	Note 6	382,483	402,138
Other deposits		79,504	78,317
Interest payable to depository institutions and others		382	1,381
Accrued benefit costs		2,713	2,558
Deferred credit items		814	1,006
Accrued remittances to the Treasury		1,598	1,597
Other liabilities		581	286
<b>Total liabilities</b>		<b>3,923,190</b>	<b>4,018,720</b>
Capital paid-in	Note 7	32,488	32,335
Surplus (including accumulated other comprehensive loss of \$3,175 and \$3,292 at September 30, 2019, and December 31, 2018, respectively)	Note 7	6,825	6,825
<b>Total capital</b>		<b>39,313</b>	<b>39,160</b>
<b>Total liabilities and capital</b>		<b>\$3,962,503</b>	<b>\$4,057,880</b>

UNAUDITED

<b>Combined statements of operations</b>					
(in millions)					
		Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Interest income</b>					
Loans	Note 8(A)	\$ 1	\$ 1	\$ 1	\$ 2
<b>System Open Market Account: Note 8(B)</b>					
Securities purchased under agreements to resell		82	—	82	—
Treasury securities, net		14,392	15,645	43,920	47,752
Government-sponsored enterprise debt securities, net		34	35	103	140
Federal agency and government-sponsored enterprise mortgage-backed securities, net		10,290	12,118	33,606	37,060
Foreign currency denominated investments, net		(8)	(8)	(23)	(22)
Central bank liquidity swaps		0	1	3	11
Total interest income		<u>24,791</u>	<u>27,792</u>	<u>77,692</u>	<u>84,943</u>
<b>Interest expense</b>					
<b>System Open Market Account: Note 8(B)</b>					
Securities sold under agreements to repurchase		1,687	1,200	4,832	3,219
Other		1	1	1	4
<b>Deposits:</b>					
Depository institutions and others	Note 8(C)	8,493	9,886	28,251	28,059
Term Deposit Facility		1	1	2	2
Total interest expense		<u>10,182</u>	<u>11,088</u>	<u>33,086</u>	<u>31,284</u>
Net interest income		<u>14,609</u>	<u>16,704</u>	<u>44,606</u>	<u>53,659</u>
<b>Other items of income (loss)</b>					
<b>System Open Market Account:</b>					
Treasury securities gains, net		—	—	—	6
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		6	—	6	—
Foreign currency translation losses, net		(531)	(266)	(473)	(493)
Other		10	3	28	17
Income from investments held by consolidated variable interest entity, net	Note 3	—	6	—	8
Income from services		111	108	332	331
Reimbursable services to government agencies		176	177	519	512
Other components of net benefit costs		(5)	30	6	98
Other		18	19	54	52
Total other items of income (loss)		<u>(215)</u>	<u>77</u>	<u>472</u>	<u>531</u>
<b>Operating expenses Note 8(D)</b>					
Salaries and benefits		814	787	2,450	2,367
Occupancy		86	84	251	246
Equipment		47	46	142	138
Pension service cost		147	176	425	517
Other		190	185	529	525
<b>Assessments:</b>					
Board of Governors operating expenses and currency costs		438	453	1,167	1,186
Bureau of Consumer Financial Protection		52	65	295	164
Total operating expenses		<u>1,774</u>	<u>1,796</u>	<u>5,259</u>	<u>5,143</u>
Net income before providing for remittances to the Treasury		12,620	14,985	39,819	49,047
Earnings remittances to the Treasury		<u>12,477</u>	<u>14,795</u>	<u>39,374</u>	<u>51,625</u>
Net income (loss) after providing for remittances to the Treasury		<u>143</u>	<u>190</u>	<u>445</u>	<u>(2,578)</u>
Change in prior service costs related to benefit plans		(6)	8	(17)	23
Change in actuarial gains related to benefit plans		50	55	134	132
Total other comprehensive income		<u>44</u>	<u>63</u>	<u>117</u>	<u>155</u>
<b>Comprehensive income (loss)</b>		<u>\$ 187</u>	<u>\$ 253</u>	<u>\$ 562</u>	<u>\$ (2,423)</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 income (loss)	Total surplus	
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 (18,931,796 shares)	946	—	—	—	946
Comprehensive income:					
Net loss	—	(2,218)	—	(2,218)	(2,218)
Other comprehensive income	—	—	42	42	42
Dividends on capital stock	—	(999)	—	(999)	(999)
Net change in capital	946	(3,217)	42	(3,175)	(2,229)
Balance at December 31, 2018 (646,704,007 shares)	\$32,335	\$10,117	\$(3,292)	\$ 6,825	\$39,160
Net change in capital stock issued (3,053,461 shares)	153	—	—	—	153
Comprehensive income:					
Net income	—	445	—	445	445
Other comprehensive income	—	—	117	117	117
Dividends on capital stock	—	(562)	—	(562)	(562)
Net change in capital	153	(117)	117	—	153
<b>Balance at September 30, 2019</b> <b>(649,757,468 shares)</b>	<b><u>\$32,488</u></b>	<b><u>\$10,000</u></b>	<b><u>\$(3,175)</u></b>	<b><u>\$ 6,825</u></b>	<b><u>\$39,313</u></b>

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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, 2019, and December 31, 2018, was as follows:

**Table 1. Loans to depository institutions**  
(in millions)

	Within 15 days	16 days to 90 days	Total
September 30, 2019	\$103	\$ 4	\$107
December 31, 2018	61	—	61

At September 30, 2019, and December 31, 2018, 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, 2019, and year ended December 31, 2018.

## (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, 2019, and December 31, 2018, were as follows:

**Table 2. Domestic SOMA portfolio holdings**  
(in millions)

	September 30, 2019			December 31, 2018		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
<b>Treasury Securities</b>						
Bills	\$ 5,956	\$ 5,958	\$ 2	\$ —	\$ —	\$ —
Notes	1,258,847	1,275,655	16,808	1,383,929	1,370,515	(13,414)
Bonds	922,055	1,084,844	162,789	918,533	967,479	48,946
<b>Total Treasury securities</b>	<b>\$2,186,858</b>	<b>\$2,366,457</b>	<b>\$179,599</b>	<b>\$2,302,462</b>	<b>\$2,337,994</b>	<b>\$ 35,532</b>
GSE debt securities	2,663	3,432	769	2,741	3,222	481
Federal agency and GSE MBS	1,507,782	1,528,052	20,270	1,683,532	1,641,381	(42,151)
<b>Total domestic SOMA portfolio securities holdings</b>	<b>\$3,697,303</b>	<b>\$3,897,941</b>	<b>\$200,638</b>	<b>\$3,988,735</b>	<b>\$3,982,597</b>	<b>\$ (6,138)</b>
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ 2,476	\$ 2,477	\$ 1	\$ —	\$ —	\$ —
Purchases of federal agency and GSE MBS	6,316	6,324	8	294	296	2
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 September 30, 2019, and December 31, 2018:

<b>Table 3. Detail of federal agency and GSE MBS holdings</b> (in millions)				
Distribution of MBS holdings by coupon rate	September 30, 2019		December 31, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 6,515	\$ 6,469	\$ 7,532	\$ 7,296
2.5%	80,551	79,954	92,877	89,530
3.0%	547,295	548,946	601,805	577,317
3.5%	525,935	533,689	585,114	571,406
4.0%	261,138	266,587	297,546	294,038
4.5%	60,698	64,598	69,474	71,559
5.0%	20,489	22,169	23,296	24,128
5.5%	4,471	4,879	5,097	5,277
6.0%	603	665	691	722
6.5%	87	96	100	108
<b>Total</b>	<b><u>\$1,507,782</u></b>	<b><u>\$1,528,052</u></b>	<b><u>\$1,683,532</u></b>	<b><u>\$1,641,381</u></b>

The Federal Reserve Bank of New York (FRBNY) may engage in purchases of securities under agreements to resell (repurchase agreements) with primary dealers. At September 30, 2019, and December 31, 2018, the contract amount outstanding of repurchase agreements was \$202,500 million and \$0 million, respectively.

The FRBNY may also 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, 2019, and December 31, 2018, was as follows:

<b>Table 4. Reverse Repurchase Agreements</b> (in millions)		
	September 30, 2019	December 31, 2018
<b>Primary dealers and expanded counterparties:</b>		
Contract amount outstanding, end of period	\$ 7,057	\$ 41,848
Securities pledged (par value), end of period	6,689	42,485
Securities pledged (fair value), end of period	7,062	41,919
<b>Foreign official and international accounts:</b>		
Contract amount outstanding, end of period	\$306,311	\$262,164
Securities pledged (par value), end of period	289,589	261,615
Securities pledged (fair value), end of period	306,400	262,184
<b>Total contract amount outstanding, end of period</b>	<b>\$313,368</b>	<b>\$304,012</b>

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, repurchase agreements, and reverse repurchase agreements at September 30, 2019, and December 31, 2018, was as follows:

**Table 5. Maturity distribution of domestic SOMA portfolio securities, securities purchased under agreements to resell, 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
<b>September 30, 2019:</b>							
Treasury securities (par value)	\$ 128	\$66,540	\$278,096	\$848,539	\$298,715	\$ 621,311	\$2,113,329
GSE debt securities (par value)	—	—	—	—	486	1,861	2,347
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	7	642	75,948	1,390,662	1,467,259
Securities purchased under agreements to resell (contract amount)	202,500	—	—	—	—	—	202,500
Securities sold under agreements to repurchase (contract amount)	313,368	—	—	—	—	—	313,368
<b>December 31, 2018:</b>							
Treasury securities (par value)	\$ 2,092	\$92,622	\$290,222	\$958,065	\$260,898	\$ 618,648	\$2,222,547
GSE debt securities (par value)	—	62	—	—	—	2,347	2,409
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	4	214	62,706	1,574,199	1,637,123
Securities purchased under agreements to resell (contract amount)	—	—	—	—	—	—	—
Securities sold under agreements to repurchase (contract amount)	304,012	—	—	—	—	—	304,012
<sup>1</sup> 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 5.1 years and 7.0 years as of September 30, 2019, and December 31, 2018, 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, 2019, and during the year ended December 31, 2018, is summarized as follows:

<b>Table 6. Domestic portfolio transactions of SOMA securities</b> (in millions)						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
<b>Balance December 31, 2017</b>	\$ —	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases <sup>1</sup>	126	192,346	15,560	208,032	—	121,190
Sales <sup>1</sup>	(47)	(49)	(65)	(161)	—	(253)
Realized gains (losses), net <sup>2</sup>	—	(1)	6	5	—	(5)
Principal payments and maturities	(79)	(453,970)	(7,731)	(443,780)	(1,982)	(246,316)
Amortization of premiums and accretion of discounts, net	—	(2,929)	(7,781)	(10,710)	(29)	(8,784)
Inflation adjustment on inflation-indexed securities	—	961	2,382	3,343	—	—
Subtotal of activity <sup>1</sup>	—	(245,642)	2,371	243,271	(2,011)	(134,168)
<b>Balance December 31, 2018</b>	<b>\$ —</b>	<b>\$1,383,929</b>	<b>\$918,533</b>	<b>\$2,302,462</b>	<b>\$ 2,741</b>	<b>\$1,683,532</b>
Purchases <sup>1</sup>	6,101	165,588	28,489	200,178	—	10,515
Sales <sup>1</sup>	(50)	—	—	(50)	—	(146)
Realized gains (losses), net <sup>2</sup>	—	—	—	—	—	3
Principal payments and maturities	(105)	(289,853)	(20,755)	(310,713)	(62)	(180,030)
Amortization of premiums and accretion of discounts, net	10	(1,413)	(5,632)	(7,035)	(16)	(6,092)
Inflation adjustment on inflation-indexed securities	—	596	1,420	2,016	—	—
Subtotal of activity <sup>1</sup>	5,956	(125,082)	3,522	(115,604)	(78)	(175,750)
<b>Balance September 30, 2019</b>	<b><u>\$5,956</u></b>	<b><u>\$1,258,847</u></b>	<b><u>\$922,055</u></b>	<b><u>\$2,186,858</u></b>	<b><u>\$ 2,663</u></b>	<b><u>\$1,507,782</u></b>
Year ended December 31, 2018						
<b>Supplemental information—par value of transactions</b>						
Purchases <sup>3</sup>	\$ 126	\$ 193,093	\$ 15,713	\$ 208,932	\$ —	\$ 118,762
Sales <sup>3</sup>	(47)	(51)	(59)	(157)	—	(251)
Nine months ended September 30, 2019						
<b>Supplemental information—par value of transactions</b>						
Purchases <sup>3</sup>	\$6,157	\$ 165,563	\$ 27,809	\$ 199,529	\$ —	\$ 10,306
Sales	(50)	—	—	(50)	—	(140)
<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. Purchases and sales exclude MBS transactions that are settled on a net basis. <sup>2</sup> Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount. <sup>3</sup> 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, 2019, and December 31, 2018, was as follows:

<b>Table 7. Foreign currency denominated investments</b> (in millions)		
	September 30, 2019	December 31, 2018
<b>Euro:</b>		
Foreign currency deposits	\$ 6,456	\$ 6,390
French government debt instruments	2,678	3,045
Dutch government debt instruments	1,411	1,511
German government debt instruments	1,241	1,440
<b>Japanese yen:</b>		
Foreign currency deposits	7,598	7,286
Japanese government debt instruments	1,048	1,234
<b>Total</b>	<b><u>\$20,432</u></b>	<b><u>\$20,906</u></b>

The remaining maturity distribution of foreign currency denominated investments at September 30, 2019, and December 31, 2018, was as follows:

<b>Table 8. Maturity distribution of foreign currency denominated investments</b> (in millions)						
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
<b>September 30, 2019:</b>						
Euro	\$ 6,386	\$307	\$272	\$2,782	\$2,039	\$11,786
Japanese yen	7,598	194	490	364	—	8,646
<b>Total</b>	<b><u>\$13,984</u></b>	<b><u>\$501</u></b>	<b><u>\$762</u></b>	<b><u>\$3,146</u></b>	<b><u>\$2,039</u></b>	<b><u>\$20,432</u></b>
<b>December 31, 2018:</b>						
Euro	\$ 6,425	\$ 81	\$448	\$2,792	\$2,640	\$12,386
Japanese yen	7,286	90	301	843	—	8,520
<b>Total</b>	<b><u>\$13,711</u></b>	<b><u>\$171</u></b>	<b><u>\$749</u></b>	<b><u>\$3,635</u></b>	<b><u>\$2,640</u></b>	<b><u>\$20,906</u></b>

At September 30, 2019, and December 31, 2018, the fair value of foreign currency denominated investments held in the SOMA was \$20,614 million and \$20,957 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, 2019, and December 31, 2018, was as follows:

<b>Table 9. Maturity distribution of liquidity swaps</b> (in millions)		
	September 30, 2019 Within 15 days	December 31, 2018 Within 15 days
Euro	\$973	\$4,197
Japanese yen	—	10
<b>Total</b>	<b>\$973</b>	<b>\$4,207</b>

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, 2019, and September 30, 2018:

<b>Table 10. Realized gains and change in unrealized gain (loss) position</b> (in millions)				
	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Realized gains, net	Change in cumulative unrealized gains (losses) <sup>1</sup>	Realized gains, net	Change in cumulative unrealized gains (losses) <sup>1</sup>
Treasury securities <sup>2</sup>	\$ —	\$144,067	\$ 6	\$ (87,975)
GSE debt securities	—	288	—	(204)
Federal agency and GSE MBS <sup>3</sup>	6	62,421	—	(58,398)
<b>Total</b>	<b>\$ 6</b>	<b>\$206,776</b>	<b>\$ 6</b>	<b>\$(146,577)</b>

<sup>1</sup> Because SOMA securities are recorded at amortized cost, unrealized gains (losses) are not reported in the Combined statements of operations. Change in cumulative unrealized gains (losses) is calculated from December 31 of the previous year.

<sup>2</sup> Realized gains for Treasury securities are reported in "Other items of income (loss): System Open Market Account: Treasury securities gains, net" in the Combined statements of operations.

<sup>3</sup> Realized gains 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, 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. During 2018, the FRBNY sold all remaining securities from the ML portfolio, and in accordance with the ML agreements, net proceeds were distributed to the FRBNY. On November 1, 2018, ML LLC was dissolved. While its affairs are being wound up, ML LLC will retain minimal cash to meet trailing expenses and other obligations as required by law. The costs to wind up ML LLC are not expected to be material.

At September 30, 2019, and December 31, 2018, investments held by the consolidated VIE consisted primarily of \$0.4 million in cash equivalents.

ML had immaterial net income for the nine months ended September 30, 2019, and net income of \$7 million for the nine months ended September 30, 2018.

### (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, 2019, and December 31, 2018, all Federal Reserve notes, net, were fully collateralized.

### (5) Depository Institution Deposits

Depository institution deposits primarily represent 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.

In 2018, the Bipartisan Budget Act of 2018 and the Economic Growth, Regulatory Relief, and Consumer Protection Act reduced the statutory limit on aggregate Reserve Bank surplus from \$10.0 billion to \$6.825 billion, which required Reserve Banks to make two lump sum payments to the Treasury totaling \$3.125 billion. These lump sum payments were reported as a component of “Earnings remittances to the Treasury” in the Combined statements of operations for the nine months ended September 30, 2018. The FRA currently limits aggregate Reserve Bank surplus to \$6.825 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, 2019 and 2018, primary, secondary, and seasonal credit average daily balances were \$63 million and \$130 million, respectively, and average interest rates were 2.43 percent and 2.05 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:

<b>Table 11. Interest income on SOMA portfolio</b>		
<b>(in millions)</b>		
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
<b>Interest income:</b>		
Securities purchased under agreements to resell	\$ 82	\$ —
Treasury securities, net	43,920	47,752
GSE debt securities, net	103	140
Federal agency and GSE MBS, net	33,606	37,060
Foreign currency denominated investments, net <sup>1</sup>	(23)	(22)
Central bank liquidity swaps	3	11
<b>Total interest income</b>	<b>\$ 77,691</b>	<b>\$ 84,941</b>
<b>Average daily balance:</b>		
Securities purchased under agreements to resell	\$ 5,611	\$ —
Treasury securities, net <sup>2</sup>	2,215,105	2,474,440
GSE debt securities, net <sup>2</sup>	2,690	3,940
Federal agency and GSE MBS, net <sup>3</sup>	1,606,755	1,788,525
Foreign currency denominated investments, net <sup>4</sup>	20,785	21,543
Central bank liquidity swaps <sup>5</sup>	166	694
<b>Average interest rate:</b>		
Securities purchased under agreements to resell	1.94%	—%
Treasury securities, net	2.64%	2.57%
GSE debt securities, net	5.10%	4.74%
Federal agency and GSE MBS, net	2.79%	2.76%
Foreign currency denominated investments, net	-0.15%	-0.14%
Central bank liquidity swaps	2.82%	2.02%
<p><sup>1</sup> 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 \$32 million for the nine months ended September 30, 2019 and 2018.</p> <p><sup>2</sup> Face value, net of unamortized premiums and discounts.</p> <p><sup>3</sup> 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><sup>4</sup> Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p><sup>5</sup> 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:

<b>Table 12. Interest expense on securities sold under agreement to repurchase</b> (in millions)		
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
<b>Interest expense:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	\$ 81	\$ 161
Foreign official and international accounts <sup>2</sup>	4,751	3,058
<b>Total interest expense</b>	<b>\$ 4,832</b>	<b>\$ 3,219</b>
<b>Average daily balance:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	\$ 4,937	\$ 15,223
Foreign official and international accounts <sup>2</sup>	266,349	239,115
<b>Average interest rate:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	2.20%	1.41%
Foreign official and international accounts <sup>2</sup>	2.38%	1.71%
<sup>1</sup> 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.		
<sup>2</sup> 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.

The Reserve Banks also offer term deposits through the Term Deposit Facility, and all depository institutions that are eligible to receive interest on their balances at the Reserve Banks may participate in the term deposit program. 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.

Certain amounts relating to the prior year have been reclassified in the Combined statements of operations to conform to the current year presentation. In accordance with Financial Accounting Standards Board Accounting Standards Update 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, \$39 million previously reported as "Operating expenses: Salaries and benefits" for the nine months ended September 30, 2018 and (\$137) million previously reported as "Operating expenses: Net periodic pension expense" for the nine months ended September 30, 2018, have been reclassified as "Other items of income (loss): Other components of net benefit costs." In addition, the description of the line item "Operating expenses: Net periodic

pension expense” has been revised to “Operating expenses: Pension service cost” in 2019 to better reflect the nature of the item.

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 <https://www.federalreserve.gov/publications/annual-report.htm>, and on the Audit webpage of the Board’s public website at <https://www.federalreserve.gov/regreform/audit.htm>.

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1119

