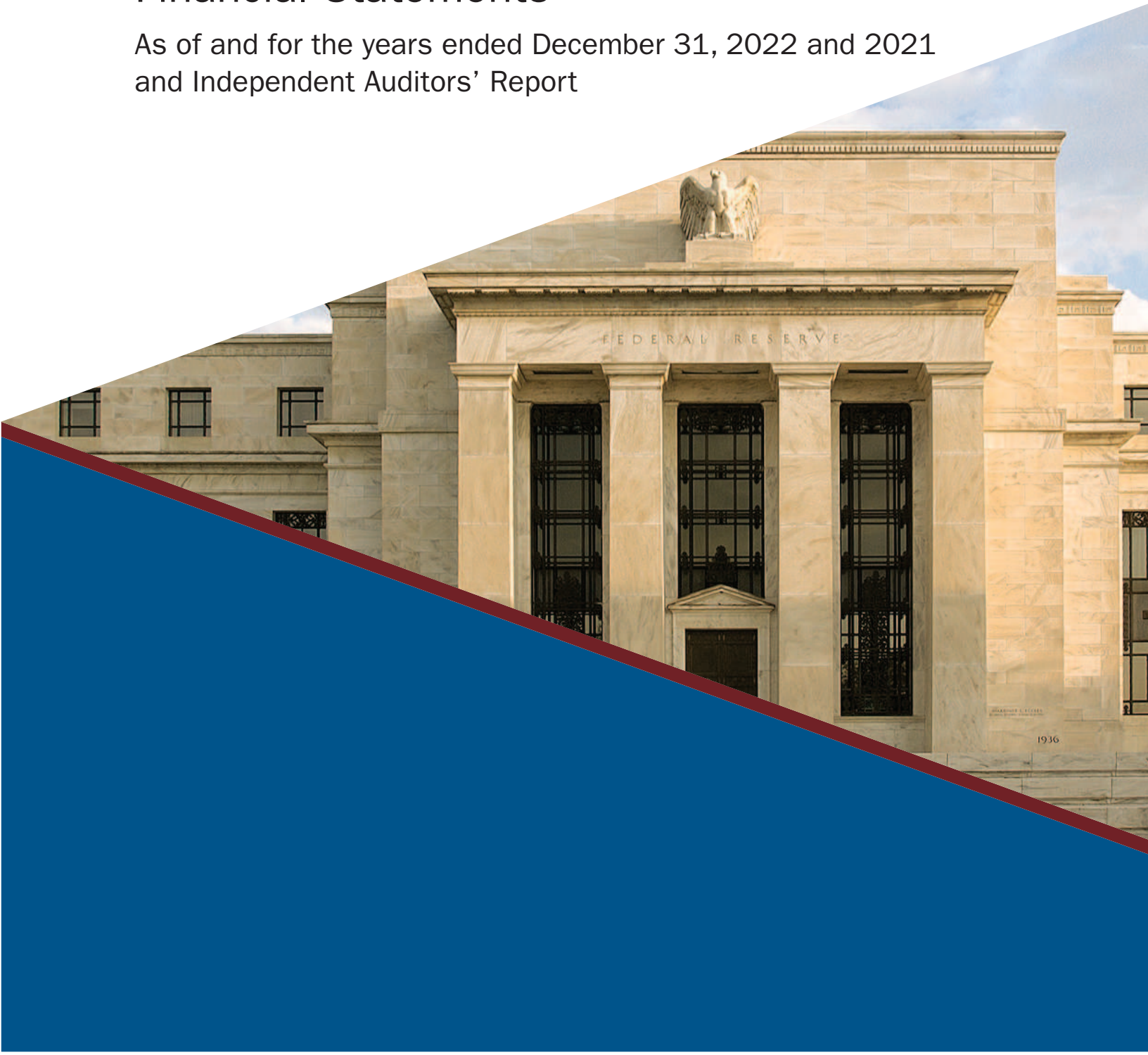




Federal Reserve Bank of Dallas Financial Statements

As of and for the years ended December 31, 2022 and 2021
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 and stable prices 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.

Contents

Management’s Report on Internal Control over Financial Reporting	4
Independent Auditors’ Report	5
Abbreviations	7
Financial Statements:	
Statements of Condition as of December 31, 2022 and December 31, 2021	8
Statements of Operations for the years ended December 31, 2022 and December 31, 2021	9
Statements of Changes in Capital for the years ended December 31, 2022 and December 31, 2021	10
Notes to Financial Statements	11



Federal Reserve Bank of Dallas

Management's Report on Internal Control over Financial Reporting

March 14, 2023

To the Board of Directors:

The management of the Federal Reserve Bank of Dallas (Bank) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2022 and 2021, and the Statements of Operations, and Statements of Changes in Capital, and the related notes for the years then ended (collectively, the financial statements). The financial statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the FAM and include all disclosures necessary for such fair presentation.

The management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Bank's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the FAM. The Bank's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Bank's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with FAM, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its financial statements.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the Bank assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the Bank maintained effective internal control over financial reporting.

Federal Reserve Bank of Dallas

Handwritten signature of Lorie Logan in cursive.

Lorie Logan
President &
Chief Executive Officer

Handwritten signature of Robert Triplett, III in cursive.

Robert Triplett, III
First Vice President &
Chief Operating Officer

Handwritten signature of Jeff Garrett in cursive.

Jeff Garrett
Senior Vice President &
Chief Financial Officer



KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System
and the Board of Directors of the Federal Reserve Bank of Dallas:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Dallas (“FRB Dallas”) as of December 31, 2022 and 2021, and the related statements of operations and changes in capital for the years then ended, and the related notes (collectively, the financial statements). We also have audited the FRB Dallas’ internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRB Dallas’ management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the FRB Dallas’ internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The FRB Dallas’ internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System (the “Board”) as described in Note 3 of the financial statements and as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (“FAM”). The FRB Dallas’ internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the FRB Dallas; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the FAM, and that receipts and expenditures of the FRB Dallas are being made only in accordance with authorizations of management and directors of the FRB Dallas; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRB Dallas’ assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



As described in Note 3 to the financial statements, the FRB Dallas has prepared these financial statements in conformity with the accounting principles established by the Board, as set forth in the FAM, which is a basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FRB Dallas as of December 31, 2022 and 2021, and the results of its operations and changes in capital for the years then ended, on the basis of accounting described in Note 3. Also, in our opinion, the FRB Dallas maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Dallas, Texas
March 14, 2023

Abbreviations

ACH	Automated clearinghouse
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BEP	Benefit Equalization Retirement Plan
Bureau	Bureau of Consumer Financial Protection
CARES	Coronavirus Aid, Relief, and Economic Security
CCF	Corporate Credit Facilities LLC
CMBS	Agency commercial mortgage-backed securities
CPFF II	CP Funding Facility II LLC
ESF	Exchange Stabilization Fund
FAM	Financial Accounting Manual for Federal Reserve Banks
FASB	Financial Accounting Standards Board
FIMA	Foreign and International Monetary Authorities
FOMC	Federal Open Market Committee
FRA	Federal Reserve Act
FRBB	Federal Reserve Bank of Boston
FRBNY	Federal Reserve Bank of New York
FRFS	Federal Reserve Financial Services
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
LLC	Limited Liability Company
Main Street	MS Facilities LLC
MBS	Mortgage-backed securities
MLF	Municipal Liquidity Facility LLC
MMLF	Money Market Mutual Fund Liquidity Facility
MSLP	Main Street Lending Program
NONLF	Non-profit Organization New Loan Facility
OEB	Office of Employee Benefits of the Federal Reserve System
PMCCF	Primary Market Corporate Credit Facility
PPP	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Facility
RMBS	Agency residential mortgage-backed securities
SBA	Small Business Administration
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
TALF II	Term Asset-Backed Securities Loan Facility II LLC
TBA	To be announced
TIPS	Treasury Inflation-Protected Securities

Statements of Condition as of December 31, 2022 and December 31, 2021		
(in millions)		
	2022	2021
ASSETS		
Gold certificates	\$ 997	\$ 938
Special drawing rights certificates	282	282
Coin	158	154
Loans:		
	Note 4	
Loans to depository institutions	630	10
Other loans	6	211
System Open Market Account:		
	Note 5	
Treasury securities, net (of which \$2,645 and \$1,801 is lent as of December 31, 2022 and 2021, respectively)	293,736	261,678
Federal agency and government-sponsored enterprise mortgage-backed securities, net	138,304	118,747
Government-sponsored enterprise debt securities, net (of which \$1 and \$0 is lent as of December 31, 2022 and 2021, respectively)	132	115
Foreign currency denominated investments, net	446	366
Central bank liquidity swaps	10	60
Accrued interest receivable	1,756	1,369
Other accrued interest receivable	-	1
Bank premises and equipment, net	Note 6	254
Deferred asset - remittances to the Treasury	Note 11	83
Interdistrict settlement account	-	85,680
Other assets	51	37
Total assets	<u>\$ 436,845</u>	<u>\$ 469,890</u>
LIABILITIES AND CAPITAL		
Federal Reserve notes outstanding, net	\$ 192,033	\$ 193,119
System Open Market Account:		
	Note 5	
Securities sold under agreements to repurchase	148,146	96,538
Other liabilities	35	105
Deposits:		
Depository institutions	89,990	178,123
Other deposits	353	758
Interest payable to depository institutions and others	32	1
Accrued benefit costs	Notes 8, 9	107
Accrued remittances to the Treasury	-	90
Interdistrict settlement account	5,249	-
Other liabilities	19	18
Total liabilities	<u>435,964</u>	<u>468,913</u>
Reserve Bank capital		
Capital paid-in	\$ 738	\$ 814
Surplus (including accumulated other comprehensive income of \$47 and \$2 at December 31, 2022 and 2021, respectively)	143	163
Total Reserve Bank capital	<u>881</u>	<u>977</u>
Total liabilities and capital	<u>\$ 436,845</u>	<u>\$ 469,890</u>

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

Statements of Operations for the years ended December 31, 2022 and December 31, 2021

(In millions)

		2022	2021
INTEREST INCOME			
Loans:	Note 4		
Loans to depository institutions		\$ 4	\$ –
Other loans		–	4
System Open Market Account:	Note 5		
Treasury securities, net		5,728	4,184
Federal agency and government-sponsored enterprise mortgage-backed securities, net		2,667	1,342
Government-sponsored enterprise debt securities, net		7	6
Foreign currency denominated investments, net		–	(1)
Total interest income		<u>8,406</u>	<u>5,535</u>
INTEREST EXPENSE			
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		\$ 2,147	\$ 18
Depository institutions and others		1,906	195
Total interest expense		<u>4,053</u>	<u>213</u>
Net interest income		<u>4,353</u>	<u>5,322</u>
OTHER ITEMS OF INCOME (LOSS)			
System Open Market Account:	Note 5		
Federal agency and government-sponsored enterprise mortgage-backed securities losses, net		\$ (11)	\$ (2)
Foreign currency translation losses, net		(38)	(27)
Other		4	2
Reimbursable services to government agencies		20	20
Other components of net benefit costs	Notes 8, 9	11	3
Other		3	5
Total other items of (loss) income		<u>(11)</u>	<u>1</u>
OPERATING EXPENSES			
Salaries and benefits		\$ 214	\$ 210
Occupancy		21	21
Equipment		12	11
Other		43	26
Assessments:			
Board of Governors operating expenses and currency costs		118	115
Bureau of Consumer Financial Protection		18	12
Total operating expenses		<u>426</u>	<u>395</u>
Reserve Bank net income from operations		3,916	4,928
Earnings remittances to the Treasury, net	Note 11	3,946	4,879
Net (loss) income after providing for remittances to the Treasury		<u>(30)</u>	<u>49</u>
Change in prior service costs related to benefit plans	Notes 9, 10	(3)	(9)
Change in actuarial gains related to benefit plans	Notes 9, 10	48	20
Total other comprehensive income		<u>45</u>	<u>11</u>
Comprehensive income		<u>\$ 15</u>	<u>\$ 60</u>

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

Statements of Changes in Capital for the years ended December 31, 2022 and December 31, 2021

(in millions, except share data)

	Reserve Bank Capital				
	Capital paid-in	Surplus			Total Reserve Bank capital
		Net income retained	Accumulated other comprehensive income (loss)	Total surplus	
Balance at December 31, 2020					
(11,667,828 shares of Reserve Bank capital stock)	\$ 583	\$ 132	\$ (9)	\$ 123	\$ 706
Net change in capital stock issued (4,607,122 shares)	231	–	–	–	231
Comprehensive income:					
Reserve Bank net income after providing for remittances to the Treasury	–	49	–	49	49
Other comprehensive income	–	–	11	11	11
Dividends on capital stock	–	(20)	–	(20)	(20)
Net change in Reserve Bank capital	231	29	11	40	271
Balance at December 31, 2021					
(16,274,950 shares of Reserve Bank capital stock)	\$ 814	\$ 161	\$ 2	\$ 163	\$ 977
Net change in capital stock redeemed (1,509,434 shares)	(76)	–	–	–	(76)
Comprehensive income:					
Reserve Bank net loss after providing for remittances to the Treasury	–	(30)	–	(30)	(30)
Other comprehensive income	–	–	45	45	45
Dividends on capital stock	–	(35)	–	(35)	(35)
Net change in Reserve Bank capital	(76)	(65)	45	(20)	(96)
Balance at December 31, 2022					
(14,765,516 shares of Reserve Bank capital stock)	\$ 738	\$ 96	\$ 47	\$ 143	\$ 881

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

Notes to Financial Statements

(1) STRUCTURE

The Federal Reserve Bank of Dallas (Bank) is part of the Federal Reserve System (System) and is one of the 12 Federal Reserve Banks (Reserve Banks) 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. The Bank serves the Eleventh Federal Reserve District, which includes Texas and portions of Louisiana and New Mexico.

In accordance with the FRA, supervision and control of the 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, and check collection; 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. In March 2020, the FOMC established temporary swap U.S. dollar liquidity lines to allow central banks to borrow U.S. currency against collateral in their respective jurisdictions. The temporary swap lines expired on December 31, 2021.

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

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 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 the FRBNY will continue to manage operations until the closure of TALF II.
- 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 the FRBNY will continue to manage operations until the closure of MLF.
- On March 17, 2020, the Commercial Paper Funding Facility (CPFF) was established to provide liquidity to short-term funding markets through U.S. dollar-denominated commercial paper issuances. CP Funding Facility II LLC (CPFF II) was established to administer the CPFF. The Treasury, using the ESF, made an equity investment in CPFF II. The CPFF's authority to purchase commercial paper ended March 31, 2021, and CPFF II was terminated on July 8, 2021.
- On March 23, 2020, the Corporate Credit Facilities LLC (CCF) was established to administer the Primary Market Corporate Credit Facility (PMCCF), which was established to support credit to large employers

through bond and loan issuances, and the Secondary Market Corporate Credit Facility (SMCCF), which was established to support credit to large employers by providing liquidity for outstanding corporate bonds. The Treasury, using funds appropriated to the ESF through the CARES Act, made an equity investment in CCF. The authority of the PMCCF and SMCCF to purchase eligible assets ended December 31, 2020. CCF was terminated on December 17, 2021.

Additional information related to the lending facility that the Bank participates in is provided in Note 4.

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. Major services provided by the Bank on behalf of the System for which the costs were not reimbursed by the other Reserve Banks include application development and support for retail payment systems, along with services related to national credit risk management, banking supervision, and centralized financial support. The Bank is contributing to the System's initiative to develop a nationwide instant payments settlement service, named the FedNow Service.

(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 financial statements and associated disclosures have been prepared in accordance with the FAM.

Due to the unique nature of the Bank's 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 Bank's 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 Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Bank's unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Operations, and Changes in Capital, and the accompanying notes to the 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 financial statements highlight those areas where FAM is consistent with GAAP.

Preparing the 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 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 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 Bank's 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 Statements of Condition represents the face value of all United States coin held by the Bank. The Bank buys 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, which consist of the PPPLF, are reported at their outstanding principal balances and interest income is recognized on an accrual basis.

Loans are impaired when current information and events indicate that it is probable that the Bank will not receive the principal and interest that are due in accordance with the contractual terms of the loan agreement. Impaired loans are evaluated to determine whether an allowance for loan loss is required. The Bank has developed procedures for assessing the adequacy of any allowance for loan losses using all available information to identify incurred losses. This assessment includes monitoring information obtained from banking supervisors, borrowers,

and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values. Generally, the Bank would discontinue recognizing interest income on impaired 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 Bank discontinues recording interest on an impaired loan, cash payments are first applied to principal until the loan balance is reduced to zero; subsequent payments are applied as recoveries of amounts previously deemed uncollectible, if any, and then 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, 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 Statements of Condition. Interest income is reported as "System Open Market Account: Securities purchased under agreements to resell" in the 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 Statements of Condition. Interest expense is reported as “System Open Market Account: Securities sold under agreements to repurchase” in the 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 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 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 Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts in the 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, 2022 and 2021, 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 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 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 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 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.

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 Bank's allocated portion of the foreign currency amounts that the FRBNY acquires are reported as "System Open Market Account: Central bank liquidity swaps" in the 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 Bank's allocated portion of 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 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 a liability in the amount of foreign currency that the FRBNY receives.

h. 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 software, buildings, leasehold improvements, furniture, and equipment, 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.

i. Leases

Leases are identified in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. The Bank's 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 Bank is 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 Bank elected the short-term lease recognition exemption and did not separate lease components from non-lease components for all leases.

j. Interdistrict Settlement Account

Each Reserve Bank aggregates the payments due to or from other Reserve Banks. These payments result from transactions between the Reserve Banks and transactions that involve depository institution accounts held by other Reserve Banks, such as Fedwire funds and securities transfers and check and ACH transactions. The cumulative net amount due to or from the other Reserve Banks is reflected in the "Interdistrict settlement account" in the Statements of Condition.

An annual settlement of the interdistrict settlement account occurs in the second quarter of each year. As a result of the annual settlement, the balance in each Bank's interdistrict settlement account is adjusted by an amount equal to the average balance in the account during the previous twelve-month period ended March 31. An equal and offsetting adjustment is made to each Bank's allocated portion of SOMA assets and liabilities.

k. 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 Bank's 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 Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of \$50,425 million and \$27,361 million at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2022 and 2021, all gold certificates, all SDR certificates, and \$2,243 billion and \$2,171 billion, respectively, of domestic securities held in the SOMA were pledged as collateral. At December 31, 2022 and 2021, no investments denominated in foreign currencies were pledged as collateral.

I. Deposits

Depository Institutions

Depository institutions' deposits represent balances maintained in master accounts and excess balance accounts held by the depository institutions at the Bank.

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 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 Statements of Operations.

Other Deposits

Other deposits include the Bank's allocated portion of foreign central bank and foreign government deposits held at the FRBNY. Other deposits also include cash collateral and GSE deposits held by the Bank.

m. 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 \$11.2 billion and \$10.8 billion for the years ended December 31, 2022 and 2021, 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.

n. Surplus

The FRA limits aggregate Reserve Bank surplus. The National Defense Authorization Act for 2021 reduced the statutory limit on aggregate Reserve Bank surplus from \$6.825 billion to \$6.785 billion, effective January 1, 2021. On February 5, 2021, the Reserve Banks made a \$40 million lump sum payment to the Treasury. 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. The amount reported as surplus by the Bank as of December 31, 2022 and 2021 represents the Bank's allocated portion of surplus.

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

o. 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 Bank remits 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 Bank's allocated portion of the aggregate surplus limitation. Remittances to the Treasury are made on a weekly basis. See Note 11 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 Bank's allocated portion of the aggregate surplus limitation, the Bank suspends weekly remittances to the Treasury and records a deferred asset. 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 Bank will need to realize in the future before remittances to the Treasury resume. 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 Statements of Operations. Amounts due to the Treasury are reported as "Accrued remittances to the Treasury" in the Statements of Condition. The Bank records a deferred asset, which is reported as "Deferred asset – remittances to the Treasury" in the Statements of Condition. This deferred asset is periodically reviewed for impairment and no impairment existed as of December 31, 2022.

p. Income and Costs Related to Treasury Services

When directed by the Secretary of the Treasury, the Bank is required by the FRA to serve as fiscal agent and depository of the United States Government. By statute, the Treasury has appropriations to pay for these services. Revenue generated by the Bank in performing fiscal agent activities is recognized when the Bank's performance obligations are satisfied. During the years ended December 31, 2022 and 2021, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

q. Services Provided by Other Reserve Banks

On July 1, 2022, the Federal Reserve Financial Services (FRFS), a new organization within the System, began implementation of a service-delivery model in which the responsibility for operating the financial services provided to depository institutions is collectively managed. The financial services managed by the FRFS include check services, ACH services, Fedwire funds and securities services, National Settlement Services, and the electronic access service. This centralized organization supports the System's delivery of its payments services under this new structure.

The Federal Reserve Bank of Atlanta operates the Reserve Banks' provision of check and ACH services to depository institutions, the FRBNY operates the Reserve Banks' provision of Fedwire funds and securities services and National Settlement Service, and the Federal Reserve Bank of Chicago operates the Reserve Banks' provision of electronic access services to depository institutions. The Reserve Bank that operates these services recognizes the related total System revenue in its Statements of Operations. Revenue generated from these services is recognized when the Reserve Banks' performance obligations are satisfied. Because the performance obligations for these services are not for any specific term, the Reserve Banks responsible for operating these services recognize income based on usage of the services. Transaction prices are set by fee schedules published by the System. During the years ended December 31, 2022 and 2021, earned income was collected timely. The Bank is

reimbursed for costs incurred to provide these services by the Reserve Banks responsible for operating these services and reports this reimbursement as a component of "Operating expenses: Other" in its Statements of Operations.

r. 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, 2022 and 2021 was 14.74 percent (\$734.0 million) and 14.41 percent (\$717.5 million), respectively. The Bank's assessment for Bureau funding is reported as "Operating expenses: Assessments: Bureau of Consumer Financial Protection" in the Statements of Operations.

s. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were \$3 million and \$3 million for the years ended December 31, 2022 and 2021, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Operations.

t. Restructuring Charges

The Reserve Banks recognize restructuring charges for exit or disposal costs incurred as part of the closure of business activities in a particular location, the relocation of business activities from one location to another, or a fundamental reorganization that affects the nature of operations. Restructuring charges may include costs associated with employee separations, contract terminations, and asset impairments. Expenses are recognized in the period in which the Bank commits to a formalized restructuring plan or executes the specific actions contemplated in the plan and all criteria for financial statement recognition have been met.

The Bank had no significant restructuring activities in 2022 and 2021.

u. 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 Current Expected Credit Losses (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 new standard modifies the methodology for measuring credit losses by incorporating future forecast assumptions while it does not change the determined credit risk on the underlying financial assets. 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 adoption of this standard is not expected to have a material effect on the Bank's financial statements.

(4) LOANS

Loans to Depository Institutions

The Bank offers 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 Bank's board of directors, subject to review and determination by the Board of Governors. Primary and secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

Primary, secondary, and seasonal loans are collateralized to the satisfaction of the Bank 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 Bank, 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 Bank 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

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 two years or five years based on the PPP loan origination date. In an event of default, PPP covered loans are fully guaranteed as to principal and accrued interest by the SBA. The Bank has 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 Bank. At December 31, 2022 and 2021, no PPPLF loans were over 90 days past due and determined to be non-performing, or on non-accrual status. The PPPLF's authority to extend new loans ended July 30, 2021.

The remaining maturity distribution and total amount of loans outstanding at December 31, 2022 and 2021 were as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
December 31, 2022					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ 603	\$ 27	\$ –	\$ –	\$ 630
Other loans					
PPPLF ¹	–	–	–	6	6
Total loans	<u>\$ 603</u>	<u>\$ 27</u>	<u>\$ –</u>	<u>\$ 6</u>	<u>\$ 636</u>
December 31, 2021					
Loans to depository institutions					
Primary, secondary, and seasonal credit	\$ –	\$ 10	\$ –	\$ –	\$ 10
Other loans					
PPPLF	–	–	49	162	211
Total loans	<u>\$ –</u>	<u>\$ 10</u>	<u>\$ 49</u>	<u>\$ 162</u>	<u>\$ 221</u>

¹ A component of PPPLF loans presented in the "Within 15 days" category has reached maturity and is recognized as performing loans based upon the underlying guarantee of the collate

Interest income attributable to loans outstanding during the years ended December 31, 2022 and 2021 was as follows (in millions):

	2022	2021
Interest income		
Loans to depository institutions		
Primary, secondary, and seasonal credit	\$ 4	\$ —
Other loans		
PPPLF	\$ —	\$ 4
Total loans	<u>\$ 4</u>	<u>\$ 4</u>

At December 31, 2022 and 2021, the Bank did not have any loans that were impaired, restructured, past due and determined to be non-performing, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2022 and 2021.

(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 risks to economic activity posed by the coronavirus in March 2020, the FOMC directed the FRBNY to increase the SOMA portfolio by purchasing Treasury securities, RMBS, and CMBS as needed to sustain smooth functioning of markets for those securities. 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, further reduced net asset purchases for Treasury securities to \$40 billion per month and further 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 2022, 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 Bank's allocated share of activity related to domestic open market operations was 5.127 percent and 4.422 percent at December 31, 2022 and 2021, respectively.

The Bank's allocated share of Treasury securities, federal agency and GSE MBS, and GSE debt securities, net, excluding accrued interest, held in the SOMA at December 31, 2022 and 2021 was as follows (in millions):

	Allocated to the Bank							
	2022				2021			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities								
Bills	\$ 14,844	\$ –	\$ (151)	\$ 14,693	\$ 14,418	\$ –	\$ (4)	\$ 14,414
Notes	180,567	2,541	(339)	182,769	165,787	3,052	(245)	168,594
Bonds	86,539	10,481	(746)	96,274	69,760	9,434	(524)	78,670
Total Treasury securities	281,950	13,022	(1,236)	293,736	249,965	12,486	(773)	261,678
Federal agency and GSE MBS								
Residential	\$ 134,988	\$ 3,018	\$ (179)	\$ 137,827	\$ 115,255	\$ 3,065	\$ (25)	\$ 118,295
Commercial	435	42	–	477	409	43	–	452
Total federal agency and GSE MBS	135,423	3,060	(179)	138,304	115,664	3,108	(25)	118,747
GSE debt securities	\$ 120	\$ 12	\$ –	\$ 132	\$ 104	\$ 11	\$ –	\$ 115

	Total SOMA							
	2022				2021			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities								
Bills	\$ 289,525	\$ –	\$ (2,940)	\$ 286,585	\$ 326,044	\$ –	\$ (88)	\$ 325,956
Notes	3,521,904	49,573	(6,614)	3,564,863	3,748,992	69,017	(5,533)	3,812,476
Bonds	1,687,925	204,431	(14,557)	1,877,799	1,577,506	213,327	(11,839)	1,778,994
Total Treasury securities	5,499,354	254,004	(24,111)	5,729,247	5,652,542	282,344	(17,460)	5,917,426
Federal agency and GSE MBS								
Residential	\$ 2,632,909	\$ 58,862	\$ (3,491)	\$ 2,688,280	\$ 2,606,309	\$ 69,316	\$ (568)	\$ 2,675,057
Commercial	8,494	812	(3)	9,303	9,237	977	(3)	10,211
Total federal agency and GSE MBS	2,641,403	59,674	(3,494)	2,697,583	2,615,546	70,293	(571)	2,685,268
GSE debt securities	\$ 2,347	\$ 237	\$ –	\$ 2,584	\$ 2,347	\$ 263	\$ –	\$ 2,610

During the years ended December 31, 2022 and 2021, 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. On July 28, 2021, the FIMA Repo Facility was converted from temporary to a standing facility for repurchase agreements.

Financial information related to repurchase agreements allocated to the Bank and held in the SOMA for the years ended December 31, 2022 and 2021 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Repo operations:				
Contract amount outstanding, end of year	\$ -	\$ -	\$ -	\$ -
Average daily amount outstanding, during the year	-	-	1	-
Maximum balance outstanding, during the year	3	2	61	46
FIMA Repo Facility:				
Contract amount outstanding, end of year	\$ -	\$ -	\$ -	\$ -
Average daily amount outstanding, during the year	-	8	-	161
Maximum balance outstanding, during the year	-	48	2	1,000
Total repurchase agreement contract amount outstanding, end of year	\$ -	\$ -	\$ -	\$ -
Supplemental information - interest income:				
Repo operations	\$ -	\$ -	\$ -	\$ -
FIMA Repo Facility	-	-	-	1
Total interest income - securities purchased under agreements to resell	\$ -	\$ -	\$ -	\$ 1

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, 2022.

Financial information related to reverse repurchase agreements allocated to the Bank and held in the SOMA for the years ended December 31, 2022 and 2021 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Primary dealers and expanded counterparties:				
Contract amount outstanding, end of year	\$ 130,928	\$ 84,224	\$ 2,553,716	\$ 1,904,582
Average daily amount outstanding, during the year	99,129	31,743	1,997,187	717,540
Maximum balance outstanding, during the year	130,928	84,224	2,553,716	1,904,582
Securities pledged (par value), end of year	140,979	81,549	2,749,747	1,844,099
Securities pledged (fair value), end of year	128,594	84,285	2,508,194	1,905,973
Foreign official and international accounts:				
Contract amount outstanding, end of year	\$ 17,218	\$ 12,314	\$ 335,839	\$ 278,459
Average daily amount outstanding, during the year	14,366	11,350	290,552	251,068
Maximum balance outstanding, during the year	19,513	13,939	380,593	315,208
Securities pledged (par value), end of year	20,022	12,136	390,529	274,442
Securities pledged (fair value), end of year	17,221	12,314	335,886	278,472
Total reverse repurchase agreement contract amount outstanding, end of year	\$ 148,146	\$ 96,538	\$ 2,889,555	\$ 2,183,041
Supplemental information - interest expense:				
Primary dealers and expanded counterparties	\$ 1,875	\$ 15	\$ 36,655	\$ 337
Foreign official and international accounts	272	3	5,312	77
Total interest expense - securities sold under agreements to repurchase	\$ 2,147	\$ 18	\$ 41,967	\$ 414

Securities pledged as collateral, at December 31 2022 and 2021, consisted solely of Treasury securities. The contract amount outstanding as of December 31, 2022 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 3, 2023. The contract amount outstanding as of December 31, 2022 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 3, 2023.

The remaining maturity distribution of Treasury securities, federal agency and GSE MBS, GSE debt securities, repurchase agreements, and reverse repurchase agreements that were allocated to the Bank at December 31, 2022 and 2021 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
December 31, 2022:							
Treasury securities (par value)	\$ 4,680	\$ 18,941	\$ 36,981	\$ 98,205	\$ 48,052	\$ 75,091	\$ 281,950
Federal agency and GSE residential MBS (par value) ¹	–	–	2	182	2,323	132,481	134,988
Federal agency and GSE commercial MBS (par value) ¹	–	–	–	24	240	171	435
GSE debt securities (par value)	–	–	–	–	120	–	120
Securities sold under agreements to repurchase (contract amount)	148,146	–	–	–	–	–	148,146
December 31, 2021:							
Treasury securities (par value)	\$ 2,431	\$ 15,540	\$ 32,167	\$ 94,904	\$ 45,073	\$ 59,850	\$ 249,965
Federal agency and GSE residential MBS (par value) ¹	–	–	1	75	2,446	112,733	115,255
Federal agency and GSE commercial MBS (par value) ¹	–	–	–	5	222	182	409
GSE debt securities (par value)	–	–	–	–	94	10	104
Securities sold under agreements to repurchase (contract amount)	96,538	–	–	–	–	–	96,538

¹ 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, 2022 and 2021 were as follows (in years):

	2022	2021
Estimated weighted-average life of		
RMBS	9.0	5.7
CMBS	7.4	8.3

The amortized cost and par value of Treasury securities and GSE debt securities that were loaned from the SOMA under securities lending agreements allocated to the Bank and held in the SOMA at December 31, 2022 and 2021 were as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Treasury securities (amortized cost)	\$ 2,645	\$ 1,801	\$ 51,590	\$ 40,737
Treasury securities (par value)	2,634	1,790	51,366	40,489
GSE debt securities (amortized cost)	1	–	23	–
GSE debt securities (par value)	1	–	21	–

Securities pledged as collateral by the counterparties in the securities lending arrangements at December 31, 2022 and 2021 consisted solely of Treasury securities. The securities lending agreements outstanding as of December 31, 2022 had a term of one business day and matured on January 3, 2023.

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, 2022, the portions allocated to the Bank and total purchases and sales under outstanding commitments were as follows (in millions):

	Allocated to the Bank	Total SOMA	Contractual settlement dates through
Purchases under outstanding commitments			
Treasury securities	\$ 131	\$ 2,560	January 3, 2023

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, 2022 and 2021. 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. 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. The amount of other liabilities allocated to the Bank and held in the SOMA at December 31, 2022 and 2021 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Other liabilities:				
Accrued interest payable	\$ 35	\$ –	\$ 690	\$ 3
Cash margin	–	104	–	2,359
Obligations from residential MBS transaction fails	–	1	–	12
Total other liabilities	\$ 35	\$ 105	\$ 690	\$ 2,374

Accrued interest receivable on domestic securities held in the SOMA was \$34,228 million and \$30,929 million as of December 31, 2022 and 2021, respectively, of which \$1,755 million and \$1,368 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

Information about transactions related to Treasury securities, federal agency and GSE MBS, and GSE debt securities allocated to the Bank and held in the SOMA during the years ended December 31, 2022 and 2021, is summarized as follows (in millions):

	Allocated to the Bank			
	Bills	Notes	Bonds	Total Treasury securities
Balance at December 31, 2020	\$ 15,708	\$ 151,020	\$ 72,116	\$ 238,844
Purchases ¹	45,176	62,667	14,755	122,598
Sales ¹	–	(2)	–	(2)
Realized gains (losses), net ²	–	–	–	–
Principal payments and maturities	(45,186)	(31,365)	(1,894)	(78,445)
Amortization of premiums and accretion of discounts, net	11	(1,066)	(490)	(1,545)
Inflation adjustment on inflation-indexed securities	–	627	477	1,104
Annual reallocation adjustment ³	(1,295)	(13,287)	(6,294)	(20,876)
Subtotal of activity	(1,294)	17,574	6,554	22,834
Balance at December 31, 2021	\$ 14,414	\$ 168,594	\$ 78,670	\$ 261,678
Purchases ¹	47,181	24,603	5,037	76,821
Sales ¹	–	–	(1)	(1)
Realized gains (losses), net ²	–	–	–	–
Principal payments and maturities	(49,416)	(37,687)	(588)	(87,691)
Amortization of premiums and accretion of discounts, net	219	(931)	(500)	(1,212)
Inflation adjustment on inflation-indexed securities	–	975	749	1,724
Annual reallocation adjustment ³	2,295	27,215	12,907	42,417
Subtotal of activity	279	14,175	17,604	32,058
Balance at December 31, 2022	\$ 14,693	\$ 182,769	\$ 96,274	\$ 293,736
Year-ended December 31, 2021				
Supplemental information - par value of transactions:				
Purchases ⁴	\$ 45,186	\$ 61,918	\$ 14,041	\$ 121,145
Sales	–	(2)	–	(2)
Year-ended December 31, 2022				
Supplemental information - par value of transactions:				
Purchases ⁴	\$ 47,544	\$ 24,681	\$ 5,115	\$ 77,340
Sales	–	–	(1)	(1)

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

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

³ Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 3j.

⁴ Includes inflation compensation.

	Total SOMA			
	Bills	Notes	Bonds	Total Treasury securities
Balance at December 31, 2020	\$ 325,937	\$ 3,133,576	\$ 1,496,358	\$ 4,955,871
Purchases ¹	996,069	1,380,267	324,921	2,701,257
Sales ¹	–	(50)	–	(50)
Realized gains (losses), net ²	–	–	–	–
Principal payments and maturities	(996,284)	(691,911)	(42,195)	(1,730,390)
Amortization of premiums and accretion of discounts, net	234	(23,435)	(10,772)	(33,973)
Inflation adjustment on inflation-indexed securities	–	14,029	10,682	24,711
Subtotal of activity	19	678,900	282,636	961,555
Balance at December 31, 2021	\$ 325,956	\$ 3,812,476	\$ 1,778,994	\$ 5,917,426
Purchases ¹	958,843	514,065	105,271	1,578,179
Sales ¹	–	–	(21)	(21)
Realized gains (losses), net ²	–	–	(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)
Balance at December 31, 2022	\$ 286,585	\$ 3,564,863	\$ 1,877,799	\$ 5,729,247
Year-ended December 31, 2021				
Supplemental information - par value of transactions:				
Purchases ³	\$ 996,284	\$ 1,363,886	\$ 309,172	\$ 2,669,342
Sales	–	(50)	–	(50)
Year-ended December 31, 2022				
Supplemental information - par value of transactions:				
Purchases ³	\$ 965,988	\$ 515,609	\$ 106,728	\$ 1,588,325
Sales	–	–	(25)	(25)

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

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

³ Includes inflation compensation.

	Allocated to the Bank			
	Residential MBS	Commercial MBS	Total federal agency and GSE MBS	GSE debt securities
Balance at December 31, 2020	\$ 101,148	\$ 528	\$ 101,676	\$ 127
Purchases ¹	65,715	16	65,731	–
Sales ¹	(12)	–	(12)	–
Realized gains (losses), net ²	–	–	–	–
Principal payments and maturities	(38,024)	(42)	(38,066)	–
Amortization of premiums and accretion of discounts, net	(1,401)	(7)	(1,408)	(1)
Annual reallocation adjustment ³	(9,131)	(43)	(9,174)	(11)
Subtotal of activity	17,147	(76)	17,071	(12)
Balance at December 31, 2021	\$ 118,295	\$ 452	\$ 118,747	\$ 115
Purchases ¹	18,834	–	18,834	–
Sales ¹	(17)	–	(17)	–
Realized gains (losses), net ²	(1)	–	(1)	–
Principal payments and maturities	(18,385)	(37)	(18,422)	–
Amortization of premiums and accretion of discounts, net	(601)	(8)	(609)	(1)
Annual reallocation adjustment ³	19,702	70	19,772	18
Subtotal of activity	19,532	25	19,557	17
Balance at December 31, 2022	<u>\$ 137,827</u>	<u>\$ 477</u>	<u>\$ 138,304</u>	<u>\$ 132</u>
Year-ended December 31, 2021				
Supplemental information - par value of transactions:				
Purchases	\$ 64,319	\$ 15	\$ 64,334	\$ –
Sales	(11)	–	(11)	–
Year-ended December 31, 2022				
Supplemental information - par value of transactions:				
Purchases	\$ 18,887	\$ –	\$ 18,887	\$ –
Sales	(18)	–	(18)	–

¹ 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.

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

³ Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 3j.

	Total SOMA			
	Residential MBS	Commercial MBS	Total federal agency and GSE MBS	GSE debt securities
Balance at December 31, 2020	\$ 2,098,753	\$ 10,962	\$ 2,109,715	\$ 2,634
Purchases ¹	1,444,058	328	1,444,386	–
Sales ¹	(255)	–	(255)	–
Realized gains (losses), net ²	1	–	1	–
Principal payments and maturities	(836,672)	(916)	(837,588)	–
Amortization of premiums and accretion of discounts, net	(30,828)	(163)	(30,991)	(24)
Subtotal of activity	576,304	(751)	575,553	(24)
Balance at December 31, 2021	\$ 2,675,057	\$ 10,211	\$ 2,685,268	\$ 2,610
Purchases ¹	402,649	–	402,649	–
Sales ¹	(345)	–	(345)	–
Realized gains (losses), net ²	(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)
Balance at December 31, 2022	\$ 2,688,280	\$ 9,303	\$ 2,697,583	\$ 2,584
Year-ended December 31, 2021				
Supplemental information - par value of transactions:				
Purchases	\$ 1,413,602	\$ 313	\$ 1,413,915	\$ –
Sales	(248)	–	(248)	–
Year-ended December 31, 2022				
Supplemental information - par value of transactions:				
Purchases	\$ 403,669	\$ –	\$ 403,669	\$ –
Sales	(365)	–	(365)	–

¹ 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.

² 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 may enter into repurchase agreements to purchase government debt securities for which the accepted collateral is the debt instruments issued by a foreign government.

The Bank's allocated share of activity related to foreign currency denominated investments was 2.402 percent and 1.802 percent at December 31, 2022 and 2021, respectively.

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates allocated to the Bank and held in the SOMA at December 31, 2022 and 2021 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Euro:				
Foreign currency deposits	\$ 171	\$ 119	\$ 7,092	\$ 6,576
Dutch government debt instruments	26	32	1,103	1,791
French government debt instruments	62	52	2,591	2,910
German government debt instruments	17	17	688	932
Japanese yen:				
Foreign currency deposits	\$ 170	\$ 136	\$ 7,088	\$ 7,564
Japanese government debt instruments	–	10	3	557
Total	\$ 446	\$ 366	\$ 18,565	\$ 20,330

At December 31, 2022 and 2021, there were no repurchase agreements outstanding and, consequently, no related foreign securities held as collateral.

As of December 31, 2022 and 2021, total net interest income earned on foreign currency denominated investments allocated to the Bank and held in the SOMA were as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2022	2021	2022	2021
Net interest income: ¹				
Euro	\$ –	\$ (1)	\$ (2)	\$ (44)
Japanese yen	–	–	(1)	(1)
Total	\$ –	\$ (1)	\$ (3)	\$ (45)

¹ 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 \$34 million and \$55 million for the years ended December 31, 2022 and 2021, respectively, of which \$1 million and \$1 million, respectively, were allocated to the Bank.

Accrued interest receivable on foreign currency denominated investments, net was \$48 million and \$47 million as of December 31, 2022 and 2021, respectively, of which \$1 million and \$1 million, respectively, was allocated to the Bank. These amounts are reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2022 and 2021 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
December 31, 2022:						
Euro	\$ 172	\$ –	\$ 5	\$ 71	\$ 28	\$ 276
Japanese yen	170	–	–	–	–	170
Total	\$ 342	\$ –	\$ 5	\$ 71	\$ 28	\$ 446
December 31, 2021:						
Euro	\$ 39	\$ –	\$ 96	\$ 39	\$ 46	\$ 220
Japanese yen	136	–	10	–	–	146
Total	\$ 175	\$ –	\$ 106	\$ 39	\$ 46	\$ 366

There were no foreign exchange contracts related to foreign currency operations outstanding as of December 31, 2022.

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, 2022, there were no outstanding commitments to purchase foreign government debt instruments. During 2022, there were purchases, sales, and maturities of foreign government debt instruments of \$829 million, \$11 million, and \$2,121 million, respectively, of which \$20 million, \$0 million, and \$47 million, respectively, were allocated to the Bank. Sales of \$11 million includes immaterial realized losses.

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.

c. Central Bank Liquidity Swaps

U.S. Dollar Liquidity Swaps

The FOMC authorized and directed the FRBNY to expand 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 as well as establish temporary swap U.S. dollar liquidity lines to the Reserve Bank of Australia, Banco Central de Brasil, Danmarks Nationalbank, the Bank of Korea, Banco de Mexico, the Norges Bank, the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and Sveriges Riksbank. The temporary swap lines expired on December 31, 2021.

The Bank's allocated share of U.S. dollar liquidity swaps was 2.402 percent and 1.802 percent at December 31, 2022 and 2021, respectively.

Total foreign currency held in the SOMA under U.S. dollar liquidity swaps at December 31, 2022 and 2021 was \$412 million and \$3,340 million, respectively, of which \$10 million and \$60 million, respectively, was allocated to the Bank.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Bank at December 31, 2022 and 2021 was as follows (in millions):

Currency swap transacted in	2022			2021		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	\$ 10	\$ –	\$ 10	\$ 17	\$ –	\$ 17
Mexican peso	–	–	–	–	1	1
Swiss franc	–	–	–	42	–	42
Total	\$ 10	\$ –	\$ 10	\$ 59	\$ 1	\$ 60

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

Foreign Currency Liquidity Swaps

At December 31, 2022 and 2021, 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 Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the 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, 2022 and 2021, 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 allocated to the Bank and held in the SOMA at December 31, 2022 and 2021 (in millions):

	Allocated to the Bank					
	2022			2021		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities						
Bills	\$ 14,693	\$ 14,682	\$ (11)	\$ 14,414	\$ 14,413	\$ (1)
Notes	182,769	168,435	(14,334)	168,594	168,150	(444)
Bonds	96,274	76,123	(20,151)	78,670	85,069	6,399
Total Treasury securities	293,736	259,240	(34,496)	261,678	267,632	5,954
Federal agency and GSE MBS						
Residential	\$ 137,827	\$ 117,007	\$ (20,820)	\$ 118,295	\$ 117,972	\$ (323)
Commercial	477	397	(80)	452	446	(6)
Total federal agency and GSE MBS	138,304	117,404	(20,900)	118,747	118,418	(329)
GSE debt securities	132	140	8	115	145	30
Total domestic SOMA portfolio securities holdings	\$ 432,172	\$ 376,784	\$ (55,388)	\$ 380,540	\$ 386,195	\$ 5,655
Memorandum—Commitments for purchases of:						
Treasury securities ¹	\$ 131	\$ 131	\$ —	\$ 207	\$ 207	\$ —
Federal agency and GSE MBS ¹	—	—	—	4,366	4,365	(1)
Memorandum—Commitments for sales of:						
Treasury securities ²	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Federal agency and GSE MBS ²	—	—	—	4	4	—

¹The amortized cost column presents unsettled purchase costs.

²The amortized cost column presents unsettled sales proceeds.

	Total SOMA					
	2022			2021		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities						
Bills	\$ 286,585	\$ 286,373	\$ (212)	\$ 325,956	\$ 325,929	\$ (27)
Notes	3,564,863	3,285,274	(279,589)	3,812,476	3,802,434	(10,042)
Bonds	1,877,799	1,484,758	(393,041)	1,778,994	1,923,692	144,698
Total Treasury securities	5,729,247	5,056,405	(672,842)	5,917,426	6,052,055	134,629
Federal agency and GSE MBS						
Residential	\$ 2,688,280	\$ 2,282,190	\$ (406,090)	\$ 2,675,057	\$ 2,667,752	\$ (7,305)
Commercial	9,303	7,729	(1,574)	10,211	10,068	(143)
Total federal agency and GSE MBS	2,697,583	2,289,919	(407,664)	2,685,268	2,677,820	(7,448)
GSE debt securities	2,584	2,736	152	2,610	3,298	688
Total domestic SOMA portfolio securities holdings	\$ 8,429,414	\$ 7,349,060	\$ (1,080,354)	\$ 8,605,304	\$ 8,733,173	\$ 127,869
Memorandum—Commitments for purchases of:						
Treasury securities ¹	\$ 2,560	\$ 2,560	\$ —	\$ 4,674	\$ 4,674	\$ —
Federal agency and GSE MBS ¹	—	—	—	98,724	98,693	(31)
Memorandum—Commitments for sales of:						
Treasury securities ²	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Federal agency and GSE MBS ²	—	—	—	87	87	—

¹The amortized cost column presents unsettled purchase costs.

²The 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, 2022 and 2021, the fair value of foreign currency denominated investments held in the SOMA was \$18,112 million and \$20,398 million, respectively, of which \$435 million and \$368 million, respectively, was allocated to the Bank. 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 allocated to the Bank and held in the SOMA at December 31, 2022 and 2021 (in millions):

Distribution of MBS holdings by coupon rate	Allocated to the Bank			
	2022		2021	
	Amortized cost	Fair value	Amortized cost	Fair value
Residential				
1.5%	\$ 8,652	\$ 7,157	\$ 7,793	\$ 7,650
2.0%	53,024	43,386	46,587	45,817
2.5%	38,493	32,245	32,576	32,207
3.0%	16,471	14,527	14,805	15,041
3.5%	10,781	9,834	9,572	9,904
4.0%	6,680	6,239	5,055	5,274
4.5%	2,778	2,684	1,325	1,431
5.0%	828	814	453	503
5.5%	103	104	111	124
6.0%	15	15	16	18
6.5%	2	2	2	3
Total	\$ 137,827	\$ 117,007	\$ 118,295	\$ 117,972
Commercial				
1.00% - 1.50%	\$ 5	\$ 4	\$ 4	\$ 4
1.51% - 2.00%	23	18	22	22
2.01% - 2.50%	53	43	50	49
2.51% - 3.00%	72	60	71	69
3.01% - 3.50%	150	125	139	138
3.51% - 4.00%	160	135	153	151
4.01% - 4.50%	14	12	13	13
Total	\$ 477	\$ 397	\$ 452	\$ 446
Total MBS	\$ 138,304	\$ 117,404	\$ 118,747	\$ 118,418

Distribution of MBS holdings by coupon rate	Total SOMA			
	2022		2021	
	Amortized cost	Fair value	Amortized cost	Fair value
Residential				
1.5%	\$ 168,762	\$ 139,602	\$ 176,227	\$ 172,999
2.0%	1,034,220	846,233	1,053,493	1,036,086
2.5%	750,796	628,922	736,648	728,310
3.0%	321,270	283,344	334,788	340,133
3.5%	210,290	191,813	216,456	223,964
4.0%	130,284	121,691	114,300	119,260
4.5%	54,176	52,350	29,973	32,369
5.0%	16,143	15,883	10,238	11,377
5.5%	2,007	2,020	2,521	2,794
6.0%	290	290	361	402
6.5%	42	42	52	58
Total	\$ 2,688,280	\$ 2,282,190	\$ 2,675,057	\$ 2,667,752
Commercial				
1.00% - 1.50%	\$ 91	\$ 71	\$ 92	\$ 87
1.51% - 2.00%	445	346	503	485
2.01% - 2.50%	1,027	838	1,128	1,104
2.51% - 3.00%	1,413	1,171	1,593	1,567
3.01% - 3.50%	2,928	2,428	3,151	3,119
3.51% - 4.00%	3,127	2,651	3,448	3,417
4.01% - 4.50%	272	224	296	289
Total	\$ 9,303	\$ 7,729	\$ 10,211	\$ 10,068
Total MBS	\$ 2,697,583	\$ 2,289,919	\$ 2,685,268	\$ 2,677,820

The following tables present the realized gains (losses) and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings allocated to the Bank and held in the SOMA during the years ended December 31, 2022 and 2021 (in millions):

	Allocated to the Bank			
	2022		2021	
	Realized gains (losses), net ^{1,2}	Change in cumulative unrealized gains (losses) ^{3,4}	Realized gains (losses), net ^{1,2}	Change in cumulative unrealized gains (losses) ^{3,4}
Treasury securities	\$ -	\$ (38,425)	\$ -	\$ (8,019)
Federal agency and GSE MBS				
Residential	(11)	(19,022)	(2)	(2,816)
Commercial	-	(67)	-	(16)
Total federal agency and GSE MBS	(11)	(19,089)	(2)	(2,832)
GSE debt securities	-	(25)	-	(10)
Total	\$ (11)	\$ (57,539)	\$ (2)	\$ (10,861)

¹ Realized gains (losses) for Treasury securities are reported in "Other items of income (loss): System Open Market Account: Other" in the Statements of Operations.

² Realized gains (losses) 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 Statements of Operations.

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

⁴ The amount reported as change in cumulative unrealized gains (losses) allocated to the Bank is affected by the annual adjustment to the Bank's allocated portion of the related SOMA securities, as discussed in Note 3f.

	Total SOMA			
	2022		2021	
	Realized gains (losses), net ^{1,2}	Change in cumulative unrealized gains (losses) ³	Realized gains (losses), net ^{1,2}	Change in cumulative unrealized gains (losses) ³
Treasury securities	\$ (5)	\$ (807,471)	\$ -	\$ (164,056)
Federal agency and GSE MBS				
Residential	(234)	(398,785)	(35)	(61,517)
Commercial	-	(1,431)	-	(333)
Total federal agency and GSE MBS	(234)	(400,216)	(35)	(61,850)
GSE debt securities	-	(536)	-	(222)
Total	\$ (239)	\$ (1,208,223)	\$ (35)	\$ (226,128)

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

² Realized gains (losses) 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 Statements of Operations.

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

The amount of change in cumulative unrealized gains (losses) position, net related to foreign currency denominated investments was a loss of \$520 million and a loss of \$102 million for the years ended December 31, 2022 and 2021, respectively, of which \$11 million and \$2 million, respectively, were allocated to the Bank. Realized gains (losses), net related to foreign currency denominated investments were immaterial for the years ended December 31, 2022 and 2021.

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 Bank's 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 Bank's 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.

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) BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31, 2022 and 2021 were as follows (in millions):

	2022	2021
Bank premises and equipment:		
Land and land improvements	\$ 70	\$ 71
Buildings	267	262
Construction	14	10
Furniture and equipment	145	130
Subtotal	<u>496</u>	<u>473</u>
Accumulated depreciation	(242)	(231)
Bank premises and equipment, net	<u>\$ 254</u>	<u>\$ 242</u>
Depreciation expense, for the years ended December 31	<u>\$ 14</u>	<u>\$ 14</u>

The Bank leases space to outside tenants with remaining lease terms ranging from 3 to 15 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 \$1 million and \$1 million for the years ended December 31, 2022 and 2021, respectively, and is reported as a component of “Other items of income (loss): Other” in the Statements of Operations. Future minimum lease payments that the Bank will receive under non-cancelable lease agreements in existence at December 31, 2022, are as follows (in millions):

2023	\$	1
2024		2
2025		2
2026		1
2027		1
Thereafter		12
Total	\$	19

The Bank had capitalized software assets, net of amortization, of \$9 million and \$5 million at December 31, 2022 and 2021, respectively. Amortization expense was \$2 million and \$2 million for the years ended December 31, 2022 and 2021, respectively. Capitalized software assets are reported as a component of “Other assets” in the Statements of Condition and the related amortization is reported as a component of “Operating expenses: Other” in the Statements of Operations.

(7) COMMITMENTS AND CONTINGENCIES

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

At December 31, 2022, the Bank was obligated under non-cancelable leases for premises with remaining terms ranging from 2 to approximately 7 years.

Rental expense for operating leases (including taxes, insurance, and maintenance when included in rent) was \$1 million and \$1 million for the years ended December 31, 2022 and 2021, respectively. Certain of the Bank's leases have options to renew.

Lease right-of-use assets were \$3 million and \$3 million at December 31, 2022 and 2021, respectively, and are reported as a component of “Other assets” in the Statements of Condition, while lease liabilities are disclosed below and are reported as a component of “Other liabilities” in the Statements of Condition.

Future minimum lease payments and total lease liabilities under non-cancelable operating leases at December 31, 2022 for the next five years total \$3 million.

At December 31, 2022, there were no material unrecorded unconditional purchase commitments or obligations.

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, 2022 and 2021.

The Bank is 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 Bank.

(8) RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers 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 Retirement Plan for Employees of the Federal Reserve System (System Plan).¹ Under the Dodd-Frank Act, eligible Bureau employees may participate in the System Plan and, during the years ended December 31, 2022 and 2021, 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).

The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System plan in its consolidated financial statements. The Bank reports the service cost related to the BEP and SERP as a component of "Operating expenses: Salaries and benefits" in its Statements of Operations, the net cost related to the BEP and SERP as "Other items of income (loss): Other" in its Statements of Operations, and the net liability as a component of "Accrued benefit costs" in its Statements of Condition.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2022 and 2021, and for the years then ended, were immaterial.

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date

¹ The OEB was established by the System to administer selected System benefit plans.

of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank's Thrift Plan contributions totaled \$9 million and \$9 million for the years ended December 31, 2022 and 2021, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Operations.

(9) POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Retirement Plans

In addition to the Bank's 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 Bank 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, 2022 and 2021 (in millions):

	2022	2021
Accumulated postretirement benefit obligation at January 1	\$ 125	\$ 136
Service cost - benefits earned during the period	6	7
Interest cost on accumulated benefit obligation	3	4
Net actuarial gain	(48)	(18)
Contributions by plan participants	2	2
Benefits paid	(7)	(6)
Accumulated postretirement benefit obligation at December 31	<u>\$ 81</u>	<u>\$ 125</u>

At December 31, 2022 and 2021, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.43 percent and 2.91 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, 2022 and 2021 (in millions):

	2022	2021
Fair value of plan assets at January 1	\$ —	\$ —
Contributions by the employer	5	4
Contributions by plan participants	2	2
Benefits paid	(7)	(6)
Fair value of plan assets at December 31	<u>\$ —</u>	<u>\$ —</u>
Unfunded obligation and accrued postretirement benefit costs	<u>\$ 81</u>	<u>\$ 125</u>
Amounts included in accumulated other comprehensive income are shown below:		
Prior service cost	\$ 6	\$ 9
Net actuarial gain (loss)	41	(7)
Total accumulated other comprehensive income	<u>\$ 47</u>	<u>\$ 2</u>

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

For measurement purposes, the assumed health-care cost trend rates at December 31, 2022 and 2021 are provided in the table below:

	2022	2021
Health-care cost trend rate assumed for next year	6.50 %	5.50 %
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	2028

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31, 2022 and 2021 (in millions):

	2022	2021
Service cost - benefits earned during the period	<u>\$ 6</u>	<u>\$ 7</u>
Other components of periodic postretirement benefit expense:		
Interest cost on accumulated benefit obligation	\$ 3	\$ 4
Amortization of prior service credit	(3)	(9)
Amortization of net actuarial loss	—	2
Other components of periodic postretirement benefit expense	—	(3)
Total periodic postretirement benefit expense	<u>\$ 6</u>	<u>\$ 4</u>

The service cost component of periodic postretirement benefit expense is reported as a component of “Operating expenses: Salaries and benefits” in the 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 Statements of Operations.

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2022 and 2021, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 2.91 percent and 2.61 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 Bank's 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, 2022 and 2021. Expected receipts in 2023, related to benefits paid in the years ended December 31, 2022 and 2021, are immaterial, respectively.

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

	Without subsidy	With subsidy
2023	\$ 6	\$ 6
2024	6	6
2025	6	6
2026	6	6
2027	6	6
2028 - 2032	33	33
Total	\$ 63	\$ 63

Postemployment Benefits

The Bank 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; and survivor income benefits. The accrued postemployment benefit costs recognized by the Bank at December 31, 2022 and 2021 were \$4 million and \$4 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit credit included in 2022 and 2021 operating expenses were \$0 million and \$0 million, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Statements of Operations.

(10) 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, 2022 and 2021 (in millions):

	2022	2021
	Amount related to postretirement benefits other than retirement plans	Amount related to postretirement benefits other than retirement plans
Balance at January 1	\$ 2	\$ (9)
Change in funded status of benefit plans:		
Amortization of prior service cost (credit) ¹	(3)	(9)
Change in prior service costs related to benefit plans	(3)	(9)
Net actuarial gain arising during the year	48	18
Amortization of net actuarial loss ¹	–	2
Change in actuarial gain (loss) related to benefit plans	48	20
Change in funded status of benefit plans - other comprehensive income	45	11
Balance at December 31	\$ 47	\$ 2

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

Additional detail regarding the classification of accumulated other comprehensive income is included in Note 9.

(11) RECONCILIATION OF TOTAL DISTRIBUTION OF COMPREHENSIVE INCOME AND TREASURY REMITTANCES

In accordance with the FRA, the Bank 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 Bank's allocated portion of the aggregate surplus limitation (see Note 3o).

The Bank remitted excess earnings to the Treasury on a weekly basis during all of 2021 and most of 2022. In the fall, the Bank 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 Bank began accumulating a deferred asset. At December 31, 2022, the deferred asset represents the net accumulation of costs in excess of earnings and is reported as "Deferred asset – remittances to the Treasury" in the Statements of Condition. The deferred asset is the amount of net excess earnings the Bank will need to realize in the future before remittances to the Treasury resume.

The following table presents the distribution of the Bank's and System's total comprehensive income for the years ended December 31, 2022 and 2021 (in millions):

	Bank's portion		System total	
	2022	2021	2022	2021
Reserve Bank net income from operations	\$ 3,916	\$ 4,928	\$ 58,836	\$ 107,928
Other comprehensive income	45	11	1,819	1,640
Total comprehensive income - available for distribution	<u>\$ 3,961</u>	<u>\$ 4,939</u>	<u>\$ 60,655</u>	<u>\$ 109,568</u>
Distribution of comprehensive income (loss):				
Transfer (from) to surplus	\$ (20)	\$ 40	\$ –	\$ (40)
Dividends	35	20	1,209	583
Remittances transferred to the Treasury ^{1,2}	4,029	4,879	76,031	109,025
Deferred asset increase	(83)	–	(16,585)	–
Earnings remittances to the Treasury, net	<u>3,946</u>	<u>4,879</u>	<u>59,446</u>	<u>109,025</u>
Total distribution of comprehensive income	<u>\$ 3,961</u>	<u>\$ 4,939</u>	<u>\$ 60,655</u>	<u>\$ 109,568</u>

¹ Represents cumulative excess earnings remittances transferred to the Treasury during the period prior to entering a period of a shortfall of earnings and suspending remittances.

² Inclusive of a lump-sum payment of \$40 million, of which \$0.7 million was allocated to the Bank, that was remitted to the Treasury on February 5, 2021 as required by the National Defense Authorization Act of 2021. As a result, aggregate surplus limitation in the FRA was reduced from \$6.825 billion to \$6.785 billion.

(12) SUBSEQUENT EVENTS

On March 12, 2023, the Board of Governors announced that it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

The Board of Governors announced the Bank Term Funding Program (BTFP) authorizing the Bank to provide liquidity to U.S. depository institutions by extending loans of up to one year to eligible borrowers. Eligible collateral includes U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets. The collateral will be valued at par value. The loans will be limited in amount to the value of the pledged collateral and the rate of the loans will be fixed to the one-year overnight index swap rate plus 10 basis points. The Treasury using the ESF, made available \$25 billion as credit protection to the BTFP. Under BTFP, new credit extensions will be available until at least March 11, 2024.

Depository institutions were also able to obtain liquidity against a wide range of collateral through primary credit extensions. Effective March 12, 2023, the same margins used for securities eligible for the BTFP are applied to the same types of securities used to secure loans to depository institutions, further increasing the lendable value of collateral pledged.

Subsequent events were evaluated through March 14, 2023, which is the date that the financial statements were available to be issued.



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0323