



Conversations with the Fed

Federal Reserve Bank of Minneapolis

Understanding the Fed's Financials

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Disclaimer

The views expressed here are the presenters' and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System



Agenda

- Audits of the Federal Reserve
- Availability of Financial Statements
- Federal Reserve System Asset Trends
- Statement of Condition
- Statement of Comprehensive Income
- Summary



Does the Fed Get Audited?



www.federalreserve.gov



Audits of the Federal Reserve

The Board of Governors, the 12 Federal Reserve Banks, and the Federal Reserve System as a whole are all subject to several levels of audit and review:

- Independent outside auditor (currently Deloitte & Touche): Reserve Bank financial statements and internal controls over financial reporting are audited annually.
- Government Accountability Office (GAO): Conducts numerous reviews of Federal Reserve activities.
- The Board of Governors' Office of Inspector General (OIG):
 - Retains an outside auditor to review the Board of Governors' financial statements, and its compliance with laws and regulations affecting those statements.
 - Audits and investigates Board of Governors' programs and operations as well as those Board of Governors' functions delegated to the Reserve Banks.
- Internal Audit: Each Reserve Bank also has an internal audit function that reports to its Board of Directors.
- Board of Governors: The Reserve Banks are also subject to annual examination by the Board of Governors.



Availability of Financial Statements

- www.minneapolisfed.org – Federal Reserve Bank of Minneapolis 2013 audited financial statements in Spotlight section
- www.federalreserve.gov/monetarypolicy/bst.htm - System statements and related information including:
 - Weekly publication of Reserve Bank balance sheet (Table 9) along with related charts and an interactive user guide of accounts
www.federalreserve.gov/monetarypolicy/bst_fedsbalancesheet.htm
 - Annual publication of Reserve Bank financial statements with audit opinion covering financial statements and internal controls (SOX)
www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm
 - Charts and graphs covering System weekly balance sheet trends
www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm



Accounting Policy

- Follows Generally Accepted Accounting Principles (GAAP) for private-sector-like transactions and some central bank transactions
 - Federal Reserve Notes, or Currency, is a liability while Coin is an asset
- Differs from GAAP for certain central bank unique transactions due to the nature of those transactions:
 - Securities are presented at amortized cost rather than fair value; however, fair value of securities is disclosed in the footnotes
 - Securities are also recorded on the settlement date rather than the trade date
 - No Statement of Cash Flows presented; however, footnotes provide cash flow information



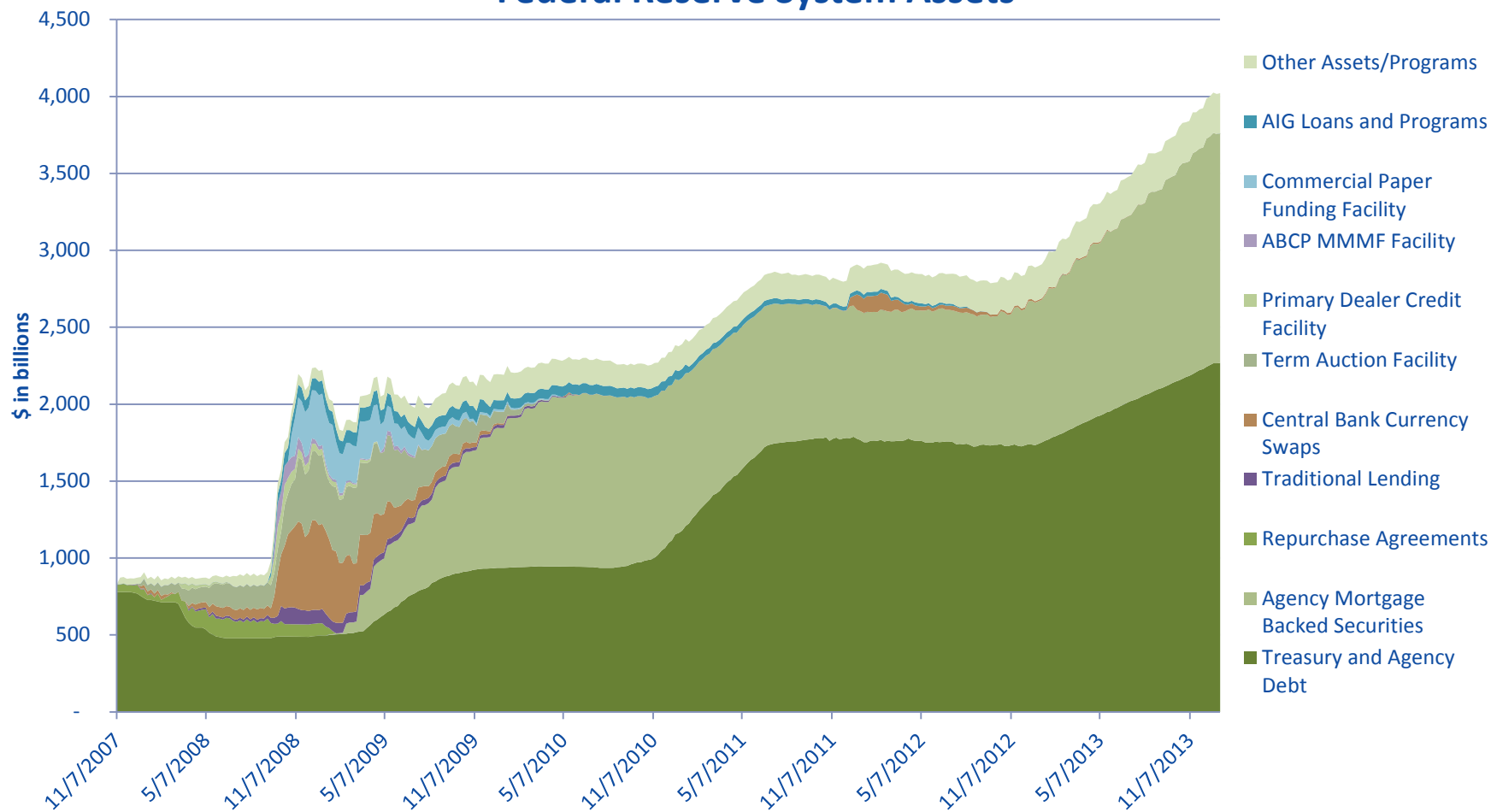
Federal Reserve Concepts

- Monetary policy actions have greatest impact
 - Over 98% of assets
 - Focus is not profit but what is best for U.S. economy
 - System Open Market Account
 - Federal Reserve Bank of New York conducts monetary policy operations on behalf of the Federal Open Market Committee
 - Accounts are allocated daily to the other Reserve Banks
 - Primary source of Federal Reserve income
- Capital is based on Federal Reserve member bank capital levels
- Payments are made weekly to U.S. Treasury of net earnings



Federal Reserve System Asset Trends

Federal Reserve System Assets



Federal Reserve Bank of Minneapolis

Detailed Statements of Condition as of December 31, 2013 and 2012

(\$ in millions)

	2013	2012
<u>ASSETS</u>		
Gold certificates	\$ 190	\$ 192
Special drawing rights certificates	90	90
Coin	48	51
Loans to depository institutions	27	32
System Open Market Account:		
Treasury securities, net (of which \$163 and \$83 is lent as of December 31, 2013 and 2012, respectively)	22,389	16,447
Government-sponsored enterprise debt securities, net (of which \$10 and \$6 is lent as of December 31, 2013 and 2012, respectively)	561	723
Federal agency and government-sponsored enterprise mortgage-backed securities, net	14,555	8,639
Foreign currency denominated investments, net	99	101
Central bank liquidity swaps	1	36
Accrued interest receivable	222	173
Bank premises and equipment, net	108	111
Interdistrict settlement account	-	2,869
Other assets	66	52
Total assets	\$ 38,356	\$ 29,516
 <u>LIABILITIES AND CAPITAL</u>		
Federal Reserve notes outstanding, net	\$ 12,339	\$ 19,229
System Open Market Account:		
Securities sold under agreements to repurchase	2,998	974
Other liabilities	13	29
Deposits:		
Depository institutions	7,723	8,790
Interest payable to depository institutions	-	1
Accrued benefit costs	87	100
Deferred credit items	118	147
Accrued remittances to Treasury	44	11
Interdistrict settlement account	14,795	-
Other liabilities	7	5
Total liabilities	38,124	29,286
Capital paid-in	116	115
Surplus (including accumulated other comprehensive loss of \$4 and \$21 at December 31, 2013 and 2012, respectively)	116	115
Total capital	232	230
Total liabilities and capital	\$ 38,356	\$ 29,516



Federal Reserve Bank of Minneapolis
Summarized Statements of Condition as of December 31, 2013 and 2012
(\$ in millions)

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Coin	\$ 48	\$ 51
U.S. Treasury & other securities	37,505	25,809
Foreign assets and swaps	100	137
Interdistrict settlement account	-	2,869
Other	<u>703</u>	<u>650</u>
Total Assets	<u>\$ 38,356</u>	<u>\$ 29,516</u>
<u>Liabilities and Capital</u>		
Federal Reserve notes	\$ 12,339	\$ 19,229
Depository institution deposits	7,723	8,790
Securities sold under agreements to repurchase	2,998	974
Interdistrict settlement account	14,795	-
Capital paid-in and surplus	232	230
Other	<u>269</u>	<u>293</u>
Total Liabilities and Capital	<u>\$ 38,356</u>	<u>\$ 29,516</u>



Federal Reserve Bank of Minneapolis

Detailed Statements of Income and Comprehensive Income

(\$ in millions)

	2013	2012
<u>INTEREST INCOME</u>		
System Open Market Account:		
Treasury securities, net	\$ 484	\$ 504
Government-sponsored enterprise debt securities, net	20	29
Federal agency and government-sponsored enterprise mortgage-backed securities, net	344	348
Foreign currency denominated assets, net	1	1
Central bank liquidity swaps	-	2
Total interest income	849	884
<u>INTEREST EXPENSE</u>		
System Open Market Account:		
Securities sold under agreements to repurchase	1	1
Deposits:		
Depository institutions	19	20
Total interest expense	20	21
Net interest income	829	863
<u>NON-INTEREST INCOME</u>		
System Open Market Account:		
Treasury securities gains, net	-	139
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	-	3
Foreign currency translation losses, net	(5)	(1)
Compensation received for service costs provided	54	53
Reimbursable services to government agencies	34	35
Other	2	1
Total non-interest income	85	230
<u>OPERATING EXPENSES</u>		
Salaries and benefits	125	120
Occupancy	13	12
Equipment	4	5
Other	39	37
Assessments:		
Board of Governors operating expenses and currency costs	18	17
Bureau of Consumer Financial Protection	2	2
Total operating expenses	201	193
Net income before providing for remittances to Treasury	713	900
Earnings remittances to Treasury	721	882
Net (loss) income	(8)	18
Change in actuarial gains (losses) and prior service costs related to benefit plans	17	(6)
Total other comprehensive income (loss)	17	(6)
Comprehensive income	\$ 9	\$ 12

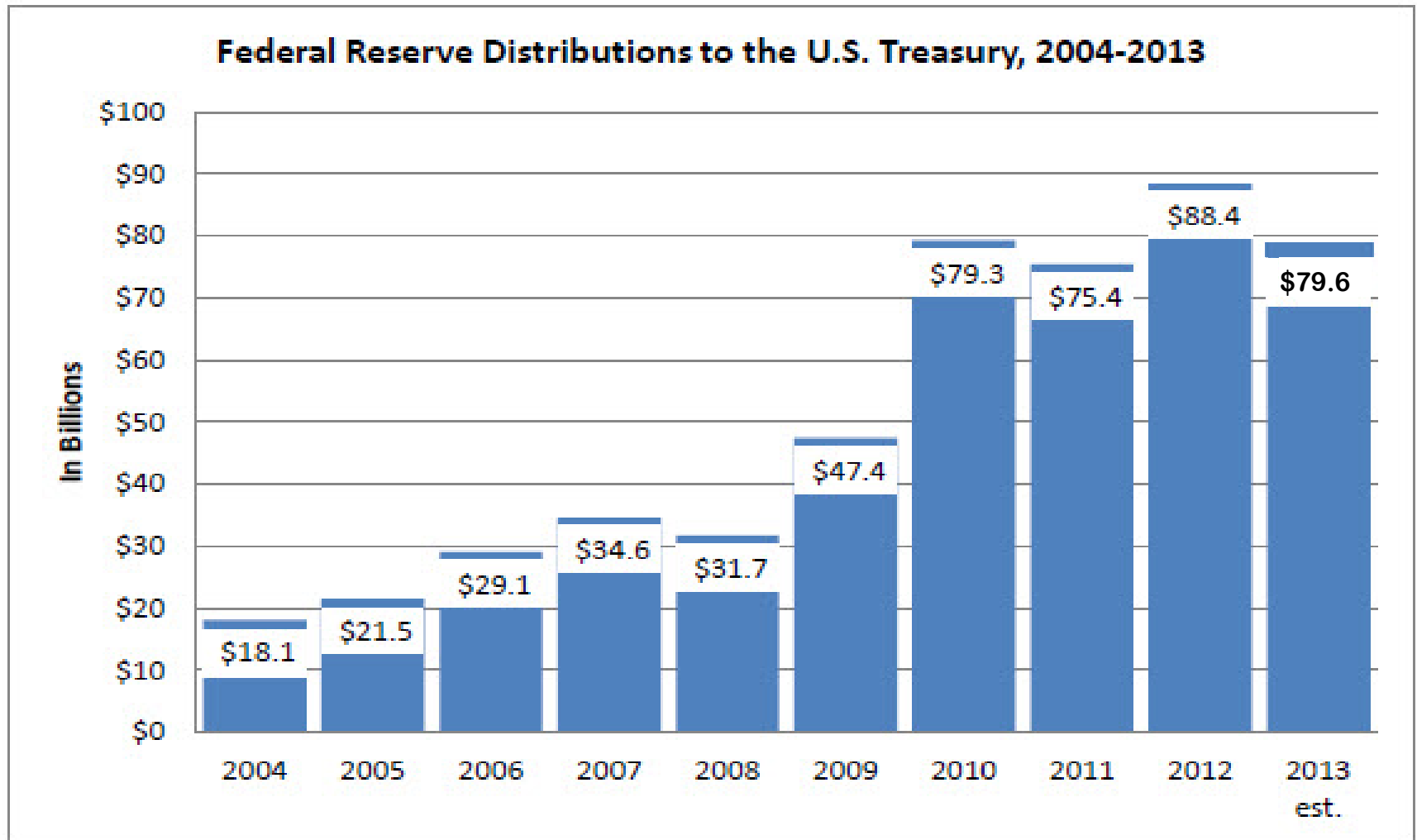


Federal Reserve Bank of Minneapolis
Summarized Statements of Comprehensive Income
(\$ in millions)

	<u>2013</u>	<u>2012</u>
Interest income	\$ 849	\$ 884
Interest expense	<u>20</u>	<u>21</u>
Net interest income	829	863
Non-interest income	85	230
Operating & other expenses	<u>201</u>	<u>193</u>
Net income before providing for remittances to Treasury	713	900
Earnings remittances to Treasury	<u>721</u>	<u>882</u>
Net (loss) income	<u>(8)</u>	<u>18</u>
Total other comprehensive income (loss)	<u>17</u>	<u>(6)</u>
Comprehensive income	<u><u>\$ 9</u></u>	<u><u>\$ 12</u></u>



Payments to U.S. Treasury



Summary

- The Federal Reserve is subject to several layers of Audit
- Financial statements are publicly available
- System Open Market Account
 - Federal Reserve Bank of New York conducts monetary policy operations on behalf of the Federal Open Market Committee
 - Accounts are allocated daily to the other Reserve Banks
 - Primary source of Federal Reserve income
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Questions ?



Appendix



Federal Reserve Press Release

Release Date: March 14, 2014

The Federal Reserve System on Friday released the 2013 combined annual financial statements for the Federal Reserve Banks, as well as statements for the 12 individual Federal Reserve Banks, the consolidated variable interest entities (VIEs) that were created to respond to strains in financial markets, and the Board of Governors. These financial statements are audited annually by an independent auditing firm.

The Federal Reserve Banks' 2013 earnings, inclusive of other comprehensive income, were \$81.4 billion. The Reserve Banks provided for remittances to the U.S. Treasury of \$79.6 billion.

Interest income on securities acquired through open market operations--U.S. Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS)--totaled \$90.4 billion, an increase of \$9.9 billion over the previous year. There were no realized gains on the sales of U.S. Treasury securities in 2013, compared to \$13.3 billion of gains in 2012 from the sales of short-term U.S. Treasury securities under the maturity extension program, which was completed in 2012. Earnings attributable to the consolidated VIEs were \$181 million, \$5.8 billion less than 2012. Interest expense on depository institutions' reserve balances during the year was \$5.2 billion, losses from the daily revaluation of foreign currency denominated asset holdings were \$1.3 billion, and Reserve Bank operating expenses were \$6.1 billion, including assessments of \$1.8 billion for Board expenses, currency costs, and the Bureau of Consumer Financial Protection.

Total Reserve Bank assets as of December 31, 2013, were \$4.0 trillion, which is an increase of \$1.1 trillion over the balance on December 31, 2012. Holdings of U.S. Treasury securities increased by \$550.2 billion, and federal agency and GSE MBS holdings increased by \$583.5 billion. GSE debt securities holdings decreased by \$20.4 billion, and balances held under central bank liquidity swap arrangements decreased by \$8.6 billion. Asset holdings of the consolidated VIEs and the Term Asset Loan Facility, which were created during the financial crisis, continued to decrease and totaled \$2.0 billion on December 31, 2013.

The Federal Reserve System financial statements are available on the Federal Reserve Board's website at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm

