



# Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2016

Board of Governors of the Federal Reserve System





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# 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

<b>Combined statements of condition</b> (in millions)			September 30, 2016	December 31, 2015
<b>Assets</b>				
Gold certificates			\$ 11,037	\$ 11,037
Special drawing rights certificates			5,200	5,200
Coin			1,933	1,890
Loans	Note 1		198	115
<b>System Open Market Account:</b>		<b>Note 2</b>		
Treasury securities, net (of which \$28,871 and \$18,960 is lent as of September 30, 2016, and December 31, 2015, respectively)			2,570,989	2,580,676
Government-sponsored enterprise debt securities, net (of which \$34 and \$146 is lent as of September 30, 2016, and December 31, 2015, respectively)			21,018	33,748
Federal agency and government-sponsored enterprise mortgage-backed securities, net			1,790,336	1,800,449
Foreign currency denominated investments, net			21,445	19,567
Central bank liquidity swaps			7,003	997
Accrued interest receivable			23,618	25,418
Other assets			2	14
Investments held by consolidated variable interest entities (of which \$1,738 and \$1,778 is measured at fair value as of September 30, 2016, and December 31, 2015, respectively)	Note 3		1,738	1,778
Bank premises and equipment, net			2,559	2,603
Items in process of collection			63	210
Other assets			992	1,063
<b>Total assets</b>			<b><u>\$4,458,131</u></b>	<b><u>\$4,484,765</u></b>
<b>Liabilities and capital</b>				
Federal Reserve notes outstanding, net	Note 4		\$1,424,137	\$1,379,551
<b>System Open Market Account:</b>				
Securities sold under agreements to repurchase	Note 2		665,045	712,401
Other liabilities			1,095	508
Liabilities of consolidated variable interest entities (of which \$24 and \$21 is measured at fair value as of September 30, 2016, and December 31, 2015, respectively)			33	57
<b>Deposits:</b>				
Depository institutions	Note 5		1,923,023	1,977,166
Treasury, general account	Note 6		353,312	333,447
Other deposits			45,265	36,532
Interest payable to depository institutions			56	252
Accrued benefit costs			2,718	2,892
Deferred credit items			798	246
Accrued remittances to the Treasury			1,976	1,953
Other liabilities			497	252
<b>Total liabilities</b>			<b><u>4,417,955</u></b>	<b><u>4,445,257</u></b>
Capital paid-in	Note 7		30,176	29,508
Surplus (including accumulated other comprehensive loss of \$3,582 and \$3,802 at September 30, 2016 and December 31, 2015, respectively)	Note 7		10,000	10,000
<b>Total capital</b>			<b><u>40,176</u></b>	<b><u>39,508</u></b>
<b>Total liabilities and capital</b>			<b><u>\$4,458,131</u></b>	<b><u>\$4,484,765</u></b>

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<b>Combined statements of income and comprehensive income</b>					
(in millions)					
		Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Interest income</b>					
Loans	Note 8(A)	\$ 1	\$ —	\$ 1	\$ —
<b>System Open Market Account:</b>	<b>Note 8(B)</b>				
Treasury securities, net		16,070	16,837	47,996	47,899
Government-sponsored enterprise debt securities, net		220	329	775	1,013
Federal agency and government-sponsored enterprise mortgage-backed securities, net		11,075	12,244	35,618	36,282
Foreign currency denominated investments, net		(4)	7	(3)	26
Central bank liquidity swaps		2	—	3	1
Investments held by consolidated variable interest entities	Note 3	1	3	5	9
Total interest income		<u>27,365</u>	<u>29,420</u>	<u>84,395</u>	<u>85,230</u>
<b>Interest expense</b>					
<b>System Open Market Account:</b>	<b>Note 8(B)</b>				
Securities sold under agreements to repurchase		279	58	753	154
Other		1	—	3	1
<b>Deposits:</b>					
Depository institutions	Note 8(C)	2,973	1,674	9,086	4,959
Term Deposit Facility		6	10	19	87
Total interest expense		<u>3,259</u>	<u>1,742</u>	<u>9,861</u>	<u>5,201</u>
Net interest income		<u>24,106</u>	<u>27,678</u>	<u>74,534</u>	<u>80,029</u>
<b>Non-interest income</b>					
<b>System Open Market Account:</b>					
Treasury securities gains, net		—	—	3	—
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		1	—	19	46
Foreign currency translation gains (losses), net		366	155	1,877	(1,021)
Other		10	4	20	12
Consolidated variable interest entities (losses) gains, net	Note 3	(3)	11	(20)	23
Income from services		109	107	327	322
Reimbursable services to government agencies		164	161	491	472
Other		15	17	48	46
Total non-interest income (loss)		<u>662</u>	<u>455</u>	<u>2,765</u>	<u>(100)</u>
<b>Operating expenses</b>					
	<b>Note 8(D)</b>				
Salaries and benefits		738	708	2,226	2,122
Occupancy		82	82	239	238
Equipment		43	44	127	131
Net periodic pension expense		159	182	395	395
Other		151	140	445	419
<b>Assessments:</b>					
Board of Governors operating expenses and currency costs		358	368	1,021	993
Bureau of Consumer Financial Protection		62	85	350	275
Total operating expenses		<u>1,593</u>	<u>1,609</u>	<u>4,803</u>	<u>4,573</u>
Net income before providing for remittances to the Treasury		23,175	26,524	72,496	75,356
Earnings remittances to the Treasury					
Interest on Federal Reserve notes		—	26,041	—	73,575
Required by the Federal Reserve Act		23,099	—	72,266	—
Total earnings remittances to the Treasury		<u>23,099</u>	<u>26,041</u>	<u>72,266</u>	<u>73,575</u>
Net income after providing for remittances to the Treasury		76	483	230	1,781
Change in prior service costs related to benefit plans		21	22	63	62
Change in actuarial gains related to benefit plans		54	80	157	168
Total other comprehensive income		<u>75</u>	<u>102</u>	<u>220</u>	<u>230</u>
Comprehensive income		<u>\$ 151</u>	<u>\$ 585</u>	<u>\$ 450</u>	<u>\$ 2,011</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, 2015 (571,435,966 shares)	\$28,572	\$ 32,740	\$(4,168)	\$ 28,572	\$ 57,144
Net change in capital stock issued (18,730,089 shares)	936	—	—	—	936
Comprehensive income:					
Net (loss)	—	(17,195)	—	(17,195)	(17,195)
Other comprehensive income	—	—	366	366	366
Dividends on capital stock	—	(1,743)	—	(1,743)	(1,743)
Net change in capital	936	(18,938)	366	(18,572)	(17,636)
Balance at December 31, 2015 (590,166,055 shares)	\$29,508	\$ 13,802	\$(3,802)	\$ 10,000	\$ 39,508
Net change in capital stock issued (13,360,065 shares)	668	—	—	—	668
Comprehensive income:					
Net income	—	230	—	230	230
Other comprehensive income	—	—	220	220	220
Dividends on capital stock	—	(450)	—	(450)	(450)
Net change in capital	668	(220)	220	—	668
<b>Balance at September 30, 2016 (603,526,120 shares)</b>	<b>\$30,176</b>	<b>\$ 13,582</b>	<b>\$(3,582)</b>	<b>\$ 10,000</b>	<b>\$ 40,176</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, 2016, and December 31, 2015, was as follows:

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

	Within 15 days	16 to 90 days	Total
September 30, 2016	\$126	\$ 72	\$198
December 31, 2015	\$104	\$ 11	\$115

At September 30, 2016, and December 31, 2015, 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, 2016, and year ended December 31, 2015.

## (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, 2016, and December 31, 2015, were as follows:

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

	September 30, 2016			December 31, 2015		
	Amortized cost	Fair value	Cumulative unrealized gains	Amortized cost	Fair value	Cumulative unrealized gains
<b>Treasury Securities</b>						
Notes	\$1,643,807	\$1,687,011	\$ 43,204	\$1,649,228	\$1,669,395	\$ 20,167
Bonds	927,182	1,093,225	166,043	931,448	1,006,514	75,066
<b>Total Treasury securities</b>	<b>\$2,570,989</b>	<b>\$2,780,236</b>	<b>\$209,247</b>	<b>\$2,580,676</b>	<b>\$2,675,909</b>	<b>\$ 95,233</b>
GSE debt securities	21,018	22,246	1,228	33,748	35,165	1,417
Federal agency and GSE MBS	1,790,336	1,837,929	47,593	1,800,449	1,810,256	9,807
<b>Total domestic SOMA portfolio securities holdings</b>	<b>\$4,382,343</b>	<b>\$4,640,411</b>	<b>\$258,068</b>	<b>\$4,414,873</b>	<b>\$4,521,330</b>	<b>\$106,457</b>
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Purchases of federal agency and GSE MBS	40,978	41,085	107	22,187	22,170	(17)
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, 2016, and December 31, 2015:

<b>Table 3. Detail of federal agency and GSE MBS holdings</b> (in millions)				
Distribution of MBS holdings by coupon rate	September 30, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 9,947	\$ 10,045	\$ 11,198	\$ 10,993
2.5%	117,879	119,265	116,527	115,018
3.0%	631,405	640,403	554,430	543,270
3.5%	584,691	599,035	579,403	581,940
4.0%	302,321	312,666	361,149	368,576
4.5%	94,044	102,119	115,914	124,043
5.0%	39,688	43,077	48,931	52,523
5.5%	8,947	9,764	11,138	11,989
6.0%	1,239	1,360	1,542	1,666
6.5%	175	195	217	238
<b>Total</b>	<b><u>\$1,790,336</u></b>	<b><u>\$1,837,929</u></b>	<b><u>\$1,800,449</u></b>	<b><u>\$1,810,256</u></b>

The Federal Reserve Bank of New York (FRBNY) may engage in sales of securities under agreements to repurchase 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 transactions may also be executed with foreign official and international account holders as part of a service offering. Financial information related to securities sold under agreements to repurchase at September 30, 2016, and December 31, 2015, was as follows:

<b>Table 4. Reverse Repurchase Agreements</b> (in millions)		
	September 30, 2016	December 31, 2015
<b>Primary dealers and expanded counterparties:</b>		
Contract amount outstanding, end of period	\$412,523	\$474,592
Securities pledged (par value), end of period	374,479	437,961
Securities pledged (fair value), end of period	411,728	475,422
<b>Foreign official and international accounts:</b>		
Contract amount outstanding, end of period	\$252,522	\$237,809
Securities pledged (par value), end of period	239,401	230,333
Securities pledged (fair value), end of period	252,540	237,825
<b>Total contract amount outstanding, end of period</b>	<b>\$665,045</b>	<b>\$712,401</b>

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase at September 30, 2016, and December 31, 2015, 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
<b>September 30, 2016:</b>							
Treasury securities (par value)	\$ —	\$30,639	\$161,684	\$1,202,709	\$433,450	\$ 634,974	\$2,463,456
GSE debt securities (par value)	—	4,312	9,423	4,410	—	2,347	20,492
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	—	1,358	11,268	1,724,251	1,736,877
Securities sold under agreements to repurchase (contract amount)	665,045	—	—	—	—	—	665,045
<b>December 31, 2015:</b>							
Treasury securities (par value)	\$ —	\$38,619	\$177,496	\$1,118,349	\$489,226	\$ 637,862	\$2,461,552
GSE debt securities (par value)	—	3,687	13,077	13,833	—	2,347	32,944
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	—	467	9,014	1,737,980	1,747,461
Securities sold under agreements to repurchase (contract amount)	712,401	—	—	—	—	—	712,401

<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 remaining 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 4.6 years and 6.5 years as of September 30, 2016, and December 31, 2015, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the nine months ended September 30, 2016, and during the year ended December 31, 2015, is summarized as follows:

<b>Table 6. Domestic portfolio transactions of SOMA securities</b>					
<b>(in millions)</b>					
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2014	\$1,654,901	\$941,340	\$2,596,241	\$ 39,990	\$1,789,083
Purchases <sup>1</sup>	2,736	761	3,497	—	356,976
Sales <sup>1</sup>	—	—	—	—	(464)
Realized gains, net <sup>2</sup>	—	—	—	—	16
Principal payments and maturities	(2,977)	(543)	(3,520)	(5,733)	(333,441)
Amortization of premiums and accretion of discounts, net	(5,485)	(10,253)	(15,738)	(509)	(11,721)
Inflation adjustment on inflation-indexed securities	53	143	196	—	—
Balance December 31, 2015	\$1,649,228	\$931,448	\$2,580,676	\$ 33,748	\$1,800,449
Purchases <sup>1</sup>	164,007	10,282	174,289	—	264,070
Sales <sup>1</sup>	(205)	—	(205)	—	(135)
Realized gains, net <sup>2</sup>	3	—	3	—	5
Principal payments and maturities	(165,770)	(8,031)	(173,801)	(12,452)	(264,652)
Amortization of premiums and accretion of discounts, net	(3,868)	(7,557)	(11,425)	(278)	(9,401)
Inflation adjustment on inflation-indexed securities	412	1,040	1,452	—	—
Balance September 30, 2016	<u>\$1,643,807</u>	<u>\$927,182</u>	<u>\$2,570,989</u>	<u>\$ 21,018</u>	<u>\$1,790,336</u>
Year ended December 31, 2015					
<b>Supplemental information—par value of transactions</b>					
Purchases <sup>3</sup>	\$ 2,747	\$ 766	\$ 3,513	\$ —	\$ 344,505
Sales	—	—	—	—	(435)
Nine months ended September 30, 2016					
<b>Supplemental information—par value of transactions</b>					
Purchases <sup>3</sup>	\$ 164,176	\$ 10,277	\$ 174,453	\$ —	\$ 254,194
Sales	(200)	—	(200)	—	(126)
<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 TBA transactions that are settled on a net basis. <sup>2</sup> Realized gains, 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 valued at amortized cost and foreign currency market exchange rates at September 30, 2016, and December 31, 2015, was as follows:

<b>Table 7. Foreign currency denominated investments</b>		
<b>(in millions)</b>		
	September 30, 2016	December 31, 2015
<b>Euro:</b>		
Foreign currency deposits	\$ 7,071	\$ 6,218
German government debt instruments	2,050	2,261
French government debt instruments	3,095	3,325
<b>Japanese yen:</b>		
Foreign currency deposits	4,707	2,568
Japanese government debt instruments	<u>4,522</u>	<u>5,195</u>
Total	<u>\$21,445</u>	<u>\$19,567</u>



The remaining maturity distribution of foreign currency denominated investments at September 30, 2016, and December 31, 2015, was as follows:

<b>Table 8. Maturity distribution of foreign currency denominated investments</b>						
<b>(in millions)</b>						
	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, 2016:</b>						
Euro	\$3,239	\$4,065	\$1,319	\$2,752	\$841	\$12,216
Japanese yen	4,929	455	1,832	2,013	—	9,229
<b>Total</b>	<b>\$8,168</b>	<b>\$4,520</b>	<b>\$3,151</b>	<b>\$4,765</b>	<b>\$841</b>	<b>\$21,445</b>
<b>December 31, 2015:</b>						
Euro	\$2,136	\$4,440	\$1,051	\$3,824	\$353	\$11,804
Japanese yen	2,734	350	1,604	3,075	—	7,763
<b>Total</b>	<b>\$4,870</b>	<b>\$4,790</b>	<b>\$2,655</b>	<b>\$6,899</b>	<b>\$353</b>	<b>\$19,567</b>

At September 30, 2016, and December 31, 2015, the fair value of foreign currency denominated investments was \$21,558 million and \$19,630 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 establish U.S. dollar liquidity and reciprocal foreign currency swap lines with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, 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 at September 30, 2016, and December 31, 2015, was as follows:

<b>Table 9. Maturity distribution of liquidity swaps</b>		
<b>(in millions)</b>		
	September 30, 2016 Within 15 days	December 31, 2015 Within 15 days
Euro	\$6,348	\$925
Japanese yen	655	72
<b>Total</b>	<b>\$7,003</b>	<b>\$997</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, 2016, and September 30, 2015:

<b>Table 10. Realized gains and change in unrealized gain position</b>				
<b>(in millions)</b>				
	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>
Treasury securities	\$ 3	\$114,014	\$—	\$(4,632)
GSE debt securities	—	(189)	—	(677)
Federal agency and GSE MBS	19	37,786	46	(3,480)
<b>Total</b>	<b>\$22</b>	<b>\$151,611</b>	<b>\$46</b>	<b>\$(8,789)</b>

<sup>1</sup> Realized gains 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 income and comprehensive income.

<sup>2</sup> Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) are not reported in the Combined statements of income and comprehensive income. Fair value amounts are presented solely for informational purposes and are determined using pricing services.

### (3) Consolidated Variable Interest Entities (VIEs)

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, 2016, and December 31, 2015, is summarized in the following table:

<b>Table 11. Assets and liabilities of consolidated VIEs</b>		
<b>(in millions)</b>		
	<b>Maiden Lane LLC</b>	
	September 30, 2016	December 31, 2015
<b>Assets</b>		
Short-term investments	\$1,595	\$1,496
Swap contracts	31	56
Other investments	15	13
<b>Subtotal</b>	<b>1,641</b>	<b>\$1,565</b>
Cash, cash equivalents, accrued interest receivable, and other receivables	97	213
<b>Total investments held by consolidated VIEs</b>	<b>\$1,738</b>	<b>\$1,778</b>
<b>Liabilities</b>		
Swap contracts	\$ 24	\$ 21
Cash collateral on swap contracts	7	36
Other liabilities	2	—
<b>Total liabilities held by consolidated VIEs</b>	<b>\$ 33</b>	<b>\$ 57</b>

ML incurred net losses of \$16 million and net income of \$30 million for the nine months ended September 30, 2016, and September 30, 2015, 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, 2016, and December 31, 2015, all Federal Reserve notes 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 amounts 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. 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 Fixing America's Surface Transportation Act (FAST Act), which was enacted on December 4, 2015, amended section 7 of the FRA related to Reserve Bank surplus and the semiannual payment of dividends to member banks.

Previously, by law, each Reserve Bank was required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. The FAST Act changed the dividend rate for member banks with more than \$10 billion of consolidated assets, effective January 1, 2016, 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. The FAST Act did not change the 6 percent dividend rate for member banks with \$10 billion or less of total consolidated assets.

Before the enactment of the FAST Act, the Board of Governors required the Reserve Banks to maintain a surplus equal to the amount of capital paid-in. On a daily basis, surplus was adjusted to equate the balance to capital paid-in. Effective December 4, 2015, the FAST Act limited 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, 2016 and 2015, primary, secondary, and season credit average daily balances were \$113 million and \$119 million, respectively, and average interest rates were 0.61 percent and 0.26 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 12. Interest income on SOMA portfolio</b>		
<b>(in millions)</b>		
	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Interest income:</b>		
Treasury securities, net	\$ 47,996	\$ 47,899
GSE debt securities, net	775	1,013
Federal agency and GSE MBS, net	35,618	36,282
Foreign currency denominated investments, net <sup>1</sup>	(3)	26
Central bank liquidity swaps	3	1
<b>Total interest income</b>	<b>\$ 84,389</b>	<b>\$ 85,221</b>
<b>Average daily balance:</b>		
Treasury securities, net <sup>2</sup>	\$2,572,618	\$2,589,864
GSE debt securities, net <sup>2</sup>	27,431	37,324
Federal agency and GSE MBS, net <sup>3</sup>	1,803,642	1,790,877
Foreign currency denominated investments, net <sup>4</sup>	20,836	19,906
Central bank liquidity swaps <sup>5</sup>	453	187
<b>Average interest rate:</b>		
Treasury securities, net	2.49%	2.47%
GSE debt securities, net	3.77%	3.62%
Federal agency and GSE MBS, net	2.63%	2.70%
Foreign currency denominated investments, net	-0.02%	0.17%
Central bank liquidity swaps	0.88%	0.64%
<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 \$23 million and \$8 million for the nine months ended September 30, 2016 and 2015, respectively.</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 13. Interest expense on securities sold under agreement to repurchase</b> (in millions)		
	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Interest expense:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	\$ 146	\$ 52
Foreign official and international accounts <sup>2</sup>	607	102
<b>Total interest expense</b>	<b>\$ 753</b>	<b>\$ 154</b>
<b>Average daily balance:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	\$ 77,021	\$125,615
Foreign official and international accounts <sup>2</sup>	241,418	146,285
<b>Average interest rate:</b>		
Primary dealers and expanded counterparties <sup>1</sup>	0.25%	0.06%
Foreign official and international accounts <sup>2</sup>	0.34%	0.09%
<sup>1</sup> Overnight and term reverse repurchase transactions 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 transactions are executed with foreign official and international account holders as part of a service offering.		

### (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 effective 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/default.htm](http://www.federalreserve.gov/publications/annual-report/default.htm), and on the Audit webpage of the Board's public website at [www.federalreserve.gov/newsevents/reform\\_audit.htm](http://www.federalreserve.gov/newsevents/reform_audit.htm).

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