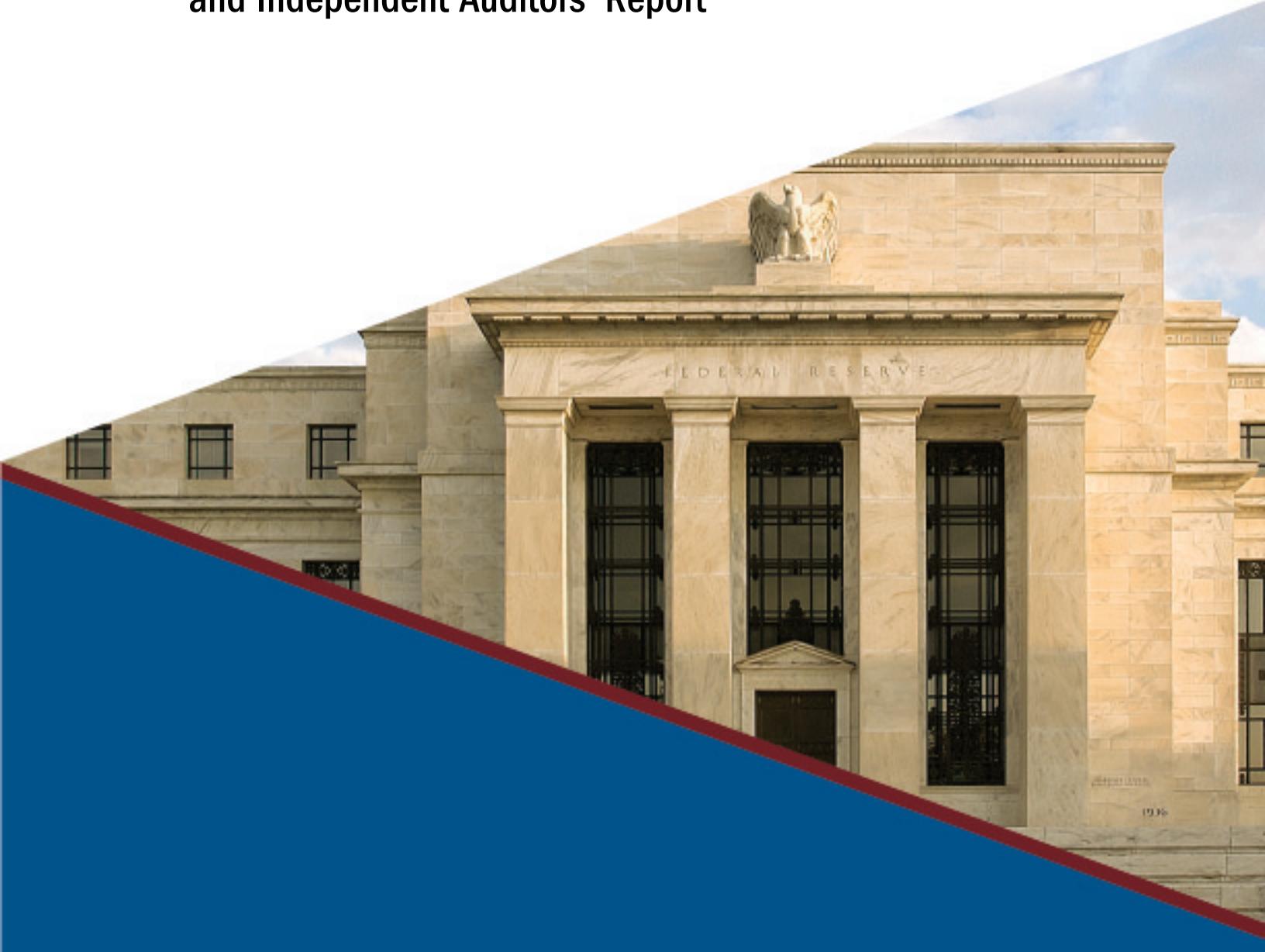




# **Federal Reserve Banks**

## **Combined Financial Statements**

**As of and for the Years Ended December 31, 2023 and 2022  
and Independent Auditors' Report**





The Federal Reserve System is the central bank of the United States. It performs five key functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

### The Federal Reserve

- **conducts the nation's monetary policy** to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

To learn more about us, visit [www.federalreserve.gov/aboutthefed.htm](http://www.federalreserve.gov/aboutthefed.htm).

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KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

### **Report of Independent Registered Public Accounting Firm**

To the Board of Governors of the Federal Reserve System  
and the Boards of Directors of the Federal Reserve Banks:

We have audited the accompanying combined statements of condition of the Federal Reserve Banks (the "Reserve Banks") as of December 31, 2023 and 2022, and the related combined statements of operations and changes in capital for the years then ended, and the related notes (collectively, the financial statements). These combined financial statements are the responsibility of the Division of Reserve Bank Operations and Payment Systems' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall combined presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3 to the combined financial statements, the Division of Reserve Bank Operations and Payment Systems has prepared these combined financial statements in conformity with the accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Reserve Banks as of December 31, 2023 and 2022, and the results of its operations and changes in capital for the years then ended, on the basis of accounting described in Note 3.

*KPMG LLP*

Washington, DC  
March 18, 2024

## Abbreviations

<b>ABS</b>	<b>Asset-Backed Securities</b>
<b>ACH</b>	<b>Automated clearinghouse</b>
<b>ASC</b>	<b>Accounting Standards Codification</b>
<b>ASU</b>	<b>Accounting Standards Update</b>
<b>BEP</b>	<b>Benefit Equalization Retirement Plan</b>
<b>BTFP</b>	<b>Bank Term Funding Program</b>
<b>Bureau</b>	<b>Bureau of Consumer Financial Protection</b>
<b>CARES</b>	<b>Coronavirus Aid, Relief, and Economic Security</b>
<b>CECL</b>	<b>Current Expected Credit Losses</b>
<b>CMBS</b>	<b>Agency commercial mortgage-backed securities</b>
<b>DFMU</b>	<b>Designated financial market utility</b>
<b>ESF</b>	<b>Exchange Stabilization Fund</b>
<b>FAM</b>	<b>Financial Accounting Manual for Federal Reserve Banks</b>
<b>FASB</b>	<b>Financial Accounting Standards Board</b>
<b>FIMA</b>	<b>Foreign and International Monetary Authorities</b>
<b>FOMC</b>	<b>Federal Open Market Committee</b>
<b>FRA</b>	<b>Federal Reserve Act</b>
<b>FRBA</b>	<b>Federal Reserve Bank of Atlanta</b>
<b>FRBB</b>	<b>Federal Reserve Bank of Boston</b>
<b>FRBNY</b>	<b>Federal Reserve Bank of New York</b>
<b>GAAP</b>	<b>Accounting principles generally accepted in the United States of America</b>
<b>GSE</b>	<b>Government-sponsored enterprise</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>LLC</b>	<b>Limited Liability Company</b>
<b>Main Street</b>	<b>MS Facilities LLC</b>
<b>MBS</b>	<b>Mortgage-backed securities</b>
<b>MLF</b>	<b>Municipal Liquidity Facility LLC</b>
<b>OEB</b>	<b>Office of Employee Benefits of the Federal Reserve System</b>
<b>PPP</b>	<b>Paycheck Protection Program</b>
<b>PPPLF</b>	<b>Paycheck Protection Program Liquidity Facility</b>
<b>RMBS</b>	<b>Agency residential mortgage-backed securities</b>
<b>SBA</b>	<b>Small Business Administration</b>
<b>SDR</b>	<b>Special drawing rights</b>
<b>SERP</b>	<b>Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks</b>
<b>SOMA</b>	<b>System Open Market Account</b>
<b>STRIPS</b>	<b>Separate Trading of Registered Interest and Principal of Securities</b>
<b>TALF II</b>	<b>Term Asset-Backed Securities Loan Facility II LLC</b>
<b>TBA</b>	<b>To be announced</b>
<b>TIPS</b>	<b>Treasury Inflation-Protected Securities</b>
<b>VIE</b>	<b>Variable interest entity</b>

Combined Statements of Condition as of December 31, 2023 and December 31, 2022			
(In millions)	2023		2022
<b>ASSETS</b>			
Gold certificates	\$ 11,037	\$ 11,037	
Special drawing rights certificates	5,200	5,200	
Coin	1,423	1,209	
<b>Loans:</b>	Note 4		
Loans to depository institutions	3,473	5,276	
Other loans	132,628	11,450	
<b>System Open Market Account:</b>	Note 5		
Treasury securities, net (of which \$47,388 and \$51,590 is lent as of December 31, 2023 and 2022, respectively)	4,988,327	5,729,247	
Federal agency and government-sponsored enterprise mortgage-backed securities, net	2,481,336	2,697,583	
Government-sponsored enterprise debt securities, net (of which \$0 and \$23 is lent as of December 31, 2023 and 2022, respectively)	2,557	2,584	
Foreign currency denominated investments, net	18,587	18,565	
Central bank liquidity swaps	1,357	412	
Accrued interest receivable	32,357	34,277	
Other assets	1	1	
Consolidated variable interest entities: Assets held, net (including \$1,006 and \$547 measured at fair value as of December 31, 2023 and 2022, respectively)	Note 6	16,098	30,436
Prepaid pension benefit costs	Note 9	998	1,333
Other accrued interest receivable		2,544	68
Bank premises and equipment, net	Note 7	2,897	2,700
Items in process of collection		69	72
Deferred asset—remittances to the Treasury	Note 12	133,318	16,585
Other assets		1,352	1,319
Total assets		\$ 7,835,559	\$ 8,569,354
<b>LIABILITIES AND CAPITAL</b>			
Federal Reserve notes outstanding, net		\$ 2,297,050	\$ 2,258,961
<b>System Open Market Account:</b>	Note 5		
Securities sold under agreements to repurchase		1,390,671	2,889,555
Other liabilities		614	690
<b>Deposits:</b>			
Depository institutions		3,134,759	2,684,814
Treasury, general account		768,590	446,685
Other deposits		187,222	227,160
Interest payable to depository institutions and others		2,020	1,093
Consolidated variable interest entities: Other liabilities	Note 6	52	96
Accrued benefit costs	Notes 9, 10	2,035	1,940
Deferred credit items		624	611
Other liabilities		543	359
Total liabilities		7,784,180	8,511,964
Reserve Bank capital		\$ 36,065	\$ 35,014
Capital paid-in			
Surplus (including accumulated other comprehensive loss of \$1,236 and \$960 at December 31, 2023 and 2022, respectively)		6,785	6,785
Total Reserve Bank capital		42,850	41,799
Consolidated variable interest entities formed to administer credit and liquidity facilities: Non-controlling interest	Note 6	8,529	15,591
Total Reserve Bank capital and consolidated variable interest entities non-controlling interest		51,379	57,390
Total liabilities and capital		\$ 7,835,559	\$ 8,569,354

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

Combined Statements of Operations for the years ended December 31, 2023 and December 31, 2022 (in millions)			
		2023	2022
<b>INTEREST INCOME</b>			
<b>Loans:</b>	Note 4		
Loans to depository institutions		\$ 6,284	\$ 87
Other loans		4,154	67
<b>System Open Market Account:</b>	Note 5		
Securities purchased under agreements to resell		195	—
Treasury securities, net		106,479	115,872
Federal agency and government-sponsored enterprise mortgage-backed securities, net		57,017	53,959
Government-sponsored enterprise debt securities, net		131	133
Foreign currency denominated investments, net		246	(3)
Central bank liquidity swaps		19	18
Total interest income		174,525	170,133
<b>INTEREST EXPENSE</b>			
<b>System Open Market Account:</b>	Note 5		
Securities sold under agreements to repurchase		\$ 104,341	\$ 41,967
Other		—	5
Depository institutions and others		176,755	60,405
Total interest expense		281,096	102,377
Net interest (expense) income		(106,571)	67,756
<b>OTHER ITEMS OF INCOME (LOSS)</b>			
<b>System Open Market Account:</b>	Note 5		
Treasury securities losses, net		\$ (32)	\$ (5)
Federal agency and government-sponsored enterprise mortgage-backed securities losses, net		(56)	(234)
Foreign currency translation losses, net		(67)	(1,762)
Other		(20)	82
Income from services		505	466
Reimbursable services to government agencies		812	846
Other components of net benefit costs	Notes 9, 10	171	787
Other		41	40
Total other items of income		1,354	220
<b>OPERATING EXPENSES</b>			
Salaries and benefits		\$ 4,129	\$ 3,943
System pension service cost	Note 9	548	946
Occupancy		318	319
Equipment		250	250
Other		1,012	932
<b>Assessments:</b>			
Board of Governors operating expenses and currency costs		2,191	2,069
Bureau of Consumer Financial Protection		721	722
Total operating expenses		9,169	9,181
Reserve Bank net (loss) income from operations		(114,386)	58,795
Consolidated variable interest entities: Income, net	Notes 6	1,124	1,742
Consolidated variable interest entities: Non-controlling (income), net	Note 6	(1,038)	(1,701)
Reserve Bank and consolidated variable interest entities net (loss) income before providing remittances to the Treasury		(114,300)	58,836
Earnings remittances to the Treasury, net	Note 12	(116,063)	59,446
Net income (loss) after providing for remittances to the Treasury		1,763	(610)
Change in prior service costs related to benefit plans	Notes 9, 10, 11	103	(29)
Change in actuarial (losses) gains related to benefit plans	Notes 9, 10, 11	(379)	1,848
Total other comprehensive (loss) income		(276)	1,819
Comprehensive income		\$ 1,487	\$ 1,209

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

Combined Statements of Changes in Capital for the years ended December 31, 2023 and December 31, 2022 (in millions, except share data)														
	Reserve Bank Capital						Total Reserve Bank capital	Consolidated variable interest entities: Non-controlling interest	Total Reserve Bank capital and consolidated variable interest entities non-controlling interest					
	Capital paid-in	Net income retained	Surplus		Total surplus									
			Accumulated other comprehensive income (loss)											
<b>Balance at December 31, 2021</b>														
(677,534,103 shares of Reserve Bank capital stock)	\$ 33,877	\$ 9,564	\$ (2,779)	\$ 6,785	\$ 40,662	\$ 19,801	\$ 60,463							
Net change in capital stock issued (22,747,439 shares)	1,137	–	–	–	1,137	–	–			1,137				
Comprehensive income:														
Reserve Bank net loss after providing for remittances to the Treasury	–	(651)	–	(651)	(651)	–	–			(651)				
Consolidated variable interest entities: Income, net	–	41	–	41	41	1,701	1,742							
Other comprehensive income	–	–	1,819	1,819	1,819	–	1,819							
Dividends on capital stock	–	(1,209)	–	(1,209)	(1,209)	–	–			(1,209)				
Consolidated variable interest entities: Non-controlling interest—capital (distribution)	–	–	–	–	–	–	(5,911)			(5,911)				
Consolidated variable interest entities: Non-controlling interest—(earnings distribution)	–	–	–	–	–	–	–			–				
Net change in Reserve Bank capital and non-controlling interest	1,137	(1,819)	1,819	–	1,137	(4,210)	(3,073)							
<b>Balance at December 31, 2022</b>														
(700,281,542 shares of Reserve Bank capital stock)	35,014	7,745	(960)	6,785	41,799	15,591	57,390							
Net change in capital stock issued (21,010,397 shares)	\$ 1,051	\$ –	\$ –	\$ –	\$ 1,051	\$ –	\$ 1,051							
Comprehensive income:														
Reserve Bank net income after providing for remittances to the Treasury	–	1,677	–	1,677	1,677	–	1,677							
Consolidated variable interest entities: Income, net	–	86	–	86	86	1,038	1,124							
Other comprehensive loss	–	–	(276)	(276)	(276)	–	(276)			(276)				
Dividends on capital stock	–	(1,487)	–	(1,487)	(1,487)	–	(1,487)			(1,487)				
Consolidated variable interest entities: Non-controlling interest—capital (distribution)	–	–	–	–	–	–	(7,908)			(7,908)				
Consolidated variable interest entities: Non-controlling interest—(earnings distribution)	–	–	–	–	–	–	(192)			(192)				
Net change in Reserve Bank capital and non-controlling interest	1,051	276	(276)	–	1,051	(7,062)	(6,011)							
<b>Balance at December 31, 2023</b>														
(721,291,939 shares of Reserve Bank capital stock)	\$ 36,065	\$ 8,021	\$ (1,236)	\$ 6,785	\$ 42,850	\$ 8,529	\$ 51,379							

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

# Notes to Combined Financial Statements

## **(1) STRUCTURE**

The Federal Reserve Banks are part of the Federal Reserve System (System) created by Congress under the Federal Reserve Act of 1913 (FRA), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics.

In accordance with the FRA, supervision and control of each Reserve Bank is exercised by a board of directors. The FRA specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System (Board of Governors) to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and state-chartered banks that apply and are approved for membership. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one director representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

In addition to the Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee (FOMC). The Board of Governors, an independent federal agency, is charged by the FRA with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York (FRBNY), and, on a rotating basis, four other Reserve Bank presidents.

## (2) OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including transfers of funds, automated clearinghouse (ACH) operations, check collection, and a nationwide instant payments settlement service, named the FedNow Service; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, savings and loan holding companies, U.S. offices of foreign banking organizations, Edge Act and agreement corporations, and certain financial market utilities that have been designated as systemically important. Certain services are provided to foreign official and international account holders, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations and oversees these operations. The FOMC has selected the FRBNY to execute open market transactions on behalf of the Reserve Banks as provided in its annual authorization. As such, the FRBNY holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA). The FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, federal agency and government-sponsored enterprise (GSE) residential mortgage-backed securities (RMBS), federal agency and GSE commercial mortgage-backed securities (CMBS), and GSE debt securities; the purchase of these securities under agreements to resell; the sale of these securities under agreements to repurchase; and the exchange, at market prices, of these securities that are maturing. The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To be prepared to meet the needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC authorized and directed the FRBNY to execute standalone spot and forward foreign exchange transactions in certain foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY holds these securities and agreements in the SOMA.

Because of the global character of bank funding markets, the System has, at times, coordinated with other central banks to provide liquidity. The FOMC authorized and directed the FRBNY to maintain standing and temporary U.S. dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements with various foreign banks. The FRBNY holds amounts outstanding under these liquidity swap lines in the SOMA.

The FOMC has authorized and directed the FRBNY to conduct small-value exercises periodically for the purpose of testing operational readiness.

On March 12, 2023, each Federal Reserve Bank established and commenced operation of the Bank Term Funding Program (BTFP), pursuant to section 13(3) of the FRA. The BTFP was established to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. The BTFP's authority to extend new loans ended March 11, 2024, and the facility will continue to operate until all loans are paid off and operations cease.

In response to the coronavirus pandemic that began in 2020, the Board of Governors authorized the operation of several lending facilities under section 13(3) of the FRA. The authority granted to these lending facilities to extend loans or purchase eligible assets has ended.

On April 8, 2020, each Federal Reserve Bank established and commenced operation of the Paycheck Protection Program Liquidity Facility (PPPLF). The PPPLF offered a source of liquidity to financial institution lenders that lend to small businesses through the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPPLF's authority to extend new loans ended July 30, 2021, and the facility will continue to operate until all loans are paid off and operations cease.

The Board of Governors authorized the Federal Reserve Bank of Boston (FRBB) to operate the following lending facility:

- On April 9, 2020, the Main Street Lending Program (MSLP) was established to support lending to small and medium-sized businesses and non-profit organizations that were in sound financial condition before the onset of the coronavirus pandemic. The MSLP lending program involved the purchase of participations in loans originated by eligible lenders. The MSLP includes five facilities: Main Street New Loan Facility, Main Street Expanded Loan Facility, Main Street Priority Loan Facility, Non-profit Organization New Loan Facility, and Non-profit Organization Expanded Loan Facility. The MS Facilities LLC (Main Street) was established to administer the facilities. The Treasury, using funds appropriated to the Exchange Stabilization Fund (ESF) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, made an equity investment in Main Street. The facilities' authority to purchase loan participations ended January 8, 2021, and the FRBB will continue to manage operations until the closure of Main Street.

The Board of Governors authorized the FRBNY to operate the following lending facilities:

- On March 22, 2020, the Term Asset-Backed Securities Loan Facility (TALF) was established to provide loans to U.S. companies secured by certain AAA-rated asset-backed securities (ABS) backed by consumer and business loans. Term Asset-Backed Securities Loan Facility II Limited Liability Company (LLC) (TALF II)

was established to administer the facility. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in TALF II. The TALF's authority to extend loans ended December 31, 2020, and TALF II was terminated in March 2024.

- On April 8, 2020, the Municipal Liquidity Facility was established to support lending to state, city, and county governments, certain multistate entities, and other issuers of municipal securities. Municipal Liquidity Facility LLC (MLF) was established to administer the facility. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in MLF. The facility's authority to purchase eligible assets ended December 31, 2020, and MLF was terminated in March 2024.

Additional information related to the lending facilities that the Reserve Banks participate in is provided in Notes 4, 6, and 13.

Although the Reserve Banks are separate legal entities, they collaborate on the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements among the Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks.

### **(3) SIGNIFICANT ACCOUNTING POLICIES**

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the Financial Accounting Manual for Federal Reserve Banks (FAM), which is issued by the Board of Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM. The combined financial statements and associated disclosures have been prepared in accordance with the FAM.

Due to the unique nature of the Reserve Banks' powers and responsibilities as part of the nation's central bank and given the System's unique responsibility to conduct monetary policy, the Board of Governors has adopted accounting principles and practices in the FAM that differ from accounting principles generally accepted in the United States of America (GAAP). The more significant differences are the presentation of all SOMA securities holdings at amortized cost, adjusted for credit impairment, if any, and the recording of all SOMA securities on a settlement-date basis. Amortized cost, rather than the fair value presentation, more appropriately reflects the financial position associated with the Reserve Banks' securities holdings given the System's unique responsibility

to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are primarily motivated by monetary policy and financial stability objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to open market operations and do not motivate decisions related to policy or open market activities. Accounting for these securities on a settlement-date basis, rather than the trade-date basis required by GAAP, better reflects the timing of the transaction's effect on the quantity of reserves in the banking system.

In addition, the Reserve Banks do not present a Combined Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Reserve Banks are not a primary concern given the Reserve Banks' unique powers and responsibilities as a central bank. Other information regarding the Reserve Banks' activities is provided in, or may be derived from, the Combined Statements of Condition, Operations, and Changes in Capital, and the accompanying notes to the combined financial statements. Other than those described above, the accounting policies described in FAM are generally consistent with those in GAAP and the references to GAAP in the notes to the combined financial statements highlight those areas where FAM is consistent with GAAP.

Preparing the combined financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounts and accounting policies are explained below.

### **a. Consolidation**

The combined financial statements include the accounts and results of operations of the Reserve Banks as well as several variable interest entities (VIEs), which include the following LLCs, Main Street, MLF, and TALF II. The consolidation of the VIEs were assessed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC 810), Consolidation, which requires VIEs to be consolidated by its controlling financial interest holder. The Reserve Banks are the managing member and the Treasury is the preferred equity member of the LLCs. Intercompany balances and transactions have been eliminated in consolidation. See Note 6 for additional information on the VIEs. The assets and liabilities of each LLC have been accounted for and consolidated with the assets and liabilities of the Reserve Banks. The consolidated financial statements of the Reserve Banks include accounts and results of operations of Maiden &

Nassau LLC, a Delaware LLC wholly owned by the FRBNY, which was formed to own and operate the 33 Maiden Lane building.

The Reserve Banks consolidate a VIE if the Reserve Banks have a controlling financial interest, which is defined as the power to direct the significant economic activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. To determine whether it is the controlling financial interest holder of a VIE, the Reserve Banks evaluate the VIEs' design, capital structure, and relationships with the variable interest holders. The Reserve Banks reconsider whether it has a controlling financial interest in a VIE, as required by FASB ASC 810, Consolidation, at each reporting date or if there is an event that requires consideration.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory authority over some institutions previously supervised by the Reserve Banks in connection with those institutions' compliance with consumer protection statutes. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. The Board of Governors funds the Bureau through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationship to the Bureau and determined that it should not be consolidated in the Reserve Banks' combined financial statements.

### **b. Gold and Special Drawing Rights Certificates**

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at \$42 2/9 per fine troy ounce. Gold certificates are recorded by the Reserve Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding 12 months.

Special drawing rights (SDR) are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are

increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange-stabilization operations. At the time SDR certificate transactions occur, the Board of Governors allocates the SDR certificates among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding calendar year. SDR certificates are recorded by the Reserve Banks at original cost.

**c. Coin**

The amount reported as coin in the Combined Statements of Condition represents the face value of all United States coin held by the Reserve Banks. The Reserve Banks buy coin at face value from the U.S. Mint in order to fill depository institution orders.

**d. Loans**

Loans to depository institutions and other loans, consisting of loans issued by PPPLF and BTFP, are reported at their outstanding principal balances and interest income is recognized on an accrual basis. Accrued interest on loans to depository institutions and other loans is reported as a component of "Other accrued interest receivable" in the Combined Statements of Condition.

If receipt of income on a loan becomes doubtful, the loan is reclassified to non-accrual status. The Reserve Banks would discontinue recognizing interest income on non-accrual status loans until the borrower's repayment performance demonstrates principal and interest would be received in accordance with the terms of the loan agreement. If the Reserve Banks discontinue recording interest on a non-accrual status loan, cash payments are first applied to principal until the loan balance is reduced to zero, subsequent payments are applied as recoveries of interest income previously deemed uncollectible and then any remaining amounts as interest income.

**e. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Lending**

The FRBNY may engage in purchases of securities under agreements to resell (repurchase agreements) under the standard monetary policy repurchase agreement operations and domestic standing repurchase agreement facility with primary dealers and eligible counterparties (repo operations) and foreign official and international account holders under the Foreign and International Monetary Authorities (FIMA) Repo Facility. Repo operations transactions are settled through a tri-party arrangement, in which a commercial custodial bank manages the collateral clearing, settlement, pricing, and pledging, and provides cash and securities custodial services for and on behalf of the FRBNY and the counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repo operations primarily include Treasury securities (including Treasury Inflation-Protected Securities (TIPS), Separate Trading of Registered Interest and Principal of Securities

(STRIPS), and Treasury Floating Rate Notes); direct obligations of several federal agencies and GSEs, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE mortgage-backed securities (MBS). The FIMA Repo Facility is managed by the FRBNY, and acceptable collateral includes Treasury securities only. The repurchase agreements are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Combined Statements of Condition. Interest income is reported as “System Open Market Account: Securities purchased under agreements to resell” in the Combined Statements of Operations.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. Transactions under these reverse repurchase agreements are designed to have a margin of zero and are settled through a tri-party arrangement, similar to repo operations. Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, federal agency and GSE MBS, or GSE debt securities that are held in the SOMA. Reverse repurchase agreements are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These reverse repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities sold under agreements to repurchase” and the related accrued interest payable is reported as a component of “System Open Market Account: Other liabilities” in the Combined Statements of Condition. Interest expense is reported as “System Open Market Account: Securities sold under agreements to repurchase” in the Combined Statements of Operations.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers, typically overnight, to facilitate the effective conduct of open market operations. The amortized cost basis of securities lent continues to be reported as “System Open Market Account: Treasury securities, net” and “System Open Market Account: Government-sponsored enterprise debt securities, net,” as appropriate, in the Combined Statements of Condition. Securities lending transactions are fully collateralized by Treasury securities based on the fair values of the securities lent increased by a margin determined by the FRBNY. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of “Other items of income (loss): System Open Market Account: Other” in the Combined Statements of Operations.

Activity related to repurchase agreements, reverse repurchase agreements, and securities lending is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year.

**f. Treasury Securities, Federal Agency and Government-Sponsored Enterprise Residential and Commercial Mortgage-Backed Securities, Government-Sponsored Enterprise Debt Securities, and Foreign Currency Denominated Investments**

Interest income on Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign currency denominated investments included in the SOMA is recorded when earned and includes inflation compensation on TIPS and amortization of premiums and accretion of discounts using the effective interest method. Interest income on federal agency and GSE MBS also includes gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized or accreted over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, federal agency and GSE MBS, and GSE debt securities are reported net of premiums and discounts in the Combined Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts in the Combined Statements of Operations.

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into RMBS dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell “to be announced” (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. During the years ended December 31, 2023 and 2022, the FRBNY executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as individual purchases and sales, on a settlement-date basis. Accounting for these transactions as purchases and sales, rather than as financing transactions, is appropriate because the purchase or sale component of the TBA MBS dollar roll is paired off or assigned prior to settlement and, as a result, there is no transfer and return of securities. Net gains (losses) resulting from MBS transactions are reported as a component of “Other items of income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities losses, net” in the Combined Statements of Operations.

Foreign currency denominated investments, which can include foreign currency deposits, repurchase agreements, and government debt instruments, are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Any negative interest associated with these foreign currency denominated investments is included as a component of “Interest income: System Open Market Account: Foreign currency denominated investments, net” in the Combined Statements of Operations. Foreign currency translation gains and losses that result from the daily revaluation of foreign currency denominated investments are reported as “Other items of income (loss): System Open Market Account: Foreign currency translation losses, net” in the Combined Statements of Operations.

Because the FRBNY enters into commitments to buy Treasury securities, federal agency and GSE MBS, and foreign government debt instruments and records the related securities on a settlement-date basis in accordance with the FAM, the related outstanding commitments are not reflected in the Combined Statements of Condition.

Activity related to Treasury securities, federal agency and GSE MBS, and GSE debt securities including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year. Activity related to foreign currency denominated investments, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank on a percentage basis, adjusted annually in the second quarter of each year, calculated as the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

The Reserve Banks are authorized to hold foreign currency working balances and execute foreign exchange transactions to facilitate international payments and currency transactions it makes with or on behalf of foreign central bank and U.S. official institution customers. These foreign currency working balances and transactions are not related to the Reserve Banks' monetary policy operations. Foreign currency working balances are reported as a component of "Other assets" in the Combined Statements of Condition and the related foreign currency translation gains and losses that result from the daily revaluation of the foreign currency working balances and contracts are reported as a component of "Other items of income (loss): Other" in the Combined Statements of Operations.

### **g. Central Bank Liquidity Swaps**

Central bank liquidity swaps, which are transacted between the FRBNY and a foreign central bank, can be structured as either U.S. dollar or foreign currency liquidity swap arrangements.

Central bank liquidity swaps activity, including the related income and expense, is allocated to each Reserve Bank based on a percentage basis, adjusted annually in the second quarter of each year, calculated as the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

#### ***U.S. dollar liquidity swaps***

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. The foreign currency amounts that the

FRBNY acquires are reported as “System Open Market Account: Central bank liquidity swaps” in the Combined Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the FRBNY based on the amount outstanding and the interest rate under the swap agreement. The amount of compensation received during the term of the swap transaction is reported as “Interest income: System Open Market Account: Central bank liquidity swaps” in the Combined Statements of Operations.

#### ***Foreign currency liquidity swaps***

Foreign currency liquidity swap transactions involve the transfer by the FRBNY at the prevailing market exchange rate, of a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency liquidity swap is recorded as “System Open Market Account: Other liabilities” in the Combined Statements of Condition in the amount of foreign currency that the FRBNY receives.

#### **h. Consolidated Variable Interest Entities: Assets Held, Net**

The consolidated VIEs hold assets that result from the associated purchase and lending activities and from the Treasury’s preferred equity contributions. In addition to loans and securities directly related to program activities, assets may include cash and cash equivalents, short-term investments, and short-term investments in non-marketable securities. Cash equivalents and short-term investments are recorded at fair value in accordance with FASB ASC 825, Financial Instruments, while short-term investments in non-marketable securities are accounted for at amortized cost in accordance with FASB ASC 320, Investments – Debt Securities.

Main Street holds loan participations through the various programs that are classified as held-for-investment and measured at principal amount outstanding, including capitalized interest, net of allowance, charge-offs, and recoveries and including interest receivable, in accordance with FASB ASC 310, Receivables and FASB ASC 326, Financial Instruments – Credit Losses.

MLF held municipal notes designated as held-to-maturity and accounted for at amortized cost in accordance with FASB ASC 320, Investments – Debt Securities. TALF II made loans to borrowers that are designated as held-for-investment and accounted for at the loan’s principal balance in accordance with FASB ASC 310, Receivables.

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

## **I. Allowance for Credit Losses**

FASB ASC 326, Financial Instruments – Credit Losses provides the updated methodology for measuring credit losses on loans and SOMA assets measured at amortized cost. Beginning in 2023, the Reserve Banks estimated the allowance for credit losses using the current expected credit loss (CECL) methodology. CECL uses historical loss information, adjusted to reflect current economic conditions, asset specific considerations, and forward-looking assumptions to estimate lifetime expected credit losses. Specific considerations for the Reserve Banks' assets include:

- Loans include loans to depository institutions and other loans, which consist of the PPPLF and the BTFP. When evaluating the risk of credit loss, the Reserve Banks consider the term of the loan, the depository institution's and other financial institution's commitment and ability to repay, the underlying collateral type and coverage of the loans, and any repayment guarantees. See Note 4.
- SOMA assets include repurchase agreements, Treasury securities, GSE debt, federal agency and GSE MBS, and foreign currency denominated investments. When evaluating the risk of credit loss on repurchase agreements, the Reserve Banks consider collateral maintenance provisions and the short term nature of the agreements. The risk of credit loss on the remaining SOMA assets are evaluated considering historical loss experience, assessment of ongoing credit condition of the security issuer or counterparty, and the existence of third-party guarantees. See Note 5.
- Main Street holdings include loan participations. When evaluating the risk of credit loss, the Reserve Banks consider portfolio credit quality and loan participation repayment expectations, which are based on historical loss considerations, adjusted for current economic conditions. See Note 6.

The recognition of an allowance for credit losses is evaluated and reviewed at least annually. When the risk of non-payment is zero, an estimate for credit losses is not required to be recognized. Loans to depository institutions, other loans, and SOMA assets including repurchase agreements, Treasury securities, GSE debt, federal agency and GSE MBS, and foreign currency denominated investments are within the scope of the zero-loss assumption under CECL. Therefore, there was no allowance for credit losses as of December 31, 2023. An allowance for credit losses was recognized on loan participations held by Main Street.

The prior methodology, applied by the Reserve Banks in 2022, required incurred losses to be probable before they were recognized.

**J. Bank Premises, Equipment, and Software**

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 50 years. Major alterations, renovations, and improvements are capitalized and depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred. Reserve Banks may transfer assets to other Reserve Banks or may lease property of other Reserve Banks.

Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred.

Capitalized assets, including land improvements, buildings, construction, furniture and equipment, and software, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

**k. Leases**

Leases are identified in accordance with FASB ASC 842, Leases. The Reserve Banks' material leases involve lessor and lessee arrangements for premises that are classified as operating leases and lessee arrangements for equipment that are classified as finance leases. When the Reserve Banks are a lessee, the discount rate is based on a risk-free Treasury borrowing rate at lease commencement using a period comparable to the lease term. Upon adoption of ASC 842, the Reserve Banks elected the short-term lease recognition exemption and did not separate lease components from non-lease components for all leases.

**I. Federal Reserve Notes**

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Reserve Banks' assets are eligible to be pledged as collateral. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities pledged as collateral under reverse repurchase agreements is deducted from the eligible collateral value.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the FRA provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government.

“Federal Reserve notes outstanding, net” in the Combined Statements of Condition represents the Reserve Banks’ Federal Reserve notes outstanding, reduced by the Reserve Banks’ currency holdings of \$410 billion and \$360 billion at December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2023 and 2022, all gold certificates, all SDR certificates, and \$2,281 billion and \$2,243 billion, respectively, of domestic securities held in the SOMA were pledged as collateral. At December 31, 2023 and 2022, no investments denominated in foreign currencies were pledged as collateral.

## **m. Deposits**

### ***Depository Institutions***

Depository institutions’ deposits represent balances maintained in master accounts and excess balance accounts held by the depository institutions at the Reserve Banks.

Depository institutions earn interest at the interest on reserve balance (IORB) rate. The Board of Governors sets the IORB rate at a rate not to exceed the general level of short-term interest rates and has the discretion to change the IORB rate at any time. Interest on depository institutions’ balances is calculated and accrued daily at the specified rate. Interest payable on deposits of depository institutions at Reserve Banks is reported as a component of “Interest payable to depository institutions and others” in the Combined Statements of Condition. Interest expense on deposits of depository institutions at Reserve Banks is reported as a component of “Depository institutions and others” in the Combined Statements of Operations.

### **Treasury General Account**

The Treasury general account is the primary operational account of the Treasury and is maintained at the FRBNY.

**Other Deposits**

Other deposits include foreign central bank and foreign government deposits held at the FRBNY. Other deposits also include cash collateral, deposits of designated financial market utilities (DFMUs), and GSE deposits held by the Reserve Banks. The Reserve Banks pay interest on deposits held by DFMUs at a rate currently set equal to the interest rate paid on reserve balances maintained by depository institutions. The Board of Governors sets, and can change at its discretion, the rate paid to DFMUs. Interest payable on other deposits is reported as a component of “Interest payable to depository institutions and others” in the Combined Statements of Condition. Interest expense on other deposits is reported as a component of “Depository institutions and others” in the Combined Statements of Operations.

**n. Items in Process of Collection and Deferred Credit Items**

Items in process of collection primarily represent amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. Deferred credit items represent the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected.

**o. Reserve Bank Capital Paid-in**

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

The FRA requires each Reserve Bank to pay each member bank an annual dividend based on the amount of the member bank’s paid-in capital stock and a rate determined by the member bank’s total consolidated assets. Member banks with total consolidated assets in excess of a threshold established in the FRA receive a dividend equal to the smaller of 6 percent or the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Member banks with total consolidated assets equal to or less than the threshold receive a dividend of 6 percent. The threshold for total consolidated assets was \$12.1 billion and \$11.2 billion for the years ended December 31, 2023 and 2022, respectively. This threshold is adjusted annually based on the Gross Domestic Product Price Index, which is published by the Bureau of Economic Analysis. The dividend is paid semiannually and is cumulative.

**p. Consolidated Variable Interest Entities Formed to Administer Credit and Liquidity Facilities: Non-Controlling Interest**

The Treasury's preferred equity contribution to the consolidated VIEs are reported as a component of "Consolidated variable interest entities formed to administer credit and liquidity facilities: Non-controlling interest" in the Combined Statements of Condition.

The reported amount also includes Treasury's allocated portion of undistributed net VIEs assets, determined in accordance with LLC agreements and accounting policies adopted by the VIEs. The Treasury's non-controlling interest is reported as "Consolidated variable interest entities: Non-controlling interest" in the Combined Statements of Changes in Capital. Treasury's allocated portion of undistributed net assets is determined in accordance with the hypothetical liquidation at book value methodology. A calculation is prepared to determine the amounts that would be received if the VIE liquidated all of its assets, measured as of the balance sheet date, and distributed the proceeds to the members based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Reserve Banks' share of the earnings or losses from the VIEs investments for the period.

**q. Surplus**

The FRA limits aggregate Reserve Bank surplus to \$6.785 billion. Reserve Bank surplus is allocated among the Reserve Banks based on the ratio of each Bank's capital paid-in to total Reserve Bank capital paid-in as of December 31 of each year.

Accumulated other comprehensive loss is reported as a component of "Surplus" in the Combined Statements of Condition and the Combined Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 9, 10, and 11.

**r. Earnings Remittances to the Treasury**

The FRA requires that any amounts of the surplus funds of the Reserve Banks that exceed, or would exceed, the aggregate surplus limitation shall be transferred to the Board of Governors for transfer to the Treasury. The Reserve Banks remit excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain surplus at the aggregate surplus limitation. Remittances to the Treasury are made on a weekly basis, and prior to payment, amounts due to the Treasury are reported as "Accrued remittances to the Treasury" in the Combined Statements of Condition. See Note 12 for additional information on earnings remittances to the Treasury.

On a weekly basis, if earnings become less than the costs of operations, payment of dividends, and reservation of an amount necessary to maintain the Reserve Banks' allocated portion of the aggregate surplus limitation, the

Reserve Banks suspend weekly remittances to the Treasury and record a deferred asset, which is reported as “Deferred asset – remittances to the Treasury” in the Combined Statements of Condition. A deferred asset represents the shortfall in earnings from the most recent point that remittances to the Treasury were suspended. The deferred asset is the amount of net excess earnings the Reserve Banks will need to realize in the future before remittances to the Treasury resume, and the deferred asset is reviewed for impairment periodically. The net amount of the excess earnings and costs in excess of earnings recognized for the full year is reported as “Earnings remittances to the Treasury, net” in the Combined Statements of Operations.

#### **s. Income and Costs Related to Treasury Services**

When directed by the Secretary of the Treasury, the Reserve Banks are required by the FRA to serve as fiscal agent and depositary of the United States Government. By statute, the Treasury has appropriations to pay for these services. Revenue generated by the Reserve Banks in performing fiscal agent activities is recognized when the Reserve Banks' performance obligations are satisfied. During the years ended December 31, 2023 and 2022, the Reserve Banks were reimbursed for substantially all services provided to the Treasury as its fiscal agent.

#### **t. Assessments**

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances. The Board of Governors also assesses each Reserve Bank for expenses related to producing, issuing, and retiring Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governors' 2009 annual report, which totaled \$4.98 billion. After 2013, the amount is adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2023 and 2022 was 15.08 percent (\$750.9 million) and 14.74 percent (\$734.0 million), respectively. The Reserve Banks' assessment for Bureau funding is reported as “Operating expenses: Assessments: Bureau of Consumer Financial Protection” in the Combined Statements of Operations.

#### **u. Fair Value**

Assets of the Retirement Plan for Employees of the Federal Reserve System (System Plan) and certain assets of the credit facilities, discussed in Note 6, are measured at fair value in accordance with FASB ASC Topic 820 (ASC 820), Fair Value Measurement. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC

820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Reserve Banks' assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the Reserve Banks' estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodology used for valuing assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

#### **v. Taxes**

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Reserve Banks' real property taxes were \$56 million and \$56 million for the years ended December 31, 2023 and 2022, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Combined Statements of Operations.

#### **w. Restructuring Charges**

The Reserve Banks had no significant restructuring activities in 2023 and 2022.

#### **x. Recently Issued Accounting Standards**

Other than the significant differences described in Note 3, the accounting policies described in FAM are generally consistent with those in GAAP. The following items represent recent accounting standards and describe how the FAM was or will be revised to be consistent with these GAAP standards.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, amended in subsequent related ASUs. ASU 2016-13 introduces the CECL methodology which replaced the previous GAAP method of calculating

credit losses. While the prior methodology required incurred losses to be probable before they were recognized, ASU 2016-13 requires the use of a lifetime expected loss methodology, which requires earlier recognition of credit losses on financial assets measured at amortized cost. The Board of Governors adopted this standard using the modified retrospective method to report results under ASU 2016-13 for reporting periods after January 1, 2023. The prior balance at December 31, 2022 was reported under the previous GAAP methodology, and an immaterial amount was recorded to increase credit losses under the CECL methodology upon adoption at January 1, 2023.

In April 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures. This update addresses issues related to troubled debt restructurings and gross write-offs within ASU 2016-13. The Board of Governors adopted these updates using a prospective method upon implementation of ASU 2016-13 for reporting periods after January 1, 2023. The Main Street LLC did have loan modifications as a result of this new standard, but it did not have a material impact on the Reserve Banks' combined financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting; and in January 2021, ASU 2021-01, Reference Rate Reform (Topic 848): Scope. This update provides optional expedients to apply to contract modifications and hedging relationships that reference the London Inter-Bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The Board of Governors decided to elect these expedients through the transition to Secure Overnight Financing Rate (SOFR) and other comparable reference rates. The Board of Governors adopted this standard and did not have a material impact on the Reserve Banks' combined financial statements.

## **(4) LOANS**

### **Loans to Depository Institutions**

The Reserve Banks offer primary, secondary, and seasonal loans to eligible borrowers. Each program has its own interest rate and interest is accrued using the applicable interest rate established at least every 14 days by the Reserve Banks' board of directors, subject to review and determination by the Board of Governors. Primary loans provide discount window credit for periods up to 90 days, secondary loans are extended on a short-term basis, typically overnight, and seasonal loans may be extended for a period of up to nine months. Other credit extensions included outstanding loans to depository institutions that were subsequently placed into Federal Deposit Insurance Corporation (FDIC) receivership, including depository institutions established by the FDIC and were fully repaid prior to December 31, 2023. Interest income earned on other credit extensions was accrued at 100 basis points above the primary credit rate.

Primary, secondary, and seasonal loans are collateralized to the satisfaction of the Reserve Banks to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury

securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; asset-backed securities; corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Reserve Banks, which is typically fair value reduced by a margin. Loans to depository institutions are monitored daily to ensure that borrowers continue to meet eligibility requirements for these programs. If a borrower no longer qualifies for these programs, the Reserve Banks will generally request full repayment of the outstanding loan or, for primary or seasonal loans, may convert the loan to a secondary credit loan. Collateral levels are reviewed daily against outstanding obligations, and borrowers that no longer have sufficient collateral to support outstanding loans are required to provide additional collateral or to make partial or full repayment.

## Other Loans

### Bank Term Funding Program

The BTFP offers advances up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase in open market operations, such as Treasuries, agency securities, and agency MBS. These assets are valued at par. Advances are limited to the value of eligible collateral pledged by the eligible borrower. The Department of the Treasury, using the ESF, made available \$25 billion as credit protection to the Reserve Banks in connection with the program. Interest income on advances made under the BTFP is accrued using the applicable rate as outlined by the term sheet. At December 31, 2023, no BTFP loans were 90 days past due or on non-accrual status.

### Paycheck Protection Program Liquidity Facility

PPPLF loans are non-recourse loans and only PPP loans guaranteed by the SBA are eligible to serve as collateral for the PPPLF. An eligible borrower may pledge SBA-guaranteed PPP loans that it has originated or purchased. Each PPPLF loan is equal to the maturity of the PPP loan pledged and has a term of five years based on the PPP loan origination date. In an event of default, PPP covered loans are guaranteed as to principal and accrued interest by the SBA. The Reserve Banks have the rights to any such loan forgiveness reimbursement by the SBA to the eligible borrower. The eligible borrower shall pay fully collected funds to the Reserve Banks. In unusual cases, the Reserve Banks may be exposed to credit risk should collateral supporting PPPLF loans become inadequate. At December 31, 2023 and 2022, the Reserve Banks did not have any PPPLF loans that were over 90 days past due and determined to be non-performing, or on non-accrual status.

The remaining maturity distribution and the total amount of loans outstanding at December 31, 2023 and 2022 were as follows (in millions):

	Performing and past due	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
<b>December 31, 2023</b>						
Loans to depository institutions						
Primary, secondary, and seasonal credit	\$ –	\$ 1,821	\$ 1,652	\$ –	\$ –	\$ 3,473
Other loans						
BTFP	–	269	41,593	87,316	–	129,178
PPPLF	4	–	–	–	3,446	3,450
<b>Total loans</b>	<b>\$ 4</b>	<b>\$ 2,090</b>	<b>\$ 43,245</b>	<b>\$ 87,316</b>	<b>\$ 3,446</b>	<b>\$ 136,101</b>
<b>December 31, 2022</b>						
Loans to depository institutions						
Primary, secondary, and seasonal credit	\$ –	\$ 3,783	\$ 1,493	\$ –	\$ –	\$ 5,276
Other loans						
PPPLF <sup>1</sup>	7	–	–	–	11,443	11,450
<b>Total loans</b>	<b>\$ 7</b>	<b>\$ 3,783</b>	<b>\$ 1,493</b>	<b>\$ –</b>	<b>\$ 11,443</b>	<b>\$ 16,726</b>

<sup>1</sup> PPPLF balances have been reclassified from the "Within 15 days" category to the performing and past due category as of December 31, 2022 to conform to current year presentation.

Interest income attributable to loans outstanding during the years ended December 31, 2023 and 2022 was as follows (in millions):

	2023	2022
Interest income		
Loans to depository institutions		
Primary, secondary, seasonal, and other credit	\$ 6,284	\$ 87
Other loans		
BTFP	4,128	–
PPPLF	26	67
<b>Total loans</b>	<b>\$ 10,438</b>	<b>\$ 154</b>

At December 31, 2023, the Reserve Banks had no loans that were past due and determined to be non-performing, or on non-accrual status. No allowance for credit losses was required. At December 31, 2022, prior to the adoption of CECL, the Reserve Banks had no loans that were impaired, restructured, past due and determined to be non-performing, or on non-accrual status. No allowance for loan losses was required.

## (5) SYSTEM OPEN MARKET ACCOUNT

### a. Domestic Securities Holdings

The FRBNY executes domestic open market operations and, on behalf of the Reserve Banks, holds the resulting securities in the SOMA.

In response to the continued risks to economic activity posed by the coronavirus, effective December 2020, the FOMC directed the FRBNY to increase the SOMA portfolio by purchasing Treasury securities at a pace of \$80

billion per month and RMBS at a pace of \$40 billion per month and to increase the SOMA portfolio by purchasing Treasury securities, RMBS, and CMBS as needed to sustain smooth functioning of markets for these securities.

Pursuant to the FOMC directives, the FRBNY reduced the monthly pace of its net asset purchases for Treasury securities and RMBS as follows:

- Effective November 4, 2021, began reducing net asset purchases for Treasury securities to \$70 billion per month and began reducing net asset purchases for agency MBS to \$35 billion per month. The FRBNY ceased purchases of CMBS.
- Effective December 16, 2021, further reduced net asset purchases for Treasury securities to \$60 billion per month and further reduced net asset purchases for RMBS to \$30 billion per month.
- Effective mid-January 2022, reduced net asset purchases for Treasury securities to \$40 billion per month and reduced net asset purchases for RMBS to \$20 billion per month.
- Effective mid-February 2022, further reduced net asset purchases for Treasury securities to \$20 billion per month and further reduced net asset purchases for RMBS to \$10 billion per month.

The FOMC directed the FRBNY, effective March 17, 2022, to roll over all principal payments of Treasury securities and to reinvest payments of agency debt and RMBS into RMBS.

Pursuant to the FOMC directives, the FRBNY reinvested principal payments from Treasury securities and RMBS to the extent that they exceed monthly caps as follows:

- Effective June 2022 through August 2022, rolled over at auction Treasury securities maturing in the calendar month that exceed a cap of \$30 billion and reinvested agency MBS maturities in the calendar month that exceed a cap of \$17.5 billion.
- Effective September 2022 through December 2023, rolled over at auction Treasury securities maturing in the calendar month that exceed a cap of \$60 billion and reinvested agency MBS maturities in the calendar month that exceed a cap of \$35 billion.

The total Treasury securities, federal agency and GSE MBS, and GSE debt securities, net, excluding accrued interest, held in the SOMA at December 31, 2023 and 2022 was as follows (in millions):

	Total SOMA							
	2023				2022			
	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost
<b>Treasury securities</b>								
Bills	\$ 216,969	\$ —	\$ (2,738)	\$ 214,231	\$ 289,525	\$ —	\$ (2,940)	\$ 286,585
Notes	2,863,795	33,304	(5,762)	2,891,337	3,521,904	49,573	(6,614)	3,564,863
Bonds	1,704,374	192,963	(14,578)	1,882,759	1,687,925	204,431	(14,557)	1,877,799
<b>Total Treasury securities</b>	<b>4,785,138</b>	<b>226,267</b>	<b>(23,078)</b>	<b>4,988,327</b>	<b>5,499,354</b>	<b>254,004</b>	<b>(24,111)</b>	<b>5,729,247</b>
<b>Federal agency and GSE MBS</b>								
Residential	\$ 2,423,545	\$ 51,694	\$ (2,820)	\$ 2,472,419	\$ 2,632,909	\$ 58,862	\$ (3,491)	\$ 2,688,280
Commercial	8,228	691	(2)	8,917	8,494	812	(3)	9,303
<b>Total federal agency and GSE MBS</b>	<b>2,431,773</b>	<b>52,385</b>	<b>(2,822)</b>	<b>2,481,336</b>	<b>2,641,403</b>	<b>59,674</b>	<b>(3,494)</b>	<b>2,697,583</b>
GSE debt securities	\$ 2,347	\$ 210	\$ —	\$ 2,557	\$ 2,347	\$ 237	\$ —	\$ 2,584

During the years ended December 31, 2023 and 2022, the FRBNY entered into repurchase agreements and reverse repurchase agreements as part of its monetary policy activities. These operations have been undertaken as necessary to maintain the federal funds rate in a target range. In addition, reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.

The FIMA Repo Facility allows FIMA account holders to temporarily exchange their U.S. Treasury securities for U.S. dollars, which can then be available to institutions in their jurisdictions.

Financial information related to repurchase agreements held in the SOMA for the years ended December 31, 2023 and 2022 was as follows (in millions):

	Total SOMA	
	2023	2022
<b>Repo operations:</b>		
Contract amount outstanding, end of year	\$ —	\$ —
Average daily amount outstanding, during the year	3	1
Maximum balance outstanding, during the year	203	61
<b>FIMA Repo Facility:</b>		
Contract amount outstanding, end of year	\$ —	\$ —
Average daily amount outstanding, during the year	3,922	—
Maximum balance outstanding, during the year	70,000	2
<b>Total repurchase agreement contract amount outstanding, end of year</b>	<b>\$ —</b>	<b>\$ —</b>
Supplemental information—interest income:		
Repo operations	\$ —	\$ —
FIMA Repo Facility	195	—
<b>Total interest income—securities purchased under agreements to resell</b>	<b>\$ 195</b>	<b>\$ —</b>

There were no outstanding repurchase agreement contracts that were transacted with primary dealers, eligible counterparties, and foreign official and international account holders as of December 31, 2023.

Financial information related to reverse repurchase agreements held in the SOMA for the years ended December 31, 2023 and 2022 was as follows (in millions):

	Total SOMA	
	2023	2022
<b>Primary dealers and expanded counterparties:</b>		
Contract amount outstanding, end of year	\$ 1,018,483	\$ 2,553,716
Average daily amount outstanding, during the year	1,747,804	1,997,187
Maximum balance outstanding, during the year	2,553,716	2,553,716
Securities pledged (par value), end of year	1,098,844	2,749,747
Securities pledged (fair value), end of year	1,008,344	2,508,194
<b>Foreign official and international accounts:</b>		
Contract amount outstanding, end of year	\$ 372,188	\$ 335,839
Average daily amount outstanding, during the year	336,897	290,552
Maximum balance outstanding, during the year	399,588	380,593
Securities pledged (par value), end of year	451,042	390,529
Securities pledged (fair value), end of year	372,278	335,886
<b>Total reverse repurchase agreement contract amount outstanding, end of year</b>	<b>\$ 1,390,671</b>	<b>\$ 2,889,555</b>
Supplemental information—interest expense:		
Primary dealers and expanded counterparties	\$ 87,341	\$ 36,655
Foreign official and international accounts	17,000	5,312
<b>Total interest expense—securities sold under agreements to repurchase</b>	<b>\$ 104,341</b>	<b>\$ 41,967</b>

Securities pledged as collateral, at December 31, 2023 and 2022, consisted solely of Treasury securities. The contract amount outstanding as of December 31, 2023 of reverse repurchase agreements that were transacted with primary dealers and expanded counterparties had a remaining term of one business day and matured on January 2, 2024. The contract amount outstanding as of December 31, 2023 of reverse repurchase agreements that were transacted with foreign official and international account holders had a remaining term of one business day and matured on January 2, 2024.

The remaining maturity distribution of Treasury securities, federal agency and GSE MBS, GSE debt securities, repurchase agreements, and reverse repurchase agreements at December 31, 2023 and 2022 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
<b>December 31, 2023:</b>							
Treasury securities (par value)	\$ 79,323	\$ 219,514	\$ 594,436	\$ 1,614,977	\$ 771,726	\$ 1,505,162	\$ 4,785,138
Federal agency and GSE residential MBS (par value) <sup>1</sup>	–	–	23	2,920	28,909	2,391,693	2,423,545
Federal agency and GSE commercial MBS (par value) <sup>1</sup>	–	–	–	1,975	3,441	2,812	8,228
GSE debt securities (par value)	–	–	–	–	2,347	–	2,347
Securities sold under agreements to repurchase (contract amount)	1,390,671	–	–	–	–	–	1,390,671
<b>December 31, 2022:</b>							
Treasury securities (par value)	\$ 91,280	\$ 369,443	\$ 721,298	\$ 1,915,468	\$ 937,231	\$ 1,464,634	\$ 5,499,354
Federal agency and GSE residential MBS (par value) <sup>1</sup>	–	2	36	3,557	45,302	2,584,012	2,632,909
Federal agency and GSE commercial MBS (par value) <sup>1</sup>	–	–	–	463	4,677	3,354	8,494
GSE debt securities (par value)	–	–	–	–	2,347	–	2,347
Securities sold under agreements to repurchase (contract amount)	2,889,555	–	–	–	–	–	2,889,555

<sup>1</sup> The par amount shown for federal agency and GSE residential MBS and commercial MBS is the remaining principal balance of the securities.

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted-average life of these securities differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions. The estimated weighted-average lives of RMBS and CMBS as of December 31, 2023 and 2022 were as follows (in years):

	2023	2022
Estimated weighted-average life of		
RMBS	8.7	9.0
CMBS	6.6	7.4

The amortized cost and par value of Treasury securities and GSE debt securities that were loaned from the SOMA under securities lending agreements held in the SOMA at December 31, 2023 and 2022 were as follows (in millions):

	Total SOMA	
	2023	2022
Treasury securities (amortized cost)	\$ 47,388	\$ 51,590
Treasury securities (par value)	46,744	51,366
GSE debt securities (amortized cost)	–	23
GSE debt securities (par value)	–	21

Securities pledged as collateral by the counterparties in the securities lending arrangements at December 31, 2023 and 2022 consisted solely of Treasury securities. The securities lending agreements outstanding as of December 31, 2023 had a term of one business day and matured on January 2, 2024.

The FRBNY enters into commitments to buy and sell Treasury securities and federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2023, total purchases and sales under outstanding commitments were as follows (in millions):

	Total SOMA	Contractual settlement dates through
<b>Purchases under outstanding commitments</b>		
Treasury securities	\$ 1,109	January 2, 2024
TBA RMBS	—	—
CMBS	—	—
<b>Sales under outstanding commitments</b>		
RMBS	\$ —	—
CMBS	—	—

RMBS and CMBS commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash margin for RMBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets held in the SOMA consist primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio and were immaterial at December 31, 2023 and 2022. Other liabilities include the FRBNY's accrued interest payable related to repurchase agreements transactions, obligations to return cash margin posted by counterparties as collateral under commitments to purchase and sell RMBS, and obligations that arise from the failure of a seller to deliver Treasury securities and RMBS and CMBS to the FRBNY on the settlement date and were immaterial at December 31, 2023 and 2022. Although the FRBNY has ownership of and records its investments in Treasury securities and RMBS and CMBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered.

Accrued interest receivable on domestic securities held in the SOMA was \$32,275 million and \$34,228 million as of December 31, 2023 and 2022, respectively. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Combined Statements of Condition.

Information about transactions related to Treasury securities, federal agency and GSE MBS, and GSE debt securities held in the SOMA during the years ended December 31, 2023 and 2022, is summarized as follows (in millions):

	Total SOMA				Total Treasury securities
	Bills	Notes	Bonds		
<b>Balance at December 31, 2021</b>	\$ 325,956	\$ 3,812,476	\$ 1,778,994	\$ 5,917,426	
Purchases <sup>1</sup>	958,843	514,065	105,271	1,578,179	
Sales <sup>1</sup>	—	—	(21)	(21)	
Realized gains (losses), net <sup>2</sup>	—	—	(5)	(5)	
Principal payments and maturities	(1,002,507)	(762,463)	(11,460)	(1,776,430)	
Amortization of premiums and accretion of discounts, net	4,293	(18,981)	(10,156)	(24,844)	
Inflation adjustment on inflation-indexed securities	—	19,766	15,176	34,942	
Subtotal of activity	(39,371)	(247,613)	98,805	(188,179)	
<b>Balance at December 31, 2022</b>	\$ 286,585	\$ 3,564,863	\$ 1,877,799	\$ 5,729,247	
Purchases <sup>1</sup>	644,351	167,315	35,904	847,570	
Sales <sup>1</sup>	—	(175)	(76)	(251)	
Realized gains (losses), net <sup>2</sup>	—	(9)	(22)	(31)	
Principal payments and maturities	(729,215)	(834,160)	(26,907)	(1,590,282)	
Amortization of premiums and accretion of discounts, net	12,510	(14,708)	(10,907)	(13,105)	
Inflation adjustment on inflation-indexed securities	—	8,211	6,968	15,179	
Subtotal of activity	(72,354)	(673,526)	4,960	(740,920)	
<b>Balance at December 31, 2023</b>	<u>\$ 214,231</u>	<u>\$ 2,891,337</u>	<u>\$ 1,882,759</u>	<u>\$ 4,988,327</u>	
<b>Year-ended December 31, 2022</b>					
Supplemental information—par value of transactions:					
Purchases <sup>3</sup>	\$ 965,988	\$ 515,609	\$ 106,728	\$ 1,588,325	
Sales	—	—	(25)	(25)	
<b>Year-ended December 31, 2023</b>					
Supplemental information—par value of transactions:					
Purchases <sup>3</sup>	\$ 656,660	\$ 168,024	\$ 36,482	\$ 861,166	
Sales <sup>3</sup>	—	(184)	(94)	(278)	

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Includes inflation compensation.

	Total SOMA			
	Residential MBS	Commercial MBS	Total federal agency and GSE MBS	GSE debt securities
<b>Balance at December 31, 2021</b>	\$ 2,675,057	\$ 10,211	\$ 2,685,268	\$ 2,610
Purchases <sup>1</sup>	402,649	—	402,649	—
Sales <sup>1</sup>	(345)	—	(345)	—
Realized gains (losses), net <sup>2</sup>	(28)	—	(28)	—
Principal payments and maturities	(376,705)	(744)	(377,449)	—
Amortization of premiums and accretion of discounts, net	(12,348)	(164)	(12,512)	(26)
Subtotal of activity	13,223	(908)	12,315	(26)
<b>Balance at December 31, 2022</b>	\$ 2,688,280	\$ 9,303	\$ 2,697,583	\$ 2,584
Purchases <sup>1</sup>	600	—	600	—
Sales <sup>1</sup>	(359)	—	(359)	—
Realized gains (losses), net <sup>2</sup>	(56)	—	(56)	—
Principal payments and maturities	(209,687)	(266)	(209,953)	—
Amortization of premiums and accretion of discounts, net	(6,359)	(120)	(6,479)	(27)
Subtotal of activity	(215,861)	(386)	(216,247)	(27)
<b>Balance at December 31, 2023</b>	\$ 2,472,419	\$ 8,917	\$ 2,481,336	\$ 2,557
<b>Year-ended December 31, 2022</b>				
Supplemental information—par value of transactions:				
Purchases	\$ 403,669	\$ —	\$ 403,669	\$ —
Sales	(365)	—	(365)	—
<b>Year-ended December 31, 2023</b>				
Supplemental information—par value of transactions:				
Purchases	\$ 600	\$ —	\$ 600	\$ —
Sales	(276)	—	(276)	—

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, and discounts. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude TBA MBS transactions that are settled on a net basis.

<sup>2</sup> Realized gains (losses), net is the offset of the amount of realized gains and losses included in the reported sales amount.

## b. Foreign Currency Denominated Investments

The FRBNY conducts foreign currency operations and, on behalf of the Reserve Banks, holds the resulting three types of foreign currency denominated investments in the SOMA.

The FRBNY holds foreign currency deposits with foreign central banks and with the Bank for International Settlements (BIS). The FRBNY also invests in foreign government debt instruments of France, Germany, the Netherlands, and Japan. These foreign government debt instruments are backed by the full faith and credit of the issuing foreign governments. In addition, the FRBNY enters into repurchase agreements to purchase government debt securities for which the accepted collateral is the debt instruments issued by a foreign government.

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at December 31, 2023 and 2022 was as follows (in millions):

	Total SOMA	
	2023	2022
<b>Euro:</b>		
Foreign currency deposits	\$ 8,388	\$ 7,092
Dutch government debt instruments	1,070	1,103
French government debt instruments	1,829	2,591
German government debt instruments	668	688
<b>Japanese yen:</b>		
Foreign currency deposits	\$ 6,333	\$ 7,088
Japanese government debt instruments	299	3
<b>Total</b>	<b>\$ 18,587</b>	<b>\$ 18,565</b>

At December 31, 2023 and 2022, there were no repurchase agreements outstanding and, consequently, no related foreign securities held as collateral.

As of December 31, 2023 and 2022, total net interest income earned on foreign currency denominated investments held in the SOMA were as follows (in millions):

	Total SOMA	
	2023	2022
<b>Net interest income:<sup>1</sup></b>		
Euro	\$ 247	\$ (2)
Japanese yen	(1)	(1)
<b>Total</b>	<b>\$ 246</b>	<b>\$ (3)</b>

<sup>1</sup> As a result of negative interest rates in certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$8 million and \$34 million for the years ended December 31, 2023 and 2022, respectively.

Accrued interest receivable on foreign currency denominated investments, net was \$80 million and \$48 million as of December 31, 2023 and 2022, respectively. These amounts are reported as a component of “System Open Market Account: Accrued interest receivable” in the Combined Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments at December 31, 2023 and 2022 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
<b>December 31, 2023:</b>						
Euro	\$ 8,624	\$ 113	\$ 61	\$ 2,935	\$ 222	\$ 11,955
Japanese yen	6,333	—	297	2	—	6,632
<b>Total</b>	<b>\$ 14,957</b>	<b>\$ 113</b>	<b>\$ 358</b>	<b>\$ 2,937</b>	<b>\$ 222</b>	<b>\$ 18,587</b>
<b>December 31, 2022:</b>						
Euro	\$ 7,158	\$ —	\$ 193	\$ 2,965	\$ 1,158	\$ 11,474
Japanese yen	7,088	—	—	3	—	7,091
<b>Total</b>	<b>\$ 14,246</b>	<b>\$ —</b>	<b>\$ 193</b>	<b>\$ 2,968</b>	<b>\$ 1,158</b>	<b>\$ 18,565</b>

There were no foreign exchange contracts related to foreign currency operations outstanding as of December 31, 2023.

The FRBNY enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2023, there were no outstanding commitments to purchase foreign government debt instruments. During 2023, there were purchases, sales, and maturities of foreign government debt instruments of \$889 million, \$561 million, and \$779 million, respectively. Sales of \$561 million includes realized losses of \$125 million.

In connection with its foreign currency activities, the FRBNY may enter into transactions that are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY controls these risks by obtaining credit approvals, establishing transaction limits, receiving collateral in some cases, and performing monitoring procedures.

Foreign currency working balances held and foreign exchange contracts executed by the Reserve Banks to facilitate international payments and currency transactions made on behalf of foreign central banks and U.S. official institution customers were immaterial as of December 31, 2023 and 2022.

### **c. Central Bank Liquidity Swaps**

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

The FOMC authorized and directed the FRBNY to maintain standing U.S. dollar liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank.

Euros held in the SOMA under U.S. dollar liquidity swaps at December 31, 2023 and 2022 was \$1,357 million and \$412 million, respectively, and matured within 15 days of year-end. Accrued interest receivable on U.S. dollar liquidity swaps held in the SOMA was immaterial as of December 31, 2023 and 2022.

Net income earned on U.S. dollar liquidity swaps is reported as “System Open Market Account: Central bank liquidity swaps” in the Combined Statements of Operations.

#### ***Foreign Currency Liquidity Swaps***

At December 31, 2023 and 2022, there was no balance outstanding related to foreign currency liquidity swaps.

#### **d. Fair Value of SOMA Assets and Liabilities**

The fair value amounts below are presented solely for informational purposes and are not intended to comply with the fair value disclosures required by FASB ASC 820, Fair Value Measurement. Although the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Combined Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Combined Statements of Operations.

The fair value of the Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign government debt instruments held in the SOMA is subject to market risk, arising from movements in market variables such as interest rates and credit risk. The fair value of federal agency and GSE MBS is also affected by the expected rate of prepayments of mortgage loans underlying the securities. The fair value of foreign government debt instruments is also affected by currency risk. Based on evaluations performed as of December 31, 2023 and 2022, there are no credit impairments of SOMA securities holdings.

The following table presents the amortized cost, fair value, and cumulative unrealized gains (losses) on the Treasury securities, federal agency and GSE MBS, and GSE debt securities held in the SOMA at December 31, 2023 and 2022 (in millions):

	Total SOMA					
	2023			2022		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
<b>Treasury securities</b>						
Bills	\$ 214,231	\$ 214,361	\$ 130	\$ 286,585	\$ 286,373	\$ (212)
Notes	2,891,337	2,695,476	(195,861)	3,564,863	3,285,274	(279,589)
Bonds	1,882,759	1,493,246	(389,513)	1,877,799	1,484,758	(393,041)
<b>Total Treasury securities</b>	<b>4,988,327</b>	<b>4,403,083</b>	<b>(585,244)</b>	<b>5,729,247</b>	<b>5,056,405</b>	<b>(672,842)</b>
<b>Federal agency and GSE MBS</b>						
Residential	\$ 2,472,419	\$ 2,110,439	\$ (361,980)	\$ 2,688,280	\$ 2,282,190	\$ (406,090)
Commercial	8,917	7,552	(1,365)	9,303	7,729	(1,574)
<b>Total federal agency and GSE MBS</b>	<b>2,481,336</b>	<b>2,117,991</b>	<b>(363,345)</b>	<b>2,697,583</b>	<b>2,289,919</b>	<b>(407,664)</b>
GSE debt securities	2,557	2,703	146	2,584	2,736	152
<b>Total domestic SOMA portfolio securities holdings</b>	<b>\$ 7,472,220</b>	<b>\$ 6,523,777</b>	<b>\$ (948,443)</b>	<b>\$ 8,429,414</b>	<b>\$ 7,349,060</b>	<b>\$ (1,080,354)</b>
<b>Memorandum—Commitments for purchases of:</b>						
Treasury securities <sup>1</sup>	\$ 1,109	\$ 1,109	\$ —	\$ 2,560	\$ 2,560	\$ —
Federal agency and GSE MBS <sup>1</sup>	—	—	—	—	—	—
<b>Memorandum—Commitments for sales of:</b>						
Treasury securities <sup>2</sup>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Federal agency and GSE MBS <sup>2</sup>	—	—	—	—	—	—

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

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

The fair value of Treasury securities and GSE debt securities was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of federal agency and GSE MBS were determined using pricing services that utilize a model-based approach that considers observable inputs for similar securities.

The cost bases of repurchase agreements, reverse repurchase agreements, central bank liquidity swaps, and other investments held in the SOMA portfolio approximate fair value. Due to the short-term nature of these agreements and the defined amount that will be received upon settlement, the cost basis approximates fair value.

At December 31, 2023 and 2022, the fair value of foreign currency denominated investments held in the SOMA was \$18,389 million and \$18,112 million, respectively. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. Due to the short-term nature of foreign currency deposits, the cost basis is estimated to approximate fair value.

The following tables provide additional information on the amortized cost and fair value of the federal agency and GSE MBS portfolios held in the SOMA at December 31, 2023 and 2022 (in millions):

Distribution of MBS holdings by coupon rate	Total SOMA					
	2023		2022			
	Amortized cost	Fair value	Amortized cost	Fair value		
<b>Residential</b>						
1.5%	\$ 154,792	\$ 128,765	\$ 168,762	\$ 139,602		
2.0%	962,071	790,360	1,034,220	846,233		
2.5%	689,649	580,166	750,796	628,922		
3.0%	290,035	258,706	321,270	283,344		
3.5%	190,382	175,155	210,290	191,813		
4.0%	118,593	111,917	130,284	121,691		
4.5%	49,673	48,326	54,176	52,350		
5.0%	14,741	14,552	16,143	15,883		
5.5%	1,990	1,994	2,007	2,020		
6.0%	372	375	290	290		
6.5%	121	123	42	42		
<b>Total</b>	<b>\$ 2,472,419</b>	<b>\$ 2,110,439</b>	<b>\$ 2,688,280</b>	<b>\$ 2,282,190</b>		
<b>Commercial</b>						
1.00%-1.50%	\$ 91	\$ 72	\$ 91	\$ 71		
1.51%-2.00%	432	340	445	346		
2.01%-2.50%	995	814	1,027	838		
2.51%-3.00%	1,350	1,135	1,413	1,171		
3.01%-3.50%	2,842	2,412	2,928	2,428		
3.51%-4.00%	2,953	2,564	3,127	2,651		
4.01%-4.50%	254	215	272	224		
<b>Total</b>	<b>\$ 8,917</b>	<b>\$ 7,552</b>	<b>\$ 9,303</b>	<b>\$ 7,729</b>		
<b>Total MBS</b>	<b>\$ 2,481,336</b>	<b>\$ 2,117,991</b>	<b>\$ 2,697,583</b>	<b>\$ 2,289,919</b>		

The following tables present the realized gains (losses) and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings held in the SOMA during the years ended December 31, 2023 and 2022 (in millions):

	Total SOMA			
	2023		2022	
	Realized gains (losses), net <sup>1,2</sup>	Change in cumulative unrealized gains (losses) <sup>3</sup>	Realized gains (losses), net <sup>1,2</sup>	Change in cumulative unrealized gains (losses) <sup>3</sup>
Treasury securities	\$ (32)	\$ 87,598	\$ (5)	\$ (807,471)
Federal agency and GSE MBS				
Residential	(56)	44,110	(234)	(398,785)
Commercial	—	209	—	(1,431)
Total federal agency and GSE MBS	(56)	44,319	(234)	(400,216)
GSE debt securities	—	(6)	—	(536)
<b>Total</b>	<b>\$ (88)</b>	<b>\$ 131,911</b>	<b>\$ (239)</b>	<b>\$ (1,208,223)</b>

<sup>1</sup> Realized gains (losses), net for Treasury securities are reported in "Other items of income (loss): System Open Market Account: Treasury securities losses, net" in the Combined Statements of Operations.

<sup>2</sup> Realized gains (losses), net 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 losses, net" in the Combined Statements of Operations.

<sup>3</sup> Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Combined Statements of Operations.

The amount of change in cumulative unrealized gains (losses) position, net related to foreign currency denominated investments was a gain of \$254 million and a loss of \$520 million for the years ended December 31, 2023 and 2022, respectively. Realized losses, net related to foreign currency denominated investments were \$125 million for the year ended December 31, 2023 and were immaterial for the year ended December 31, 2022.

Treasury securities, federal agency and GSE MBS, GSE debt securities, and foreign government debt instruments are classified as Level 2 within the ASC 820 hierarchy because the fair values are based on indicative quotes and other observable inputs obtained from independent pricing services. The fair value hierarchy level of SOMA financial assets is not necessarily an indication of the risk associated with those assets.

## (6) CONSOLIDATED VARIABLE INTEREST ENTITIES

### a. Summary Information for Consolidated Variable Interest Entities

The combined financial statements include the accounts and operations of Main Street, MLF, and TALF II. The Reserve Banks purchase assets or extend loans to the LLC in order to fund the VIEs. Intercompany balances and transactions are eliminated in consolidation. The assets and liabilities held by the LLCs are reported as "Consolidated variable interest entities: Assets held, net" and "Consolidated variable interest entities: Other liabilities," respectively, in the Consolidated Statements of Condition.

The classification of assets and liabilities of the consolidated VIEs as of December 31, 2023 and 2022 are as follows (in millions):

	2023				Total
	Main Street	MLF	TALF II		
<b>Assets</b>					
Cash and cash equivalents <sup>1</sup>	\$ 1,981	\$ 213	\$ 46	\$ 2,240	
Short-term investments in non-marketable securities <sup>2</sup>	6,791	—	—	6,791	
Loan participations <sup>3</sup>	7,067	—	—	7,067	
<b>Total assets, net</b>	<b>\$ 15,839</b>	<b>\$ 213</b>	<b>\$ 46</b>	<b>\$ 16,098</b>	
<b>Liabilities</b>					
52	—	—	—	52	
<b>Net assets and liabilities</b>	<b>\$ 15,787</b>	<b>\$ 213</b>	<b>\$ 46</b>	<b>\$ 16,046</b>	

<sup>1</sup> Includes \$1,006 million of cash equivalents and \$1,234 million of cash.

<sup>2</sup> Represents the portion of the Treasury preferred equity contribution to the credit facilities, which are held as short-term investments in non-marketable securities at amortized cost and the related earnings on those investments.

<sup>3</sup> Reported at principal amount outstanding, net of allowance, charge-offs, and recoveries and including interest receivable.

	2022				Total
	Main Street	MLF	TALF II		
<b>Assets</b>					
Cash and cash equivalents <sup>1</sup>	\$ 2,240	\$ 101	\$ 54	\$ 2,395	
Short-term investments in non-marketable securities <sup>2</sup>	9,907	2,482	887	13,276	
Loan participations <sup>3</sup>	10,763	—	—	10,763	
Municipal notes <sup>4</sup>	—	2,907	—	2,907	
Loans <sup>5</sup>	—	—	996	996	
Other assets	—	80	19	99	
<b>Total assets, net</b>	<b>\$ 22,910</b>	<b>\$ 5,570</b>	<b>\$ 1,956</b>	<b>\$ 30,436</b>	
<b>Liabilities</b>					
94	1	1	1	96	
<b>Net assets and liabilities</b>	<b>\$ 22,816</b>	<b>\$ 5,569</b>	<b>\$ 1,955</b>	<b>\$ 30,340</b>	

<sup>1</sup> Includes \$547 million of cash equivalents and \$1,848 million of cash.

<sup>2</sup> Represents the portion of the Treasury preferred equity contribution to the credit facilities, which are held as short-term investments in non-marketable securities at amortized cost and the related earnings on those investments.

<sup>3</sup> Reported at principal amount outstanding, net of allowance and charge-offs and including interest receivable.

<sup>4</sup> Reported at amortized cost.

<sup>5</sup> Reported at principal amount outstanding.

The following tables present the components of the LLCs' net operating income (loss) recorded for the years ended December 31, 2023 and 2022 (in millions):

	2023				Total
	Main Street	MLF	TALF II		
Interest income	\$ 1,167	\$ 138	\$ 71	\$ 1,376	
Other items of income (loss):					
Fees	38	1	—	39	
Provision for credit losses	(218)	—	—	(218)	
Realized loss on sale of portfolio investments	(25)	—	—	(25)	
Total other items of (loss) income	(205)	1	—	(204)	
Less: expenses <sup>1</sup>	48	—	—	48	
Net income attributable to consolidated VIEs	\$ 914	\$ 139	\$ 71	\$ 1,124	
Allocated to non-controlling Treasury interest	\$ 870	\$ 132	\$ 36	\$ 1,038	
Allocated to Reserve Banks	\$ 44	\$ 7	\$ 35	\$ 86	
Memorandum—Cumulative earnings distribution: <sup>2</sup>	\$ —	\$ 144	\$ 48	\$ 192	
Non-controlling Treasury interest	—	144	48	192	
Reserve Banks	—	—	—	—	

<sup>1</sup> Includes fees, loan participations servicing costs, and other expenses.

<sup>2</sup> Represents distribution of cumulative LLC earnings upon dissolution in accordance with the LLC's legal agreements.

	2022				Total
	Main Street	MLF	TALF II		
Interest income <sup>1</sup>	\$ 731	\$ 83	\$ 43	\$ 857	
Other items of income (loss):					
Fees	53	2	1	56	
Provision for loan losses	885	—	—	885	
Total other items of income	938	2	1	941	
Less: expenses <sup>2</sup>	54	1	1	56	
Net income attributable to consolidated VIEs	\$ 1,615	\$ 84	\$ 43	\$ 1,742	
Allocated to non-controlling Treasury interest	\$ 1,602	\$ 77	\$ 22	\$ 1,701	
Allocated to Reserve Banks	\$ 13	\$ 7	\$ 21	\$ 41	
Memorandum—Cumulative earnings distribution: <sup>3</sup>	\$ —	\$ —	\$ —	\$ —	
Non-controlling Treasury interest	—	—	—	—	
Reserve Banks	—	—	—	—	

<sup>1</sup> Recorded when earned and includes amortization of premiums and accretion of discounts.

<sup>2</sup> Includes fees, loan participations servicing costs, and other expenses.

<sup>3</sup> Represents distribution of cumulative LLC earnings upon dissolution in accordance with the LLC's legal agreements.

At December 31, 2023 and 2022, the maturity distribution of the LLCs' holdings are as follows (in millions):

	2023				
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
Cash equivalents	\$ 1,006	\$ —	\$ —	\$ —	\$ 1,006
Short-term investments in non-marketable securities	6,791	—	—	—	6,791
Loan participations	—	—	—	7,067	7,067
<b>Total</b>	<b>\$ 7,797</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,067</b>	<b>\$ 14,864</b>

	2022				
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
Cash equivalents	\$ 447	\$ 100	\$ —	\$ —	\$ 547
Short-term investments in non-marketable securities	13,276	—	—	—	13,276
Loan participations	—	—	—	10,763	10,763
Municipal notes	—	—	2,907	—	2,907
Loans	—	—	996	—	996
<b>Total</b>	<b>\$ 13,723</b>	<b>\$ 100</b>	<b>\$ 3,903</b>	<b>\$ 10,763</b>	<b>\$ 28,489</b>

#### **Allowance for Credit Losses and Charge-Offs**

The allowance for credit losses is established in accordance with Main Street's credit loss policies and the adequacy of the allowance is reviewed at least annually. When the lifetime expected loss methodology was adopted January 1, 2023, an immaterial adjustment was recorded to increase credit losses under CECL.

Under the lifetime expected credit loss methodology, loan participations with similar risks are collectively assessed for expected credit losses whereas loan participations with different risks are individually assessed. To estimate an expected credit loss on an individual loan participation, Main Street considers credit indicators and the size of the loan participation. Main Street's allowance for credit loss evaluation includes both quantitative and qualitative components.

To calculate expected credit loss for the remaining life of the loan participations, the allowance considers relevant estimates of probability of default (PD) and loss given default (LGD) factors in light of credit ratings, and other loan characteristics (e.g., collateral positions), which are applied to exposure at default (principal amount outstanding). This formula-based credit evaluation approach is applied primarily by loss factors, which includes estimates of expected losses over the remaining life of the loan participations assigned to each risk rating segment. Qualitative factors, including changes in economic and business conditions over the remaining life of the loan participations, are assessed so that loss rates (product of PD and LGD) appropriately reflect risks within the current environment.

The evaluation of the adequacy of the allowance is primarily based upon internal risk rating models that assess probability of default, loss given default and exposure at default for each loan. The models are primarily driven by individual borrower financial characteristics, such as measures of profitability, leverage, and interest coverage. The

models are validated against historical industry experience. Participations are grouped using North American Industry Classification System (NAICS) codes into Services and Non-services segments for rating purposes. The Services segment includes and is not limited to industries such as accommodation and food services, retail, health care, information, and professional scientific and technical services. The Non-services segment includes and is not limited to manufacturing, construction, and agriculture, forestry, fishing, and hunting. Given significant differences in historical and expected performance, models differ for service and non-service industry loans. Loan participations are segmented into internal risk rating categories.

The principal exposure of loan participations on non-accrual status as of December 31, 2023 and 2022, was \$1.3 billion and \$2.0 billion, respectively. The evaluation of loan participations purchased by Main Street resulted in recording a credit loss allowance of \$0.8 billion as of December 31, 2023 and a loan loss allowance of \$1.1 billion as of December 31, 2022.

When a loan participation is charged off, any accrued but uncollected interest from both current and prior periods are charged against the allowance for credit losses as remaining interest receivable is specifically considered in the determination of the allowance for credit loss. Main Street realized principal and interest losses of \$452.5 million and \$79.9 million for charge-offs during the years ended December 31, 2023 and 2022, respectively.

In 2022, prior to the adoption of the CECL accounting guidance, Main Street's allowance for loan losses represented management's estimate of probable losses inherent in Main Street's loan participation portfolio. For MLF and TALF II, there were no assets for which the FRBNY determined there were expected credit losses and no allowance for credit impairment was required as of December 31, 2023 and 2022.

### ***Loan Modifications***

In certain cases, when a borrower experiences significant financial difficulties and is unable to meet its financial obligations, modifications to contractual terms may be approved that would not otherwise have been approved if the loan were performing. Modifications may include changes in payment structure and timing such as principal or interest payment deferral and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. Previously, in 2022, modifications to contractual terms that would not otherwise have been approved if the loan were performing were classified and accounted for as a troubled debt restructuring loan. With the adoption of CECL accounting guidance in 2023, loan modifications are evaluated to determine whether a modification made to the borrower results in a new loan or a continuation of the existing loan. Loan participations are evaluated based on the revised contractual terms when determining credit loss allowance. Loan participations totaling \$460 million and \$80 million were modified as of December 31, 2023 and 2022, respectively. Main Street evaluated all loan modifications for impairment on an individual basis.

The following table presents the outstanding principal balances for loan participations that were modified at December 31, 2023, by type of modification (in millions):

Loan participations modifications	December 31, 2023							
	Services		Non-services		Number of loan participations	Deferral period		
	Principal balance	% of segment	Principal balance	% of segment				
Interest payment deferral	\$ 5	-%	\$ —	-%	1	12 months		
Principal payment deferral	310	6%	78	3%	26	3 to 24 months		
Principal and interest payment deferral	28	1%	27	1%	2	7 to 27 months		
Maturity extension and principal payment deferral <sup>1</sup>	12	-%	—	-%	1	24 to 36 months		
Total loan participations modified	<b>\$ 355</b>		<b>\$ 105</b>		<b>30</b>			

<sup>1</sup> The loan participations maturity was extended by one year.

The following table presents the changes in modified loan participation balances for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Balance at beginning of year	\$ 80	\$ —
Additions <sup>1</sup>	434	80
Net charge-offs	(25)	—
Repayments	(29)	—
Balance at end of year	<b>\$ 460</b>	<b>\$ 80</b>

<sup>1</sup> Based on principal amount outstanding as beginning of year, plus capitalization during the year.

## b. Fair Value

There was no material difference between the cost and fair value of \$1.0 billion of cash equivalents and \$6.8 billion of short-term investments in non-marketable securities at December 31, 2023 and \$0.5 billion of cash equivalents at December 31, 2022.

At December 31, 2023, there were no municipal notes holdings in MLF. The following table presents the LLCs' holdings at December 31, 2022, reported at amortized cost (in millions). Fair value is provided as supplemental information.

Assets at amortized cost	2022			
	Amortized cost	Cumulative unrealized gains <sup>1</sup>	Cumulative unrealized losses <sup>1</sup>	Fair value
Short-term investments in non-marketable securities	\$ 13,276	\$ —	\$ —	\$ 13,276
Municipal notes	2,907	—	(41)	2,866
<b>Total</b>	<b>\$ 16,183</b>	<b>\$ —</b>	<b>\$ (41)</b>	<b>\$ 16,142</b>

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

Collateral associated with loans were assigned a lending value, reduced by a margin, upon initial extension of credit to determine the maximum amount TALF II could lend. At December 31, 2023, all TALF II loans were repaid, and there was no outstanding collateral. The following table presents the loan principal and collateral fair value on TALF II's loans at December 31, 2022 (in millions):

	2022	
	Loan principal	Collateral fair value <sup>1</sup>
Loans <sup>2</sup>	\$ 996	\$ 1,099

<sup>1</sup> Collateral fair value reflects the market value of collateral including accrued interest.

<sup>2</sup> All loans are fully collateralized.

The following table presents the financial instruments recorded at fair value as of December 31, 2023 and 2022 by the FASB ASC 820, Fair Value Measurement, hierarchy (in millions):

	2023			
	Level 1	Level 2	Level 3	Total <sup>1</sup>
Cash equivalents	\$ 1,006	\$ —	\$ —	\$ 1,006

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2023.

	2022			
	Level 1	Level 2	Level 3	Total <sup>1</sup>
Cash equivalents	\$ 447	\$ 100	\$ —	\$ 547

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2022.

At December 31, 2023 and 2022, the ratings breakdown of LLC holdings are as follows (in millions):

	2023		
	Government/ agency	Not rated	Total
Cash equivalents	\$ 259	\$ 747	\$ 1,006
Short-term investments in non-marketable securities	\$ 6,791	\$ —	\$ 6,791

Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

	2022		
	Government/ agency	Not rated <sup>1</sup>	Total
Cash equivalents	\$ 155	\$ 392	\$ 547
Short-term investments in non-marketable securities	\$ 13,276	\$ —	\$ 13,276
Municipal notes	\$ —	\$ 2,907	\$ 2,907

<sup>1</sup> Not rated categorization includes municipal notes with private ratings.

Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

At December 31, 2022, the ratings breakdown of the fair value of collateral securing TALF II's loans are as follows (in millions):

Collateral sector	2022		
	AAA	Government/ agency	Total
SBA loans	\$ —	\$ 899	\$ 899
Commercial mortgages	19	—	19
Leveraged loans	181	—	181
<b>Total</b>	<b>\$ 200</b>	<b>\$ 899</b>	<b>\$ 1,099</b>

Note: Lowest of all ratings was used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

The estimated fair value for loan participations, which are recorded at the cost of purchase, plus capitalized interest, less any principal paydowns, is approximately \$7.4 billion and \$10.8 billion at December 31, 2023 and 2022, respectively. Because external observable pricing information is not available, a market based discounted cash flow model is used to value loan participations classified within level 3. Key inputs to the model include market spread data for each credit rating, collateral type, and other relevant contractual features.

### c. Risk Profile

Short-term investments are subject to minimal interest rate and credit risk as these are principally short-term government-guaranteed investments. The average internal risk rating for loan participations at principal amount outstanding held as of December 31, 2023 and 2022 was equivalent to a Moody's rating of B2.

The following table shows rating distribution using internally derived risk ratings on a scale comparable to a Moody's rating scale as of December 31, 2023 and 2022:

Rating	Percentage of loan participations	
	2023	2022
Ba or higher	37 %	37 %
B	33 %	38 %
Caa	17 %	14 %
Ca	13 %	11 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

### d. Contributions and Distributions of Treasury Equity

The following table presents the Treasury's contributions and distributions of capital, distributions of LLC earnings, and current year undistributed LLC earnings as of December 31, 2023 and 2022 (in millions), which are reported as "Consolidated variable interest entities: Non-controlling interest—capital contribution (distribution)," "Consolidated variable interest entities: Non-controlling interest—(earnings distribution)," and "Consolidated variable interest entities: Income (loss), net," respectively, in the Combined Statements of Changes in Capital.

	Main Street	MLF	TALF II	Total
Treasury's equity, January 1, 2022	\$ 14,060	\$ 4,346	\$ 1,395	\$ 19,801
Capital contribution, during the year	—	—	—	—
Capital (distribution)	(4,222)	(1,349)	(340)	(5,911)
Current year undistributed LLC earnings	1,602	77	22	1,701
Earnings distribution <sup>1</sup>	—	—	—	—
Treasury's equity, December 31, 2022	<u>\$ 11,440</u>	<u>\$ 3,074</u>	<u>\$ 1,077</u>	<u>\$ 15,591</u>
Capital contribution, during the year	—	—	—	—
Capital (distribution)	(4,014)	(2,870)	(1,024)	(7,908)
Current year undistributed LLC earnings	870	132	36	1,038
Earnings distribution <sup>1</sup>	—	(144)	(48)	(192)
Treasury's equity, December 31, 2023	<u>\$ 8,296</u>	<u>\$ 192</u>	<u>\$ 41</u>	<u>\$ 8,529</u>

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

The following tables present the Treasury's cumulative capital contributions and undistributed LLC earnings (loss) as of December 31, 2023 and 2022 (in millions):

	Main Street	MLF	TALF II	Total
Capital contributions	\$ 11,452	\$ 2,870	\$ 1,024	\$ 15,346
Undistributed LLC (loss) earnings	(12)	204	53	245
Treasury's equity, December 31, 2022	<u>\$ 11,440</u>	<u>\$ 3,074</u>	<u>\$ 1,077</u>	<u>\$ 15,591</u>
Capital contributions	\$ 7,438	\$ —	\$ —	\$ 7,438
Undistributed LLC earnings	858	192	41	1,091
Treasury's equity, December 31, 2023	<u>\$ 8,296</u>	<u>\$ 192</u>	<u>\$ 41</u>	<u>\$ 8,529</u>

The assets of the VIE and the amounts provided by the Treasury as credit protection are used to secure the loans from the Reserve Banks. Funds provided by the Treasury's preferred equity contribution are invested as mutually agreed upon by each LLC and Treasury and consented to by the Reserve Banks. Additionally, the managing member has contributed a nominal amount to each LLC.

#### e. Short-Term Investments in Non-Marketable Securities

In accordance with the terms of the Preferred Equity Investment Agreements for Main Street, MLF and TALF II, approximately 85 percent of the Treasury's initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to each LLC. These investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The remaining equity contribution of approximately 15 percent of the initial equity contribution was held in cash on deposit at FRBNY to support the liquidity needs of each LLC. Due to the short-term nature of cash equivalents and non-marketable securities, the cost basis is estimated to approximate fair value.

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

Bank premises and equipment at December 31, 2023 and 2022 were as follows (in millions):

	2023	2022
<b>Bank premises and equipment:</b>		
Land and land improvements	\$ 446	\$ 429
Buildings	3,366	3,246
Construction	124	131
Furniture and equipment	2,437	2,224
Subtotal	<u>6,373</u>	<u>6,030</u>
Accumulated depreciation	(3,476)	(3,330)
Bank premises and equipment, net	<u><u>\$ 2,897</u></u>	<u><u>\$ 2,700</u></u>
Depreciation expense, for the years ended December 31	<u><u>\$ 242</u></u>	<u><u>\$ 244</u></u>

Bank premises and equipment at December 31, 2023 and 2022 included the following amounts for finance leases (in millions):

	2023	2022
Leased premises and equipment under finance leases	\$ 54	\$ 62
Accumulated depreciation	(34)	(41)
Leased premises and equipment under finance leases, net	<u>\$ 20</u>	<u>\$ 21</u>
Depreciation expense related to leased premises and equipment under finance leases, for the years ended December 31	<u><u>\$ 12</u></u>	<u><u>\$ 9</u></u>

The Reserve Banks lease space to outside tenants with remaining lease terms ranging from 1 to 14 years, which reflect any renewal options the lessee is reasonably certain to exercise or termination options not reasonably certain to exercise. Rental income from such leases was \$34 million and \$37 million for the years ended December 31, 2023 and 2022, respectively, and is reported as a component of “Other items of income (loss): Other” in the Combined Statements of Operations. Future minimum lease payments that the Reserve Banks will receive under non-cancelable lease agreements in existence at December 31, 2023 are as follows (in millions):

2024	\$ 31
2025	27
2026	26
2027	24
2028	21
Thereafter	69
<b>Total</b>	<u><u>\$ 198</u></u>

The Reserve Banks had capitalized software assets, net of amortization, of \$518 million and \$445 million at December 31, 2023 and 2022, respectively. Amortization expense was \$138 million and \$108 million for the

years ended December 31, 2023 and 2022, respectively. Capitalized software assets are reported as a component of "Other assets" in the Combined Statements of Condition and the related amortization is reported as a component of "Operating expenses: Other" in the Combined Statements of Operations.

## (8) COMMITMENTS AND CONTINGENCIES

In conducting its operations, the Reserve Banks enter into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

At December 31, 2023, the Reserve Banks were obligated under non-cancelable leases for premises with remaining terms ranging from 1 to approximately 7 years. The lease term and the recorded amount of right-of-use assets and lease liabilities include any renewal options reasonably certain to be exercised or termination options not reasonably certain to be exercised. These leases provide for increased lease payments based upon increases in real estate taxes, operating costs, or selected price indexes.

Rental expense for certain operating facilities, warehouses, and data processing (including taxes, insurance, and maintenance when included in rent) was \$17 million and \$11 million for the years ended December 31, 2023 and 2022, respectively.

Lease right-of-use assets were \$29 million and \$18 million at December 31, 2023 and 2022, respectively, and are reported as a component of "Other assets" in the Combined Statements of Condition, while lease liabilities are disclosed below and are reported as a component of "Other liabilities" in the Combined Statements of Condition. Future minimum lease payments and total lease liabilities under non-cancelable operating leases at December 31, 2023 are as follows (in millions):

	Operating leases
2024	\$ 13
2025	9
2026	3
2027	2
2028	1
Thereafter	2
Future minimum lease payments	\$ 30

At December 31, 2022, the Reserve Banks, acting on their own behalf, had unrecorded unconditional purchase commitments extending through the year 2029 with a remaining fixed commitment of \$230 million. Purchases of \$65 million and \$73 million were made against these commitments during 2023 and 2022, respectively. These commitments represent maintenance of currency processing machines and development of new equipment and

have variable and fixed components. The fixed payments for the next five years under these commitments are as follows (in millions):

2024	\$	38
2025		46
2026		36
2027		36
2028		38

Under an insurance agreement of the Reserve Banks, each of the Reserve Banks has agreed to bear, on a per-incident basis, a share of certain losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2023 and 2022.

The Reserve Banks are involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the legal actions and claims will be resolved without material adverse effect on the financial position or results of operations of the Reserve Banks.

## **(9) RETIREMENT AND THRIFT PLANS**

### **Retirement Plans**

The Reserve Banks currently offer three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the System Plan. Under the Dodd-Frank Act, eligible Bureau employees may participate in the System Plan and, during the years ended December 31, 2023 and 2022, certain costs associated with the System Plan were reimbursed by the Bureau. In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP).

On behalf of the System, the FRBNY recognized the net asset or net liability and costs associated with the System Plan in its financial statements during 2022 and January 1, 2023, through July 31, 2023. Previously, the OEB was a separate legal entity that administered the selected System benefit plans, and on August 1, 2023, was integrated into the operations of the Federal Reserve Bank of Atlanta (FRBA). Beginning August 1, 2023, the FRBA began recognizing the net asset or net liability and costs associated with the System Plan in its financial statements. The Reserve Banks report the service cost related to the System Plan as "Operating expenses:

"System pension service cost" in its Combined Statements of Operations, and other net benefit costs related to the System Plan as a component of "Other items of income (loss): Other components of net benefit costs" in its Combined Statements of Operations. The Reserve Banks report the service cost related to the BEP and SERP as a component of "Operating expenses: Salaries and benefits" in its Combined Statements of Operations, the net cost related to the BEP and SERP as "Other items of income (loss): Other components of net benefit costs" in its Combined Statements of Operations, and the net liability as a component of "Accrued benefit costs" in its Combined Statements of Condition.

Following is a reconciliation of the beginning and ending balances of the System Plan benefit obligation for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Estimated actuarial present value of projected benefit obligation at January 1	\$ 17,559	\$ 24,194
Service cost—benefits earned during the period	548	946
Interest cost on projected benefit obligation	992	775
Actuarial loss (gain)	1,055	(7,745)
Contributions by plan participants	3	6
Special termination benefits	24	7
Benefits paid	(693)	(624)
Estimated actuarial present value of projected benefit obligation at December 31	<u>\$ 19,488</u>	<u>\$ 17,559</u>

Annually, the Society of Actuaries Retirement Plan Experience Committee reviews the most recent mortality experience and can release updated mortality tables and mortality projection scales. This year, the annual review released in October 2023 did not update the mortality tables or mortality projections, however, the System reviewed the System's actual retiree mortality experience as part of an annual review. As a result, the System retained for year-end 2023 the modified MP-2019 projections scales and Pri-2012 mortality tables with updated adjustments to reflect the recent mortality experience of System retirees. These adjustments resulted in an addition to the Retirement Plan projected benefit obligation of approximately \$32 million in 2023.

Following is a reconciliation showing the beginning and ending balance of the System Plan assets, the funded status, and the accrued pension benefit costs for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Estimated plan assets at January 1 (of which \$18,897 and \$24,643 is measured at fair value as of January 1, 2023 and 2022, respectively)	\$ 18,892	\$ 24,666
Actual return on plan assets	1,988	(5,338)
Contributions by the employers	296	182
Contributions by plan participants	3	6
Benefits paid	(693)	(624)
Estimated plan assets at December 31 (of which \$20,529 and \$18,897 is measured at fair value as of December 31, 2023 and 2022, respectively)	\$ 20,486	\$ 18,892
Funded status and accrued pension benefit costs	\$ 998	\$ 1,333
Amounts included in accumulated other comprehensive loss are shown below:		
Net actuarial loss	\$ (1,873)	\$ (1,593)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (1,873)</b>	<b>\$ (1,593)</b>

The Reserve Banks, on behalf of the System, funded \$240 million and \$140 million during the years ended December 31, 2023 and 2022, respectively. The Bureau is required by the Dodd-Frank Act to fund the System Plan for each Bureau employee based on an established formula. During the years ended December 31, 2023 and 2022, the Reserve Banks received contributions from the Bureau of \$56 million and \$42 million, respectively.

The accumulated benefit obligation for the System Plan, which differs from the estimated actuarial present value of projected benefit obligation because it is based on current rather than future compensation levels, was \$17,041 million and \$15,430 million at December 31, 2023 and 2022, respectively.

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

	2023	2022
Discount rate	5.24 %	5.55 %
Rate of compensation increase	4.50 %	4.50 %

Net periodic benefit expenses for the years ended December 31, 2023 and 2022 were actuarially determined using a January 1 measurement date. The weighted-average assumptions used in developing net periodic benefit expenses for the System Plan for the years were as follows:

	2023	2022
Discount rate	5.55 %	3.09 %
Expected asset return	6.50 %	5.25 %
Rate of compensation increase	4.50 %	4.25 %

Discount rates reflect yields available on high-quality corporate and other taxable bonds that would generate the cash flows necessary to pay the System Plan's benefits when due. The expected long-term rate of return on assets is an estimate that is based on a combination of factors, including the System Plan's asset allocation strategy and historical returns; surveys of expected rates of return for various asset classes; and projected returns for equities and fixed income investments based on observable inputs for real interest rates, inflation expectations, and equity risk premiums.

The components of net periodic pension benefit expense for the System Plan for the years ended December 31, 2023 and 2022 are shown below (in millions):

	2023	2022
Service cost—benefits earned during the period	\$ 548	\$ 946
Other components of periodic pension benefit expense:		
Interest cost on projected benefit obligation	\$ 992	\$ 775
Amortization of actuarial loss	—	45
Expected return on plan assets	(1,213)	(1,290)
Special termination benefits	24	7
Bureau of Consumer Financial Protection contributions	(56)	(42)
Other components of periodic pension benefit (credit)	(253)	(505)
<b>Total periodic pension benefit expense</b>	<b>\$ 295</b>	<b>\$ 441</b>

The service cost component of periodic pension benefit expense is reported as "Operating expenses: System pension service cost" in the Combined Statements of Operations and the other components of periodic pension benefit expense are reported as a component of "Other items of income (loss): Other components of net benefit costs" in the Combined Statements of Operations.

The recognition of special termination benefits is primarily the result of enhanced retirement benefits provided to employees in the normal course of operations. Following is a summary of expected benefit payments, excluding enhanced retirement benefits (in millions):

2024	\$ 742
2025	788
2026	836
2027	887
2028	938
2029-2033	5,485
<b>Total</b>	<b>\$ 9,676</b>

The System's Committee on Plan Administration is responsible for oversight of the operations of the Retirement Plan, which includes the Retirement Plan trust and for determining the amounts necessary to maintain the

Retirement Plan on an actuarially sound basis and the amounts that employers must contribute to pay the expenses of OEB and the Retirement Plan.

The System's Committee on Investment Performance (CIP) is responsible for establishing investment policies, selecting investment managers, and monitoring the investment managers' compliance with its policies. At December 31, 2023, the System Plan's assets were held in 52 investment vehicles: 7 actively-managed long-duration fixed income portfolios, a passively-managed long-duration fixed income portfolio, an actively-managed crossover high yield fixed income portfolio, an indexed U.S. equity fund, an indexed non-U.S. developed-markets equity fund, an indexed emerging-markets equity fund, 11 private equity limited partnerships, a private equity separate account, 4 core real estate funds, 23 real estate limited partnerships, and a money market fund.

The diversification of the System Plan's investments is designed to limit concentration of risk and the risk of loss related to an individual asset class. The seven actively-managed long-duration fixed income portfolios are separate accounts benchmarked to a custom benchmark of 55 percent Bloomberg Long Credit Downgrade Protected Index and 45 percent Bloomberg 15+ years Treasury STRIPS Index. This custom benchmark was selected as a proxy to match the liabilities of the System Plan and the guidelines for these portfolios are designed to limit portfolio deviations from the benchmark. The passively-managed long-duration fixed-income portfolio is invested in 2 commingled funds and is benchmarked to 55 percent Bloomberg Long Credit Index and 45 percent Bloomberg 20+ STRIPS Index. The actively-managed crossover high yield fixed income portfolio is benchmarked to a custom benchmark of 75 percent Bloomberg BB High Yield Index and 25 percent Bloomberg BBB Index. The indexed U.S. equity fund is intended to track the overall U.S. equity market across market capitalizations and is benchmarked to the CRSP U.S. Total Market Index. The indexed non-U.S. developed-markets equity fund is intended to track the MSCI World ex-US Investible Markets Index (IMI), which includes stocks from 22 markets deemed by MSCI to be "developed markets." The indexed emerging-markets equity fund is intended to track the MSCI Emerging Markets IMI Index, which includes stocks from 24 markets deemed by MSCI to be "emerging markets."

The 3 indexed equity funds include stocks from across the market capitalization spectrum (i.e., large-, mid- and small-cap stocks).

The 11 private equity limited partnerships invest globally across various private equity strategies and the private equity separate account invests in various private equity funds (both primary and secondary interests) and coinvestment opportunities globally in private companies and targets returns in excess of public markets over a complete market cycle.

The 4 core real estate funds invest in high quality, well leased, low leverage commercial real estate throughout the U.S.

The 23 real estate limited partnerships invest in core plus, value-add and opportunistic U.S. and international commercial real estate including development and repositioning of assets. Finally, the money market fund, which invests in short term Treasury and agency debt and repurchase agreements backed by Treasury and agency debt, is the repository for cash balances and adheres to a constant dollar methodology.

Permitted and prohibited investments, including the use of certain derivatives, are defined in either the trust agreement (for the passively-managed long-duration fixed income and indexed equity funds portfolio) or the investment guidelines (for the remaining investments). The CIP reviews the trust agreement and approves all investment guidelines as part of the selection of each investment to ensure that they are consistent with the CIP's investment objectives for the System Plan's assets.

The System Plan's policy weight and actual asset allocations at December 31, 2023 and 2022 by asset category, are as follows:

	2023	Actual asset allocations	
	Policy weight	2023	2022
Long-duration fixed income	50.0 %	51.4 %	50.0 %
U.S. equities	20.3 %	17.9 %	18.3 %
International equities	9.1 %	8.2 %	8.5 %
Private equity	7.0 %	7.9 %	8.6 %
High yield fixed income	5.0 %	5.2 %	5.0 %
Real estate	5.0 %	5.3 %	5.9 %
Emerging markets equities	3.6 %	3.1 %	3.2 %
Cash	0.0 %	1.0 %	0.5 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Employer contributions to the System Plan may be determined using different assumptions than those required for financial reporting. There is no funding anticipated for the System Plan for 2024 and monthly contributions will be reevaluated periodically. The Reserve Banks' projected benefit obligation, funded status, and net pension expenses for the BEP and SERP at December 31, 2023 and 2022, and for the years then ended, were immaterial.

## Determination of Fair Value

The System Plan's publicly traded investments are valued on the basis of the last available bid prices or current market quotations provided by dealers or pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

Collective trust funds are valued using the net asset value, calculated daily, based on the fair value of the underlying investments. Private equity and real estate investments are valued using the net asset value, as a practical expedient, which is based on the fair value of the underlying investments. The net asset value is adjusted for contributions, distributions, and both realized and unrealized gains and losses incurred during the period. The realized and unrealized gains and losses are based on reported valuation changes.

Because of the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ significantly from the values that would have been reported if a readily available fair value had existed for these investments and may differ materially from the values that may ultimately be realized.

The following tables present the financial instruments recorded at fair value as of December 31, 2023 and 2022 by FASB ASC 820, Fair Value Measurement, hierarchy (in millions):

Description	2023				Total <sup>1</sup>
	Level 1	Level 2	Level 3	Total	
Short-term investments	\$ 441	\$ —	\$ —	\$ 441	
Treasury and federal agency securities	128	3,417	—	—	3,545
Corporate bonds	—	4,634	—	—	4,634
Other fixed income securities	—	445	—	—	445
Collective trusts	8,750	—	—	—	8,750
Real estate	—	152	—	—	152
Investments measured at net asset value <sup>2</sup>	—	—	—	—	2,549
<b>Total investments at fair value <sup>3</sup></b>	<b>\$ 9,319</b>	<b>\$ 8,648</b>	<b>\$ —</b>	<b>\$ —</b>	<b>20,516</b>

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2023.

<sup>2</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

<sup>3</sup> In addition to total investments, the System Plan holds future margin receivable of \$20 million, future margin payable of \$7 million, and foreign exchange forward payable of \$0.2 million at December 31, 2023.

Description	2022				Total <sup>1</sup>
	Level 1	Level 2	Level 3	Total	
Short-term investments	\$ 329	\$ —	\$ —	\$ 329	
Treasury and federal agency securities	135	3,214	—	—	3,349
Corporate bonds	—	4,277	—	—	4,277
Other fixed income securities	—	380	—	—	380
Collective trusts	7,828	—	—	—	7,828
Real estate <sup>2</sup>	—	182	—	—	182
Investments measured at net asset value <sup>3</sup>	—	—	—	—	2,556
<b>Total investments at fair value <sup>4</sup></b>	<b>\$ 8,292</b>	<b>\$ 8,053</b>	<b>\$ —</b>	<b>\$ —</b>	<b>18,901</b>

<sup>1</sup> There were no transfers between levels during the year ended December 31, 2022.

<sup>2</sup> Real estate investments of \$567 million that were previously reported using Level 2 inputs have been reclassified to net asset value to conform to current year presentation.

<sup>3</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

<sup>4</sup> In addition to total investments at fair value, the System Plan holds future margin receivable of \$4 million, future margin payables of \$7 million, and foreign exchange forward payable of \$1 million at December 31, 2022.

The System Plan enters into futures contracts, traded on regulated exchanges, to manage certain risks and to maintain appropriate market exposure in meeting the investment objectives of the System Plan. The System Plan bears the market risk that arises from any unfavorable changes in the value of the securities or indexes underlying these futures contracts. The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recorded in the Combined Statements of Condition. The guidelines established by the CIP further reduce risk by limiting the net futures positions, for most fund managers, to 15 percent of the market value of the advisor's portfolio.

At December 31, 2023 and 2022, a portion of short-term investments was available for futures trading. There were \$13 million and \$14 million of Treasury securities and cash pledged as collateral for the years ended December 31, 2023 and 2022, respectively.

The System Plan also enters into currency spot and forward transactions as a means of hedging currency exposure for securities denominated in a foreign currency.

Forward currency transactions are non-exchange-traded contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The forward contracts are customized for the specific asset(s) being hedged.

## **Thrift Plan**

Employees of the Reserve Banks participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Reserve Banks match 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Reserve Banks' Thrift Plan contributions totaled \$187 million and \$173 million for the years ended December 31, 2023 and 2022, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Combined Statements of Operations.

## **(10) POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS**

### **Postretirement Benefits Other Than Retirement Plans**

In addition to the Reserve Banks' retirement plans, employees who have met certain age and length-of-service requirements are eligible for both medical and life insurance benefits during retirement.

The Reserve Banks and plan participants fund benefits payable under the medical and life insurance plans as due and the plans have no assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Accumulated postretirement benefit obligation at January 1	\$ 1,338	\$ 1,931
Service cost—benefits earned during the period	61	102
Interest cost on accumulated benefit obligation	73	59
Net actuarial loss (gain) <sup>1</sup>	50	(682)
Special termination benefits loss	1	—
Contributions by plan participants	32	32
Benefits paid	(110)	(105)
Medicare Part D subsidies	2	2
Plan amendments	(125)	(1)
Accumulated postretirement benefit obligation at December 31	<u>\$ 1,322</u>	<u>\$ 1,338</u>

<sup>1</sup> Includes \$6 million of the OEB's accumulated postretirement benefit obligation at August 1, 2023 resulting from integrating operations into the FRBA.

At December 31, 2023 and 2022, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.11 percent and 5.43 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due. The System Plan discount rate assumption setting convention uses an unrounded rate.

Following is a reconciliation of the beginning and ending balance of the plan assets, and the unfunded postretirement benefit obligation and accrued postretirement benefit costs for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Fair value of plan assets at January 1	\$ —	\$ —
Contributions by the employer	78	73
Contributions by plan participants	32	32
Benefits paid	(110)	(105)
Fair value of plan assets at December 31	<u>\$ —</u>	<u>\$ —</u>
Unfunded obligation and accrued postretirement benefit costs	<u>\$ 1,322</u>	<u>\$ 1,338</u>
Amounts included in accumulated other comprehensive income are shown below:		
Prior service cost	\$ 148	\$ 46
Net actuarial gain <sup>1</sup>	489	587
Total accumulated other comprehensive income	<u>\$ 637</u>	<u>\$ 633</u>

<sup>1</sup> Includes \$2 million of the OEB's postretirement net actuarial gain resulting from integrating operations into the FRBA.

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

For measurement purposes, the assumed health-care cost trend rates at December 31, 2023 and 2022 are provided in the table below:

	2023	2022
Health-care cost trend rate assumed for next year	6.25 %	6.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75 %	4.75 %
Year that the rate reaches the ultimate trend rate	2030	2030

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31, 2023 and 2022 (in millions):

	2023	2022
Service cost—benefits earned during the period	\$ 61	\$ 102
Other components of periodic postretirement benefit expense:		
Interest cost on accumulated benefit obligation	\$ 73	\$ 59
Amortization of prior service credit	(22)	(30)
Amortization of net actuarial (gain) loss	(55)	5
Special termination benefits loss	1	—
Other components of periodic postretirement benefit expense	(3)	34
<b>Total periodic postretirement benefit expense</b>	<b>\$ 58</b>	<b>\$ 136</b>

The service cost component of periodic postretirement benefit expense is reported as a component of “Operating expenses: Salaries and benefits” in the Combined Statements of Operations and the other components of periodic postretirement benefit expense are reported as a component of “Other items of income (loss): Other components of net benefit costs” in the Combined Statements of Operations.

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2023 and 2022, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 5.43 percent and 2.91 percent, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health-care benefit plans that provide benefits that are at least actuarially equivalent to Medicare Part D. The benefits provided under the Reserve Banks' plan to certain participants are at least actuarially equivalent to the Medicare Part D prescription drug benefit. The estimated effects of the subsidy are reflected in the actuarial gain in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were immaterial in the years ended December 31, 2023 and 2022. Expected receipts in 2024, related to benefits paid in the years ended December 31, 2023 and 2022, are immaterial.

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

	Without subsidy	With subsidy
2024	\$ 85	\$ 84
2025	86	85
2026	90	89
2027	94	92
2028	97	96
2029-2033	534	528
<b>Total</b>	<b>\$ 986</b>	<b>\$ 974</b>

## Postemployment Benefits

The Reserve Banks offers benefits to former qualifying or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of providing disability; medical, dental, and vision insurance; survivor income benefits, and certain workers' compensation expenses. The accrued postemployment benefit costs recognized by the Reserve Banks at December 31, 2023 and 2022 were \$68 million and \$74 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Combined Statements of Condition. Net periodic postemployment benefit expense (credit) included in 2023 and 2022 operating expenses were \$7 million and \$(7) million, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Combined Statements of Operations.

## (11) ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) as of December 31, 2023 and 2022 (in millions):

	2023			2022		
	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive income (loss)	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive income (loss)
<b>Balance at January 1</b>	\$ (1,593)	\$ 633	\$ (960)	\$ (2,754)	\$ (25)	\$ (2,779)
<b>Change in funded status of benefit plans:</b>						
Prior service costs arising during the year	–	125	125	–	1	1
Amortization of prior service cost (credit) <sup>1</sup>	–	(22)	(22)	–	(30)	(30)
Change in prior service costs related to benefit plans	–	103	103	–	(29)	(29)
Net actuarial (loss) gain arising during the year <sup>2</sup>	(280)	(44)	(324)	1,116	682	1,798
Amortization of net actuarial loss (gain) <sup>1</sup>	–	(55)	(55)	45	5	50
Change in actuarial gain related to benefit plans	(280)	(99)	(379)	1,161	687	1,848
Change in funded status of benefit plans—other comprehensive (loss) income	(280)	4	(276)	1,161	658	1,819
<b>Balance at December 31</b>	<b>\$ (1,873)</b>	<b>\$ 637</b>	<b>\$ (1,236)</b>	<b>\$ (1,593)</b>	<b>\$ 633</b>	<b>\$ (960)</b>

<sup>1</sup> Reclassification is reported as a component of "Other items of income (loss): Other components of net benefit costs" in the Combined Statements of Operations.

<sup>2</sup> Includes \$2 million of the OEB's postretirement net actuarial gain resulting from integrating operations into the FRBA.

Additional detail regarding the classification of accumulated other comprehensive loss is included in Notes 9 and 10.

## (12) RECONCILIATION OF TOTAL DISTRIBUTION OF COMPREHENSIVE INCOME AND TREASURY REMITTANCES

In accordance with the FRA, the Reserve Banks remits excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain the Reserve Banks' allocated portion of the aggregate surplus limitation (see Note 3r).

The Reserve Banks remitted excess earnings to the Treasury on a weekly basis during most of 2022 and periodically during 2023. In the fall of 2022, the Reserve Banks first suspended weekly remittances to the Treasury because earnings shifted from excess to less than the costs of operations, payment of dividends, and reservation of surplus. The Reserve Banks' deferred asset represents the net accumulation of costs in excess of earnings, and is reported as "Deferred asset – remittances to the Treasury" in the Combined Statements of Condition. The deferred asset represents the amount of net excess earnings the Reserve Banks will need to realize in the future before remittances to the Treasury resume. No impairment existed as of December 31, 2023, as net excess earnings of the Reserve Banks in future periods are expected to exceed the balance of the deferred asset.

The following table presents the distribution of the Reserve Banks' and System's total comprehensive income for the years ended December 31, 2023 and 2022 (in millions):

	System total	
	2023	2022
Reserve Bank and consolidated variable interest entity net (loss) income before providing for remittances to the Treasury	\$ (114,300)	\$ 58,836
Other comprehensive (loss) income	(276)	1,819
Total comprehensive (loss) income—available for distribution	<u>\$ (114,576)</u>	<u>\$ 60,655</u>
<b>Distribution of comprehensive income (loss):</b>		
Dividends	\$ 1,487	\$ 1,209
Remittances transferred to the Treasury <sup>1</sup>	670	76,031
Deferred asset increase	(116,733)	(16,585)
Earnings remittances to the Treasury, net	(116,063)	59,446
Total distribution of comprehensive (loss) income	<u>\$ (114,576)</u>	<u>\$ 60,655</u>

<sup>1</sup> Represents cumulative excess earnings remittances transferred to the Treasury.

## (13) SUBSEQUENT EVENTS

As of February 23, 2024, all holdings of MLF and TALF II were liquidated, final obligations were satisfied, and final distributions of proceeds were made to FRBNY and the Treasury. The following table presents the distribution of the Treasury's and FRBNY's cumulative earnings since inception through the March 2024 dissolution in accordance with the LLCs' legal agreements (in millions):

	MLF	TALF II
Cumulative earnings distribution		
Non-controlling interest—Treasury	\$ 192	\$ 41
Managing member—FRBNY	21	5
Total cumulative earnings distribution	<u>\$ 213</u>	<u>\$ 46</u>

Subsequent events were evaluated through March 18, 2024, which is the date that these financial statements were available to be issued.



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