



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited
June 30, 2019



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Abbreviations

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

Combined Quarterly Financial Statements

Combined statements of condition (in millions)		
	June 30, 2019	December 31, 2018
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,692	1,726
Loans	Note 1 115	61
System Open Market Account:	Note 2	
Treasury securities, net (of which \$33,792 and \$25,102 is lent as of June 30, 2019, and December 31, 2018, respectively)	2,185,285	2,302,462
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of June 30, 2019, and December 31, 2018)	2,669	2,741
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,575,483	1,683,532
Foreign currency denominated investments, net	20,965	20,906
Central bank liquidity swaps	17	4,207
Accrued interest receivable	21,933	22,236
Other assets	3	—
Bank premises and equipment, net	2,515	2,553
Items in process of collection	102	236
Other assets	977	983
Total assets	<u>\$3,827,993</u>	<u>\$4,057,880</u>
Liabilities and capital		
Federal Reserve notes outstanding, net	Note 4 \$1,694,982	\$1,671,437
System Open Market Account:		
Securities sold under agreements to repurchase	Note 2 335,372	304,012
Other liabilities	114	34
Deposits:		
Depository institutions	Note 5 1,421,451	1,555,954
Treasury, general account	Note 6 263,709	402,138
Other deposits	66,221	78,317
Interest payable to depository institutions and others	1,106	1,381
Accrued benefit costs	2,663	2,558
Deferred credit items	923	1,006
Accrued remittances to the Treasury	1,871	1,597
Other liabilities	361	286
Total liabilities	<u>3,788,773</u>	<u>4,018,720</u>
Capital paid-in	Note 7 32,395	32,335
Surplus (including accumulated other comprehensive loss of \$3,219 and \$3,292 at June 30, 2019, and December 31, 2018, respectively)	Note 7 6,825	6,825
Total capital	<u>39,220</u>	<u>39,160</u>
Total liabilities and capital	<u>\$3,827,993</u>	<u>\$4,057,880</u>

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Combined statements of operations					
(in millions)					
		Three months ended		Six months ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest income					
Loans	Note 8(A)	\$ —	\$ 1	\$ —	\$ 1
System Open Market Account:	Note 8(B)				
Treasury securities, net		16,164	16,491	29,528	32,107
Government-sponsored enterprise debt securities, net		34	51	69	105
Federal agency and government-sponsored enterprise mortgage-backed securities, net		11,216	12,404	23,316	24,942
Foreign currency denominated investments, net		(8)	(8)	(15)	(14)
Central bank liquidity swaps		1	2	3	10
Total interest income		<u>27,407</u>	<u>28,941</u>	<u>52,901</u>	<u>57,151</u>
Interest expense					
System Open Market Account:	Note 8(B)				
Securities sold under agreements to repurchase		1,624	1,105	3,145	2,019
Other		—	2	—	3
Deposits:					
Depository institutions and others	Note 8(C)	9,522	9,486	19,758	18,173
Term Deposit Facility		1	1	1	1
Total interest expense		<u>11,147</u>	<u>10,594</u>	<u>22,904</u>	<u>20,196</u>
Net interest income		<u>16,260</u>	<u>18,347</u>	<u>29,997</u>	<u>36,955</u>
Other items of income (loss)					
System Open Market Account:					
Treasury securities gains, net		—	6	—	6
Foreign currency translation gains (losses), net		381	(1,059)	58	(227)
Other		10	4	18	14
Income from investments held by consolidated variable interest entity, net	Note 3	—	(2)	—	2
Income from services		112	111	221	223
Reimbursable services to government agencies		173	168	343	335
Other components of net benefit costs		2	28	11	68
Other		19	17	36	33
Total other items of income (loss)		<u>697</u>	<u>(727)</u>	<u>687</u>	<u>454</u>
Operating expenses					
	Note 8(D)				
Salaries and benefits		811	788	1,636	1,580
Occupancy		84	83	165	162
Equipment		49	48	95	92
Pension service cost		139	154	278	341
Other		182	180	339	340
Assessments:					
Board of Governors operating expenses and currency costs		394	376	729	733
Bureau of Consumer Financial Protection		120	99	243	99
Total operating expenses		<u>1,779</u>	<u>1,728</u>	<u>3,485</u>	<u>3,347</u>
Net income before providing for remittances to the Treasury		15,178	15,892	27,199	34,062
Earnings remittances to the Treasury		<u>15,090</u>	<u>16,321</u>	<u>26,897</u>	<u>36,830</u>
Net income after providing for remittances to the Treasury		<u>88</u>	<u>(429)</u>	<u>302</u>	<u>(2,768)</u>
Change in prior service costs related to benefit plans		(6)	8	(11)	15
Change in actuarial gains related to benefit plans		42	38	84	77
Total other comprehensive income		<u>36</u>	<u>46</u>	<u>73</u>	<u>92</u>
Comprehensive income (loss)		\$ 124	\$ (383)	\$ 375	\$ (2,676)

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Combined statements of changes in capital

(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive income (loss)	Total surplus	
Balance at December 31, 2017 (627,772,211 shares)	\$31,389	\$13,334	\$(3,334)	\$10,000	\$41,389
Net change in capital stock issued (18,931,796 shares)	946	—	—	—	946
Comprehensive income:					
Net loss	—	(2,218)	—	(2,218)	(2,218)
Other comprehensive income	—	—	42	42	42
Dividends on capital stock	—	(999)	—	(999)	(999)
Net change in capital	946	(3,217)	42	(3,175)	(2,229)
Balance at December 31, 2018 (646,704,007 shares)	\$32,335	\$10,117	\$(3,292)	\$ 6,825	\$39,160
Net change in capital stock issued (1,189,471 shares)	60	—	—	—	60
Comprehensive income:					
Net income	—	302	—	302	302
Other comprehensive income	—	—	73	73	73
Dividends on capital stock	—	(375)	—	(375)	(375)
Net change in capital	60	(73)	73	—	60
Balance at June 30, 2019 (647,893,478 shares)	<u>\$32,395</u>	<u>\$10,044</u>	<u>\$(3,219)</u>	<u>\$ 6,825</u>	<u>\$39,220</u>

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Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or nonpersonal time deposits and have established discount window borrowing privileges). The remaining maturity distribution of loans to depository institutions outstanding as of June 30, 2019, and December 31, 2018, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
June 30, 2019	\$109	\$ 6	\$115
December 31, 2018	61	—	61

At June 30, 2019, and December 31, 2018, the Reserve Banks did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the period ended June 30, 2019, and year ended December 31, 2018.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the Combined statements of condition. SOMA portfolio holdings at June 30, 2019, and December 31, 2018, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	June 30, 2019			December 31, 2018		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury Securities						
Bills	\$ 5	\$ 5	\$ —	\$ —	\$ —	\$ —
Notes	1,265,610	1,277,998	12,388	1,383,929	1,370,515	(13,414)
Bonds	919,670	1,037,003	117,333	918,533	967,479	48,946
Total Treasury securities	\$2,185,285	\$2,315,006	\$129,721	\$2,302,462	\$2,337,994	\$ 35,532
GSE debt securities	2,669	3,350	681	2,741	3,222	481
Federal agency and GSE MBS	1,575,483	1,581,995	6,512	1,683,532	1,641,381	(42,151)
Total domestic SOMA portfolio securities holdings	\$3,763,437	\$3,900,351	\$136,914	\$3,988,735	\$3,982,597	\$ (6,138)
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ 6,453	\$ 6,456	\$ 3	\$ —	\$ —	\$ —
Purchases of federal agency and GSE MBS	1,604	1,607	3	294	296	2
Sales of federal agency and GSE MBS	149	149	—	—	—	—

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The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at June 30, 2019, and December 31, 2018:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	June 30, 2019		December 31, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 6,867	\$ 6,806	\$ 7,532	\$ 7,296
2.5%	84,770	83,995	92,877	89,530
3.0%	566,431	562,350	601,805	577,317
3.5%	549,000	551,869	585,114	571,406
4.0%	277,182	280,489	297,546	294,038
4.5%	64,266	67,776	69,474	71,559
5.0%	21,559	22,950	23,296	24,128
5.5%	4,684	4,971	5,097	5,277
6.0%	632	687	691	722
6.5%	92	102	100	108
Total	<u>\$1,575,483</u>	<u>\$1,581,995</u>	<u>\$1,683,532</u>	<u>\$1,641,381</u>

The Federal Reserve Bank of New York (FRBNY) may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds (primary dealer and expanded counterparties reverse repurchase agreements). Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Financial information related to reverse repurchase agreements at June 30, 2019, and December 31, 2018, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	June 30, 2019	December 31, 2018
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$ 44,307	\$ 41,848
Securities pledged (par value), end of period	41,660	42,485
Securities pledged (fair value), end of period	44,334	41,919
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$291,065	\$262,164
Securities pledged (par value), end of period	283,467	261,615
Securities pledged (fair value), end of period	291,150	262,184
Total contract amount outstanding, end of period	\$335,372	\$304,012

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

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

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
June 30, 2019							
Treasury securities (par value)	\$ 23,660	\$88,799	\$263,948	\$857,102	\$264,579	\$ 612,266	\$2,110,354
GSE debt securities (par value)	—	—	—	—	486	1,861	2,347
Federal agency and GSE MBS (par value) ¹	—	—	7	292	70,903	1,461,524	1,532,726
Securities sold under agreements to repurchase (contract amount)	335,372	—	—	—	—	—	335,372
December 31, 2018:							
Treasury securities (par value)	\$ 2,092	\$92,622	\$290,222	\$958,065	\$260,898	\$ 618,648	\$2,222,547
GSE debt securities (par value)	—	62	—	—	—	2,347	2,409
Federal agency and GSE MBS (par value) ¹	—	—	4	214	62,706	1,574,199	1,637,123
Securities sold under agreements to repurchase (contract amount)	304,012	—	—	—	—	—	304,012

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

Federal agency and GSE MBS are reported at stated maturity in table 5 above. The estimated weighted-average life of these securities, which differs from the stated maturity in table 5 primarily because it factors in scheduled payments and prepayment assumptions, was approximately 5.4 years and 7.0 years as of June 30, 2019, and December 31, 2018, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the six months ended June 30, 2019, and during the year ended December 31, 2018, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities						
(in millions)						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2017	\$ —	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases ¹	126	192,346	15,560	208,032	—	121,190
Sales ¹	(47)	(49)	(65)	(161)	—	(253)
Realized gains (losses), net ²	—	(1)	6	5	—	(5)
Principal payments and maturities	(79)	(453,970)	(7,731)	(443,780)	(1,982)	(246,316)
Amortization of premiums and accretion of discounts, net	—	(2,929)	(7,781)	(10,710)	(29)	(8,784)
Inflation adjustment on inflation-indexed securities	—	961	2,382	3,343	—	—
Subtotal of activity ¹	—	(245,642)	2,371	243,271	(2,011)	(134,168)
Balance December 31, 2018	\$ —	\$1,383,929	\$918,533	\$2,302,462	\$ 2,741	\$1,683,532
Purchases ¹	105	59,913	11,384	71,402	—	1,719
Sales ¹	(50)	—	—	(50)	—	—
Realized gains (losses), net ²	—	—	—	—	—	—
Principal payments and maturities	(50)	(177,671)	(7,497)	(185,218)	(62)	(106,086)
Amortization of premiums and accretion of discounts, net	—	(989)	(3,775)	(4,764)	(10)	(3,682)
Inflation adjustment on inflation-indexed securities	—	428	1,025	1,453	—	—
Subtotal of activity ¹	5	(118,319)	1,137	(117,177)	(72)	(108,049)
Balance June 30, 2019	\$ 5	\$1,265,610	\$919,670	\$2,185,285	\$ 2,669	\$1,575,483
Year ended December 31, 2018						
Supplemental information—par value of transactions						
Purchases ³	\$126	\$ 193,093	\$ 15,713	\$ 208,932	\$ —	\$ 118,762
Sales ³	(47)	(51)	(59)	(157)	—	(251)
Six months ended June 30, 2019						
Supplemental information—par value of transactions						
Purchases ³	\$105	\$ 60,083	\$ 11,435	\$ 71,623	\$ —	\$ 1,688
Sales	(50)	—	—	(50)	—	—
¹ Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS transactions that are settled on a net basis. ² Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount. ³ Includes inflation compensation.						

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at June 30, 2019, and December 31, 2018, was as follows:

Table 7. Foreign currency denominated investments (in millions)		
	June 30, 2019	December 31, 2018
Euro:		
Foreign currency deposits	\$ 6,710	\$ 6,390
French government debt instruments	2,805	3,045
Dutch government debt instruments	1,481	1,511
German government debt instruments	1,302	1,440
Japanese yen:		
Foreign currency deposits	7,616	7,286
Japanese government debt instruments	1,051	1,234
Total	<u>\$20,965</u>	<u>\$20,906</u>

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

Table 8. Maturity distribution of foreign currency denominated investments (in millions)						
	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
June 30, 2019:						
Euro	\$ 6,509	\$201	\$483	\$2,971	\$2,134	\$12,298
Japanese yen	7,616	—	496	555	—	8,667
Total	<u>\$14,125</u>	<u>\$201</u>	<u>\$979</u>	<u>\$3,526</u>	<u>\$2,134</u>	<u>\$20,965</u>
December 31, 2018:						
Euro	\$ 6,425	\$ 81	\$448	\$2,792	\$2,640	\$12,386
Japanese yen	7,286	90	301	843	—	8,520
Total	<u>\$13,711</u>	<u>\$171</u>	<u>\$749</u>	<u>\$3,635</u>	<u>\$2,640</u>	<u>\$20,906</u>

At June 30, 2019, and December 31, 2018, the fair value of foreign currency denominated investments held in the SOMA was \$21,128 million and \$20,957 million, respectively.

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

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Reserve Banks at June 30, 2019, and December 31, 2018, was as follows:

Table 9. Maturity distribution of liquidity swaps (in millions)		
	June 30, 2019 Within 15 days	December 31, 2018 Within 15 days
Euro	\$17	\$4,197
Japanese yen	—	10
Total	\$17	\$4,207

The following table presents the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the periods ended June 30, 2019, and June 30, 2018:

Table 10. Realized gains and change in unrealized gain (loss) position (in millions)				
	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Realized gains, net	Change in cumulative unrealized gains (losses) ¹	Realized gains, net	Change in cumulative unrealized gains (losses) ¹
Treasury securities ²	\$ —	\$ 94,189	\$ 6	\$(55,956)
GSE debt securities	—	200	—	(155)
Federal agency and GSE MBS	—	48,663	—	(43,566)
Total	\$ —	\$143,052	\$ 6	\$(99,677)

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

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

(3) Consolidated Variable Interest Entity (VIE)

The combined financial statements include the accounts and results of operations of a limited liability company (LLC), Maiden Lane LLC (ML), which is consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation. During 2018, the FRBNY sold all remaining securities from the ML portfolio and in accordance with the ML agreements, net proceeds were distributed to the FRBNY. On November 1, 2018, ML LLC was dissolved. While its affairs are being wound up, ML LLC will retain minimal cash to meet trailing expenses and other obligations as required by law. The costs to wind up ML LLC are not expected to be material.

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

ML had immaterial net income for the six months ended June 30, 2019, and net income of \$2 million for the six months ended June 30, 2018.

(4) Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Reserve Banks' assets are eligible to be pledged as collateral. At June 30, 2019, and December 31, 2018, all Federal Reserve notes, net, were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits primarily represent required reserve balances and excess reserve balances. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Excess reserves are those held by the depository institutions in excess of their required reserve balances.

(6) Treasury Deposits

The Treasury holds deposits at the Reserve Banks in a general account pursuant to the Reserve Banks' role as fiscal agent and depository of the United States.

(7) Capital and Surplus

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

The FRA requires each Reserve Bank to pay each member bank an annual dividend on paid in capital stock. By law member banks with more than \$10 billion of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to the smaller of 6 percent or the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Member banks with \$10 billion or less of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to 6 percent. The dividend is paid semiannually and is cumulative.

In 2018, the Bipartisan Budget Act of 2018 and the Economic Growth, Regulatory Relief, and Consumer Protection Act reduced the statutory limit on aggregate Reserve Bank surplus from \$10.0 billion to \$6.825 billion, which required Reserve Banks to make two lump sum payments to the Treasury totaling \$3.125 billion. These lump sum payments were reported as a component of “Earnings remittances to the Treasury” in the Combined statements of operations for the six months ended June 30, 2018. The FRA currently limits aggregate Reserve Bank surplus to \$6.825 billion.

(8) Income and Expense

(A) Loans

Interest income on primary, secondary, and seasonal credit is accrued using the applicable rate established at least every 14 days by the Reserve Banks’ boards of directors, subject to review and determination by the Board of Governors. For the six months ended June 30, 2019 and 2018, primary, secondary, and seasonal credit average daily balances were \$37 million and \$64 million, respectively, and average interest rates were 2.61 percent and 1.95 percent, respectively.

(B) SOMA Holdings

The amount reported as interest income on SOMA portfolio holdings includes the amortization of premiums and discounts. Supplemental information on interest income on SOMA portfolio holdings is as follows:

Table 11. Interest income on SOMA portfolio		
(in millions)		
	Six months ended June 30, 2019	Six months ended June 30, 2018
Interest income:		
Treasury securities, net	\$ 29,528	\$ 32,107
GSE debt securities, net	69	105
Federal agency and GSE MBS, net	23,316	24,942
Foreign currency denominated investments, net ¹	(15)	(14)
Central bank liquidity swaps	3	10
Total interest income	\$ 52,901	\$ 57,150
Average daily balance:		
Treasury securities, net ²	\$2,239,002	\$2,502,969
GSE debt securities, net ²	2,703	4,546
Federal agency and GSE MBS, net ³	1,637,395	1,805,110
Foreign currency denominated investments, net ⁴	20,781	21,796
Central bank liquidity swaps ⁵	174	971
Average interest rate:		
Treasury securities, net	2.64%	2.57%
GSE debt securities, net	5.10%	4.63%
Federal agency and GSE MBS, net	2.85%	2.76%
Foreign currency denominated investments, net	-0.14%	-0.13%
Central bank liquidity swaps	2.91%	1.98%
<p>¹ As a result of negative interest rates on certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$21 millions for the six months ended June 30, 2019 and 2018.</p> <p>² Face value, net of unamortized premiums and discounts.</p> <p>³ Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities, net of premiums and discounts.</p> <p>⁴ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁵ Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.</p>		

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

Table 12. Interest expense on securities sold under agreement to repurchase (in millions)		
	Six months ended June 30, 2019	Six months ended June 30, 2018
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 48	\$ 133
Foreign official and international accounts ²	3,097	1,886
Total interest expense	\$ 3,145	\$ 2,019
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$ 4,248	\$ 19,815
Foreign official and international accounts ²	255,472	239,088
Average interest rate:		
Primary dealers and expanded counterparties ¹	2.26%	1.34%
Foreign official and international accounts ²	2.42%	1.58%
¹ Overnight and term reverse repurchase agreements arranged as open market operations are settled through a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. ² Reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.		

(C) Depository Institution Deposits

The Reserve Banks pay interest to depository institutions on qualifying balances held at the Reserve Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on a FOMC-established target range for the federal funds rate.

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

(D) Operating Expenses

The Federal Reserve Banks have established procedures for budgetary control and monitoring of operating expenses as part of their efforts to ensure appropriate stewardship and accountability. Reserve Bank and Board governance bodies provide budget guidance for major functional areas for the upcoming budget year. The Board's Committee on Federal Reserve Bank Affairs (BAC) reviews the Banks' budgets and the BAC chair submits the budgets to Board members for review and final action. Throughout the year, Reserve Bank and Board staffs monitor actual performance and compare it with approved budgets and forecasts.

Certain amounts relating to the prior year have been reclassified in the Combined statements of operations to conform to the current year presentation. In accordance with the Financial Accounting Standards Board Accounting Standards Update 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, \$27 million previously reported as "Operating expenses: Salaries and benefits" for the six months ended June 30, 2018 and (\$95) million previously reported as "Operating expenses: Net periodic pension expense" for the six months ended June 30, 2018, have been reclassified as "Other items of income (loss): Other components of net benefit costs." In addition, the description of the line item "Operating expenses: Net periodic pension expense"

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

Additional information regarding Reserve Bank operating expenses is available each year in the Annual Report of the Board of Governors of the Federal Reserve System at <https://www.federalreserve.gov/publications/annual-report.htm>, and on the Audit webpage of the Board’s website at <https://www.federalreserve.gov/regreform/audit.htm>.

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