Financial Accounting Manual for Federal Reserve Banks

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Division of Reserve Bank Operations and Payment Systems
Federal Reserve Bank Financial Accounting Section

INTRODUCTION

This Financial Accounting Manual (FAM) contains the accounting standards that should be followed by the Federal Reserve Banks.

The Board of Governors has delegated, within certain parameters, the authority to set accounting policy for the Reserve Banks to the director of the Division of Reserve Bank Operations and Payment Systems (RBOPS) and, by extension, to the division's Financial Accounting Section staff the responsibility to define, amend, and interpret FAM as prescribed by FRAM 1-001 and -1035. Although setting accounting policy and updating FAM are responsibilities of RBOPS Financial Accounting staff, Reserve Banks' accounting staffs also play significant roles in the development of accounting policies included in this manual. FAM is expected to help all Reserve Banks pursue uniform accounting policies conforming to the standards established. In some places examples of subsidiary accounts are given to permit an understanding of the scope of the broader balance sheet items. In these cases, unless otherwise noted, the maintenance of such accounts is discretionary with the Reserve Bank.

While the manual covers the receipt and disbursement of funds and specifies their location on the balance sheet, and is thus the controlling document on capitalization, rates of depreciation, correction of errors in expenses, entries to Profit and Loss, etc, it does not provide guidance for cost accounting. The Federal Reserve Planning and Control System Manual (PACS Manual) sets rules for cost accounting.

Federal Reserve Bank staff should consult with the RBOPS Financial Accounting Section when there are any financial accounting questions or issues for the Federal Reserve Banks that are not specifically covered in this manual.

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Revision Set 45
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Revisions are effective as of January 1, 2008. [redacted]

SUMMARY OF REVISIONS[1]

Chapter 1

Paragraph 2.70 (Acceptances: Bought Outright and Held Under Repurchase Agreement) – Beginning in February 2007, activity related to tri-party repurchase agreements is allocated to each Reserve Bank.

Paragraph 4.20 (Deferred Charges) – This section is revised to incorporate the provisions of the Accounting Guidance for Internal Use Software Costs, which was developed by Board and Reserve Bank accounting staff. Key changes are:

- Improvements made to internally developed software are assigned separate and unique useful lives, if appropriate.
- Expenditures for bulk purchases of low-cost software licenses that are individually below the capitalization threshold should be capitalized as a single asset if the cost is $100,000 or more and the license agreement is for a period longer than a year.

Chapter 3

Paragraph 30.50 (Equipment) – Expanded on the types of installation costs that should be capitalized.

Chapter 4

Paragragh 40.05 (Participated Accounts) – Expanded the list of participated accounts to include tri-party repurchase agreements.

Paragraph 40.25 (U.S. Government Securities: Held Under Repurchase Agreements) and 40.40 (SOMA Participation) – Beginning in February 2007, activity related to tri-party repurchase agreements is allocated to each Reserve Bank. Previously, the activity was reported only by FRBNY.

Paragraph 40.60 (Foreign Exchange (F/X) Swap) – Changes were made to better describe the nature of the swap transactions.

[1] Does not include minor clarifications and corrections of errors that do not change policy.

Paragraph 40.75 (Euro Reverse Repurchase Agreements) – In 2006, the FOMC approved the use of euro reverse repurchase agreements, and a new paragraph is added which describes the accounting for these new transactions.

Chapter 5

Paragraph 50.65 (Currency Destroyed by Treasury) – Clarified that when Board staff calculates the pro-rata amount of each Reserve Bank's currency destruction, it is based on each Bank's share of the **number of notes** comprising the System's net liabilities.

Chapter 6

Paragraph 60.20 (Interest on Federal Reserve Notes) – Added language to clarify the treatment of Accumulated Other Comprehensive Income (AOCI) as a component of each Reserve Bank's Surplus account.

Paragraph 60.51 (Income Report – Explanation of Items on FR 95) – Clarified that interest income generated from tri-party repurchase agreements is reported as the source of income, Other U.S. Government obligations.

Paragraph 60.94 (Real Estate Reporting Requirements – Annual and Special) – FR 612 in RFARS was modified to include the Reserve Banks' construction in progress balances.

Paragraph 60.95 (Small and Disadvantaged Business Procurement Information) – The discussion of documentation requirements for small business and disadvantaged business programs was updated to clarify the disadvantaged business program provisions.

CHAPTER 1
BALANCE SHEET

.01 - General. The Balance Sheet, form FR 34, shows in detail the assets, liabilities, and capital accounts of the Federal Reserve Banks and certain additional information such as U.S. Government deposits with special depositaries, collateral and custodies held, classifications of "Other deposits--Miscellaneous," and certain memorandum accounts.

The balance sheet is the basis for the weekly statement of condition which the Board of Governors is required by law to publish periodically. It also furnishes the Board of Governors with basic, original source material for statistical data, much of which is published, relating to the condition of Federal Reserve Banks.

Each Reserve Bank should set up such general ledger and subsidiary accounts as it requires for its own purposes and as such will enable it to prepare the balance sheet and to maintain satisfactory internal controls. This chapter provides general descriptions of the scope of the Balance Sheet accounts to promote uniformity of accounting treatment. It is not the intent of this Manual to redefine basic accounting principles. In those cases where the accounting treatment is unclear, Reserve Banks should contact the FRB Financial Accounting Section of the Board's RBOPS Division for an interpretation of the Manual. Transactions of the Reserve Bank must be recorded in the general ledger and reflected on the Balance Sheet; none of the principles or possible lack of specific instructions for any given transactions in this Manual should be interpreted as allowing otherwise. Proper accounting practice requires consistent application of accounting principles throughout the District (i.e. head office and Branches) from year to year. Where this Manual permits Reserve Banks to choose optional treatments for transactions, Reserve Banks should consistently apply the chosen option to all similar transactions in the future. In general, the provisions of this Manual address Reserve Bank accounting issues and should be applied from a District perspective (for example, the process for accruals required by .90 should be applied on a Districtwide basis rather than department or Branch basis).

.10 - Daily Preparation. A combined balance sheet for each Federal Reserve Bank should be prepared for each day that the Bank or any Branch is open for business (see 60.11 for standard holiday schedule). Special procedures are required for Wednesday and month-end balance sheets:

> On the last day of the month the combined balance sheet and the individual balance sheets for each office should show on the reverse all the data for which provision has been made.
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> When Wednesday is not the first day of the month and is a holiday, or when the last day of the month is a holiday, the balance sheet for the preceding business day should reflect accruals of earnings, expenses, and dividends through the Wednesday holiday or the last day of the month. (See accrual instructions beginning with paragraph .70.)
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> At the end of the year no amount should be reported in undistributed net income (code TWIG) on the combined balance sheet. See paragraph 60.25 for additional discussion.

.15 - Adjustments to Prior Day Balances. While adjustments to prior day balances may be made before balance sheets are submitted, adjustments to prior day Treasury and Depository Institution account balances should be rare. The Manager of the FRB Financial Accounting section of the Board's RBOPS Division should be notified of all prior day adjustments to Treasury and Depository Institution accounts, when identified, in order to ensure that their implications are properly communicated to monetary projection and fiscal staff.

.20 - Daily Submission. Combined balance sheet data for each District should be transmitted to the Board daily via Connect Direct. Technical procedures for the transmission of FR 34 data may be found in Technical Memorandum No. 15. Data should be transmitted to reach the Board no later than 1:30 p.m. Eastern Time each business day.

.25 - Monthly Submission. A copy of the reverse side of the combined District balance sheet should be forwarded to the Accounting Section, Division of Reserve Bank Operations and Payment Systems after preparation each month (see .10). The reverse side of the individual office balance sheets should be included at year-end (see .50).

.30 - Confidential Daily Summary (L.6.1). The combined balance sheet data are consolidated daily and, together with figures from other sources, are used in preparing a confidential daily statement, which is furnished to the Board and various members of its staff, certain Treasury officials, and the Federal Reserve Banks.

.40 - Condition Statement of Federal Reserve Banks (H.4.1). Section 11(a) of the Federal Reserve Act provides that the Board of Governors shall publish once each week a statement showing the condition of each Federal Reserve Bank and a consolidated statement for all Federal Reserve Banks. This section of the Act further provides that " such statements should show in detail the assets and liabilities of the Banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned or held by Federal Reserve Banks."

The Board's weekly statement, published each Thursday, is compiled from the Connect Direct transmission for each Wednesday. This publication is a computer-generated release.

.50 - Federal Reserve Bulletin/Annual Report. The Board publishes in the Federal Reserve Bulletin a statement showing the condition of Federal Reserve Banks as of each month-end, as well as year-end statements in the Annual Report of the Board of Governors of the Federal Reserve System. The month-end Connect Direct transmission is used for the preparation of the Bulletin tables. However, as of the last business day of the year, in addition to the District FR 34 Connect Direct transmission, a copy of each individual office's FR 34 should be mailed to the Accounting Section, Division of Reserve Bank Operations and Payment Systems.

In the case where holidays are involved at month-end or year-end, the reporting procedure should be as follows:

> When the month end is a nonbusiness day, submission of the FR 34 should be made as of the close of business on the last business day, and should include accruals of earnings, expenses, and dividends for the remaining nonbusiness day or days in the month. The maturity distribution should be as of month-end.

.60 - Accruals. Under accrual accounting, the financial effects of transactions and other economic events are recorded in the periods in which they have their primary economic impact. Accordingly, accrual accounting recognizes revenues and expenses as they are earned or incurred, not as cash is received or paid.

Accruals should be made weekly at a minimum (see paragraph .80) unless otherwise specified. Prior to the end of the reporting period, Reserve Banks should ensure that all accruals are properly reflected in the underlying accounts. In most cases, the accrual should be based on a transaction or other economic event that has been completed (i.e. the goods/services have been received). Accruals for standard timing lags may be made by using a standard accrual made in the beginning of the year, and then reversed at year-end ("standing accrual").

Paragraphs .70 - 1.00 provide general procedures for making accruals at different intervals. Due to their unique nature, detailed instructions have also been provided for making the following accruals: self-insured medical/dental expenses (paragraph 1.02), compensated absences (paragraph 1.04), and contingent liabilities (paragraph 1.06).

.70 - Accruals of Earnings. Calculate earnings on all types of earning assets for each calendar day on the basis of holdings of such assets at opening of business on such day or at close of business on the last preceding business day if the day in question is a Sunday or a holiday. Accrual of earnings on advances to depository institutions should be calculated at the interest rate in effect on the previous day. Other earnings are ordinarily credited when received or when services are rendered.

.80 - Accrual of Expenses Within the Month. Net expenses or, as an option, salaries and related expenses should be accrued in total along with estimates of compensation paid or received for check, automated clearing house, funds and securities transfer services provided or bought, as outlined in the following paragraphs, in order that expenses may be reflected consistently in published condition reports.

On each Wednesday, if accruals are made weekly, or on each day, the difference between total estimated net expenses and total net expenses recorded for the week or day should be debited (or credited) to a special expense account e.g., "Expenses accrued-estimated" and credited (or debited) to a special liability account, e.g., "Accrued expenses unpaid--estimated" (see 11.90). After these entries are made, the balances in these two accounts will represent the difference between estimated net expenses for the month-to-date and total net expenses for the month-to-date as recorded.

The **debit** balance in the "Expenses accrued--estimated" account should be included in the item "Operating expenses" on form FR 34; the **credit** balance in the "Accrued expenses unpaid--estimated" account should be reported under the caption "Other liabilities" on form FR 34. However, if net expenses for the month-to-date as recorded exceed the estimated net expenses for the month-to-date, "Expenses accrued--estimated" will have a **credit** balance and "Accrued expenses unpaid--estimated" will have a **debit** balance, in which case these accounts should **not** be reported on form FR 34. On the last day of the month these accounts should be closed against each other (see .90 for month-end accruals).

.90 - Accrual of Expense/Expenditure at Month-End and Year-End. Expenses incurred should be accrued as of the last day of the month and the year. Expenses are considered incurred if the service has been rendered or the product or material has been received. Non-incurred expenses should not be accrued. Types of transactions that normally give rise to accruals include receipt of goods or services; taxes; transportation costs; certain payroll costs, such as overtime charges; and costs associated with acquiring or improving physical assets, such as buildings and equipment. (Also see paragraphs 1.20 and 4.35 for additional clarification and examples.)

To ensure the proper recognition of expenses and liabilities at month-end and year-end, Reserve Banks are expected to maintain robust accrual processes to identify expenses timely and record them in the proper period. These processes may differ depending on the nature of the transaction as long as they effectively accrue significant expenses. For example, some transactions may be more efficiently accrued on a comprehensive basis than on a transaction basis. Examples of these may include automated accruals associated with purchase orders, purchasing cards, and personnel-related expenses. Other transactions, such as recurring monthly payments for utilities, may be more efficiently recorded on a cash basis if the monthly differences are minor and they are handled consistently month-to-month.

Although some transactions, particularly those acquisitions of goods and services outside the purchase order/purchasing card processes, may be difficult to identify, Reserve Banks must maintain an accrual process to consistently identify and accrue significant transactions in the appropriate period. Because of the importance of producing accurate year-end financial statements, additional procedures, such as subsequent payments testing, should be used to identify and accrue expenses incurred but not paid at year-end.

Amounts accrued should be debited to operating expenses and distributed to the appropriate subsidiary accounts or to the appropriate asset account, and credited to sundry items payable (see 11.70) or credited as offsets to items in prepaid accounts (see 1.20). For monthly accruals made for purchasing card transactions, the Bank may choose to offset the accrual for expenses to the current expense undistributed account rather than the individual PACS account. If the Bank makes significant capital purchases with purchasing cards, however, accruals for capital items should be debited to the relevant capital asset account. Each month the previous month-end accruals should be reversed and payments should be debited to current expense.

.95 - Accruals of Expenses for Employee Termination Plans (Involuntary/Voluntary). If a Reserve Bank initiates an involuntary employee termination program, it must recognize the associated liability if it is probable and the amounts are estimable. The probability test has been met when all four of the following conditions exist and have been communicated to the affected employees (communication date): 1) the appropriate level of management has approved and committed the organization to involuntarily terminate employees, 2) the affected employees have been notified, 3) the terms of the benefits to be provided have been communicated in sufficient detail to the affected employees, and 4) the period to complete the planned termination is not likely to change. If the plan requires an employee to work more than sixty days beyond notification in order to receive benefits, it may be necessary to accrue the liability over several periods.

Reserve Banks should note that if incremental termination benefits, in addition to the standard benefit program, are provided to employees as retention incentives, the accrual for the cost associated should not be included in the accrual for the standard benefit program -- it should be accrued evenly over the period from the communication date to the termination date.

If a Reserve Bank initiates a voluntary (early) termination program, it must estimate and recognize the liability for the termination benefits when the following conditions exist: 1) the appropriate level of management has approved and committed to a plan that allows employees to terminate employment, 2) employees have accepted the plan and it is unlikely that the election will be changed, and 3) the period to complete the termination is not likely to change.

Any incremental costs such as retention incentives associated with voluntary retirement programs, unlike the involuntary termination plans, should be accrued in total when the employee accepts the offer. If the election window for the program falls within a calendar year, the accrual may be made at the end of the window period; however, if the window crosses year-end, Reserve Banks should accrue only costs that are associated with employees who have indicated acceptance of the program.

Given the complexity involved with these programs related to the timing of expense accruals, Reserve Banks should contact Board FRB Financial Accounting staff for guidance when considering such plans.

1.00 - Accrual of Reimbursements at Month-End. Estimated reimbursements at the end of the month should be debited to reimbursable expenses and other items receivable, the purpose being to reflect a more accurate current expense figure. The accrual entries are reversed, and replaced with actual amounts in the following month when reimbursable amounts are determined.

1.01 – Accruals and prepayments for the consolidated health plans.
In January 2003, the Reserve Banks consolidated most of the active and retiree health plans with the Office of Employee Benefits (OEB) as the administrator. (For Districts that continue

to have locally managed self-insured health plans, see paragraph 1.02 for the accruals.) Although the Reserve Banks share a common administrator and service providers, the benefits and costs are still recorded at the Bank level. These costs include those for active employee medical benefits, retiree medical benefits (FAS 106), and Long-Term-Disability (LTD)/self-insured workers compensation medical benefits (FAS 112). The following summarizes the payment flows and accounting instructions for these benefits:

> Each month, in order to have sufficient funds to pay claims, OEB collects a monthly “premium” from the Reserve Banks by initiating a same day settlement (SDS) entry through the New York Reserve Bank. Reserve Banks record payments to the OEB by debiting the National Health Care Prepaid Expenses account (170-275) because this “premium” represents an advance payment to OEB.
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> Reserve Banks also accrue monthly expenses related to active employee medical benefits (including those incurred but not reported (IBNR) – see 1.02) to the SIP – National Health Care Accrued Liabilities account (240-125). Care should be taken to ensure that accruals for medical claims incurred but not paid do not include liabilities for post-retirement (FAS 106) and post-employment (FAS 112) benefits, which are accrued based on the actuarial valuation.
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> When Reserve Banks are notified by the OEB that payments have been made on their behalf, Reserve Banks debit as appropriate, the SIP – National Health Care Accrued Liabilities account (240-125) for active employee medical, retiree medical (FAS 106), and LTD/self-insured workers compensation medical(FAS 112) and credit the National Health Care Prepaid Expenses(170-275) account.

At year-end, each District will need to adjust its incurred but not paid liability associated with active medical claims based on actual claims paid.

1.02 Accruals for Self-Insured Medical/Dental Expenses. A liability must be recognized for the amount of medical/dental claims that have been incurred but not paid. A claim has been incurred when the event (e.g. medical treatment) that precipitates future payouts has occurred. The amount of this liability should reflect an estimate of the amount that will be paid, ultimately, by the Bank (net of stop-loss insurance, if the Bank maintains such coverage). It is not appropriate to maintain a "reserve" for claims that may be incurred in the future. Any funds related to the provision of self-insured medical/dental expenses that are held on deposit by claims administrators should be reflected separately as an asset of the Bank, rather than as an offset to the accrued self-insured medical/dental liability. A District is considered to be self-insured unless the insurance carrier bears 100% of the risk of loss due to shortfalls between claims and premiums.

As with most accruals, the liability reflected will be an estimate of the actual amounts of claims incurred but not paid. In order to maintain consistency among Reserve Bank estimates, a standard approach to this estimate has been adopted. The year-end liability should be based on the prior year's experience adjusted for current trends in claims. Specifically, a Reserve Bank should determine the amount of claims paid in the current year that were incurred in the prior year (run-out claims). This amount should then be divided by the total claims paid in the prior year to establish a "subsequent claims ratio." This ratio should then be applied to the most recent 12 months of payments data available to obtain the amount of the liability.

As with most accruals, medical and dental expenses should be accrued weekly at a minimum (see .60). Generally, this liability would be increased by the accruals, decreased by claim payments, and periodically adjusted to maintain an appropriate balance based on the "subsequent claims ratio" and the most current 12 months payment history. Alternatively, a Reserve Bank may choose to charge claims payments directly to expense while periodically adjusting this liability to its desired level, as described above. In any case, the liability balance should be reviewed at the end of every quarter, at a minimum (more frequently if circumstances warrant). This review should re-estimate the liability balance by applying the "subsequent claims ratio" (see second bullet under "Subsequent Claims Ratio" discussion below) to the most recent 12 months of payments data. In the first, second, and third quarter, if the actual liability balance is significantly different from the amount re-estimated, the on-going weekly accruals should be adjusted accordingly. The liability balance at year-end should always be adjusted to reflect the amount calculated using the methodology outlined in the paragraph above.

Exceptional circumstances (e.g., a change in claims administrator or plan design changes) may exist that would lead to a material misstatement of this liability if additional adjustments were not made. In such situations, the FRB Financial Accounting Section of the Board’s RBOPS Division should be contacted for approval of an appropriate alternative estimation methodology.

The following items provide further clarification of this estimation process:

Subsequent claims ratio:

- Care should be taken when making this computation to remove claims paid **that will be recovered from an insurance carrier due to a stop-loss policy** from both the numerator and denominator.

- Reserve Banks should modify this ratio at some point during the year when data for claims paid in the current year that were incurred in the prior year are available. This adjustment should be made as soon as practical, usually by the end of the second or third quarter. For example:

In 20X2, District Z anticipates that substantially all run-out claims relating to 20X1 will be paid by June 30, 20X2. The calculation of the estimated liability balance for the 4 quarters of 20X2 would be made as follows --

Actual liability at 12/31/X1 =	Claims paid in X1 that relate to X0 / Total claims paid in X0	x Claims paid Jan X1-Dec X1
Liability estimate at 3/31/X2 =	Ratio calculated for 12/31/X1 (from above)	x Claims paid Apr X1-Mar X2
Liability estimate at 6/30/X2 =	Claims paid in X2 that relate to X1* / Total claims paid in X1	x Claims paid Jul X1-Jun X2
Liability estimate at 9/30/X2 =	Ratio calculated for 6/30/X2 (from above)	x Claims paid Oct X1-Sep X2
Actual liability at 12/31/X2 =	Ratio calculated for 6/30/X2 (from above)	x Claims paid Jan X2-Dec X2

* If complete run-out claim information is not available until later in the year, Districts should continue using the previously calculated ratio until complete information is available.

- Some Reserve Banks have indicated that they may not be able to obtain reliable information regarding the amount of run-out claims. In that event, Reserve Banks should contact the FRB Financial Accounting Section staff for assistance.

- Some Reserve Banks maintain little to no "stop-loss" insurance. As a result they often experience more volatility in claims experience. It is conceivable that the "run-out" claims from a prior year may contain payments related to an unusual situation resulting in a ratio that is unreasonably high. Similarly, a Reserve Bank may be aware of an unusual situation that exists at year-end requiring an increase to the liability. Both cases should be treated as an exceptional circumstance and Board staff should be contacted.

Liability Estimate:

- Given that the ratio is based on an annual amount, the estimate should be computed by applying the ratio to the most recent 12 month payment history.

- Care should be taken when making this computation to remove claims **that will be recovered from an insurance carrier due to a stop-loss policy** from the 12 month payment history amount.

Special Considerations:

- Remember that medical payments/accruals for retirees and individuals on long-term disability are covered under FAS 106 and 112, respectively, and should be excluded from the aforementioned calculations.

<u>1.04 - Accruals for Compensated Absences</u>. Districts must accrue a liability for employees' compensation for future absences if a) the obligation is attributable to services already rendered, b) the obligation relates to rights that vest or accumulate, and c) payment of the compensation is probable and estimable. This requirement does not extend to sick pay benefits unless they vest (i.e. an employee is paid for unused sick days upon termination).

The purpose of this accrual is to recognize the liability to employees for vested compensated absences that would be due if employment were terminated or accumulated compensated absences.. This accrual should be calculated by multiplying total hours of pay due for qualifying compensated absences by actual salary rates. Average salary rates may be used if actual rates are unavailable or administratively burdensome to use.

In order to ensure the recognition of this liability while avoiding the burdensome requirements of distinguishing between salary and compensated absence expense on a weekly basis, this liability need not be continually adjusted to reflect individual accrual/usage of qualifying benefits. Rather, this liability and related expense should be adjusted periodically and at year-end, to reflect overall changes in the level of the liability. This liability should also be adjusted for significant changes in the liability that result from events such as merit increases, significant staff level changes, or policy changes. For example, when merit increases are granted to employees, an adjustment will be required to increase the liability. Districts that grant merit increases on an employee's anniversary date should accrue the annual projected merit increase weekly over the year in which the increases are granted.

1.06 - Accruals for Contingent Liabilities. A loss contingency arises when an uncertain existing condition will be resolved by a future event that may result in the impairment of an asset or the incurrence of a liability. Consistent with FAS No. 5 Accounting for Contingencies, a loss contingency should be accrued if 1) it is probable that a future event will confirm the impairment of an asset or the incurrence of a liability and 2) the amount is reasonably estimable. Examples of contingent liabilities are pending or threatened litigation and conditional asset retirement obligations (refer to paragraph 30.05). Districts should periodically conduct a review to determine if contingent liabilities exist that may require accrual. At a minimum, these accruals should be made at the end of every calendar quarter. Approval to accrue contingent liabilities must be obtained from the FRB Financial Accounting section of the Board's RBOPS Division. Note: Information should be maintained on contingent liabilities that do not meet both tests required for establishing an accrual. This information may be required to be included in year-end footnote disclosures.

1.10 - Dividend Accruals. As required by the Federal Reserve Act, a bank becoming a member of the System must subscribe to stock in the Federal Reserve Bank in whose territory it is located. All stock issued to banks within a District is issued by and reflected upon the books of the head office. Semiannual dividends on the paid-in stock are paid by the issuing Reserve Bank on the last business day of June and December. These dividends are accrued daily (based on a 360-day year) at the rate of one-half of one percent per month and accumulate in this account from one payment date until the next. The total amount of the daily accrual is debited to Dividends Accrued, representing a deduction from current net earnings, and credited to Accrued Dividends Unpaid (see 11.50) as the liability for dividends due but unpaid.

The amount to be accrued daily should be obtained by dividing one-half of one percent of the Reserve Bank's paid-in capital stock from member banks by 30 days (representing the standard number of days in each month). Dividend accruals are computed on the total of such capital paid-in as of the opening of business that day (close of business previous day). No accrual should be made on the last day of months with 31 days, and extra accruals will be required on the last day of February. Accruals for a non-business day should be made on the succeeding business day except when a non-business day is a month-end or a Wednesday. In these cases, the accruals should be included in the previous business day provided the non-business day(s) are of the same month. When the non-business days are in different months, the accrual for the non-business days should be split appropriately between the previous and subsequent days. In lieu of accruing dividends daily, accruals may be made as of each Wednesday and the last business day of the month (excluding the 31st day of any month).

Banks become members of the System at various times during an accrual period and others must occasionally subscribe to additional capital. In these instances the stock is issued, upon opening of business or proper authorization, and the bank's reserve account is charged for the amount of the dividends which have accrued on the stock (at the daily rate described earlier) from the last dividend payment date until the date the stock is issued. The corresponding credit is recorded to the accrued Dividends Unpaid account. At the end of the period, the member bank is paid a full six months' dividend. The effect of this procedure is to make all stock purchases effective as of the beginning of the dividend period for accounting purposes. A bank withdrawing from membership is paid upon actual cancellation of stock or at the effective date of stock cancellation (as explained in Regulation I) rather than at the regular dividend payment date. On the day dividends are credited to member bank reserve accounts, a corresponding summary debit is made to Accrued Dividends Unpaid that will eliminate the previously accrued account balance.

1.20 - Prepayments. Payments made in advance for services to be rendered over future periods will be recorded as deferred charges or prepaid expenses (see 4.20 and 4.35) and amortized as appropriate. Prepayments under $25,000 should be charged directly to expense. Among the types of prepayments normally recorded as prepaids are rent, assessment for expenses of the Board of Governors, taxes on real estate, and the cost of printing and supplies. Special accounts are provided on the balance sheet for recording the prepayments of services as well as recording inventory items such as materials and supplies; paragraphs 4.30 and 4.35 should be consulted for specific instructions. In particular, the $25,000 limitation is designed only to eliminate the need to amortize small amounts over many periods. All inventory type items purchased for future use should be recorded as a prepaid upon receipt, regardless of amount (see 4.30 and 4.35). Also, prepayments for equipment purchases should be recorded as either a deferred charge (if long-term) or prepaid expense until the associated equipment is received.

1.24 – Operating Leases. An operating lease is defined as a lease contract that allows the use of an asset, without conveying rights of ownership. Consistent with the requirements of FAS 13, the monthly income or expense recognized should be derived by dividing the total rent to be received or paid (including any rent escalations) equally over the non-cancelable lease term. For example, if a Reserve Bank enters into a lease agreement with a rent escalation clause, the Reserve Bank's monthly rental expense (or income) will be equal to the total rent that will be paid over the minimum lease term divided by the number of months in the minimum lease term. The difference between the rental expense (or income) and the actual rent payment will be recognized as a liability in the Sundry Items Payable account (or an asset in the deferred charges account) during the initial months of the lease and as an offset to the liability (or asset) as the payments escalate. For example, assume a Reserve Bank enters into a three-year lease for $100 per month for the first two years and $115 per month for the third year. The total rental payments over the 36-month life of the lease would be $3,780 ($1,200, $1,200, and $1,380). The monthly expense would be $105 per month for all 36 months ($3,780/36 months). Each month, for the first 24 months the $5 difference between the expense recognized and the rent paid would be credited to the SIP account. Beginning with the first payment of the third year the $10 difference between the rent paid and the expense recognized ($115 - $105) would be debited to the SIP account.

1.25 - Recovery of Disbursements for Others. Disbursements that are earmarked at the outset for recovery from other Reserve Banks, the Treasury, and others, should not be debited to expense but should be debited to a reimbursable ledger account pending receipt of payment. This account should not be used for disbursements related to items defined as recoveries in the PACS Manual.

1.30 – Accounting for Rebates. In the course of procuring goods or services, vendors may offer rebates of varying amounts to the Reserve Banks. In addition, Reserve Banks may receive rebates as a result of payment arrangements (based on volume of purchases, timing of payments, etc.) such as with P-cards. Rebates associated with a particular capital acquisition should reduce the acquisition cost recognized for that asset by the rebate amount. Similarly, rebates associated with particular expenses should be recorded as a reduction to that expense. Rebates associated with P-cards or similar arrangements where specific allocation is not practical should be recognized as a reduction to current expense as they are earned.

2.00 - Balance Sheet Accounts--General. The following paragraphs describe the general content of the accounts on FR 34. While the discussion is not to be regarded as an instruction for individual ledger accounts that may be maintained by a Reserve Bank, it does serve as an instruction regarding the scope of each FR 34 account. The more important accounts include a discussion of background information to aid in understanding.

2.10 - Gold Certificate Account (110-025). The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. At any time, the U.S. Treasury may reacquire the gold certificates by demonetizing the gold.

The Treasury of the United States maintains an account with the Board of Governors entitled "Gold certificate fund--Board of Governors of the FR System." When the Treasury monetizes gold, it credits this account in return for deposit credit at the New York Reserve Bank. When demonetizing gold, Treasury decreases the account and authorizes New York to charge its deposit account. The offsetting entry in each case on New York's books is made to the Gold Certificate account and the U.S. Treasury – general account. New York accounting staff sends an advice of these entries to the Board. Also, whenever the official price of gold is changed, Treasury adjusts the account and, simultaneously, the deposit account.

The Board maintains the account in the exact amount as shown on Treasury’s books at all times. The entries are made pursuant to advice from the New York Reserve Bank and Treasury. The amount of gold certificates on each Bank's balance sheet must agree with the total in the Board's records and is periodically confirmed by auditors. Monthly statements of the account are received from Treasury and confirmed by the Financial Accounting Section of the Reserve Bank Operations and Payment Systems Division.

The Board distributes substantially all of the total among Reserve Banks based on Federal Reserve note liabilities. The undistributed amount is allocated to the New York Reserve Bank as a cushion for sales by Treasury. By law, each Bank may pledge all or any part of its account with the Federal Reserve Agent as security for Federal Reserve notes. Prior to 1978, each Bank pledged a specific amount which was then earmarked in the Board's records on a separate ledger sheet, and thereafter was subject to and reduced only with prior approval from the Assistant Federal Reserve Agent. Beginning in 1978, each Bank's holdings were pledged automatically pursuant to a continuing agreement. The amount of gold certificates pledged with the Agent--currently the same as the balance sheet total at each Bank--is reported on the Daily Statement of the Federal Reserve Agent, form FR 5 (see 52.20) and is also confirmed periodically.

The gold certificate account serves as the medium for effecting an annual settlement among the Reserve Banks for amounts accumulated in the Interdistrict Settlement account. Following such settlement, annually, each Bank's gold certificate account is restored relative to Federal Reserve note liabilities through a reallocation of securities in the System Open Market Account.

2.20 - Special Drawing Rights Certificate Account (120-025). Special Drawing Rights (SDRs) are issued by the International Monetary Fund (Fund) to its members in proportion to each member's quota in the Fund 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 (broadly comparable with gold certificates) to the Federal Reserve Banks. The Banks are required to purchase them for the purpose of financing SDR acquisitions or for financing exchange stabilization operations.

The Treasury, when it wishes to monetize a specific amount of SDRs, authorizes and requests the New York Reserve Bank to credit a special account of the Secretary of the Treasury with the total amount of such monetization and to debit the Bank's SDR certificate account by a corresponding amount. The Board allocates the SDR certificate transactions among all 12 Federal Reserve Banks in proportion to Federal Reserve notes outstanding in each District at the end of the preceding year. Each of the other Federal Reserve Banks pays for its share of the SDR certificates through its Interdistrict Settlement account. Each of the eleven Banks, therefore, has an increase in one asset (SDR certificates) offset by a decline in another balance sheet asset. The New York Reserve Bank has an increase in its deposit liabilities (special account of the Secretary of the Treasury) matched by increases in two assets (SDR certificates--to the extent of its share in overall distribution effected by the Board--and Interdistrict Settlement account). In addition, pursuant to an agreement between the Federal Reserve and the U.S. Treasury made in the 1960s, whenever the SDR account reaches a level of surplus, the Treasury authorizes and requests the demonetization of SDRs. When this occurs, the New York Reserve Bank debits the special account of the Secretary of the Treasury with the total amount of such demonetization and credits the Bank's SDR account by a corresponding amount. As in a monetization, the Board allocates these balances among all 12 Federal Reserve Banks.

The Division of Reserve Bank Operations and Payment Systems maintains an account for each Reserve Bank entitled "Special Drawing Rights certificate account." Amounts deposited with New York are distributed on the day of deposit rounded to the nearest million, and payment is made by direct entry to each Bank's Interdistrict Settlement account; i.e., New York's account is increased and accounts of other Reserve Banks are decreased. Entries in the opposite direction are made when Treasury reduces the total.

An electronic message is distributed to all Reserve Banks showing each Bank's share. Upon receipt of this message, each Bank other than New York, debits the SDR certificate account and credits the Interdistrict Settlement account on its books. New York credits the account by the amount distributed and debits the Interdistrict Settlement account.

Each Bank pledges the full amount in the Special Drawing Rights certificate account as collateral for Federal Reserve notes under a continuing pledge agreement.

2.30 - Coin (130-025). This account represents all United States coin held by the Reserve Banks except gold coin, coin in exhibits, and coin in petty cash funds.

For shipments of coin between Districts in which the shipment is not received on the same day the coin is shipped, the receiving District should establish a sub-account, defined as an in transit coin account, and follow the same accounting explained in 50.40 for shipments of notes between Districts.

2.40 - Loans (140-025,-050). Extensions of credit by Federal Reserve Banks are governed by Regulation A and the Operating Circular of each Bank. Loans to depository institutions are carried at face amount in a single account on the balance sheet. The interest is accrued on a daily basis and collected at maturity. Loans to depository institutions are pledged by each Reserve Bank as collateral for Federal Reserve notes. Loans should be periodically evaluated for collectibility and if a need for reserve is identified, contact the Financial Accounting Section of the Reserve Bank Operations and Payment Systems Division.

Another account is used for recording loans to others, the authority for which is covered in paragraphs 3 and 13 of Section 13 of the Federal Reserve Act. Loans to other than depository institutions were last made in 1936.

2.70 – Acceptances: Bought Outright and Held Under Repurchase Agreement (140-070,-075). The New York Reserve Bank, in carrying out the domestic policy directive adopted by the Federal Open Market Committee (FOMC), may be authorized to purchase or make repurchase agreements with dealers. Some repurchase agreements may be secured by bankers' acceptances and mature after a fixed period, usually one to seven days. Acceptances arise out of the shipment of goods between countries or within the United States or from the storage of goods within the United States pending marketing. All holdings of acceptances or repurchase agreements secured by acceptances are retained on the New York Bank's balance sheet and are not allocated to other Reserve Banks. When acceptances are purchased or sold, the net amount of the transaction is paid to or collected by the New York Bank from the dealer. Only the par value of this transaction is entered to this account. Other accounts that may be affected are interest accrued, premium on securities, discount on securities and, in the case of sales, profit and loss. The New York Reserve Bank has not engaged in transactions involving acceptances for several years. Currently account 140-075 is being used for reporting tri-party repurchase agreements pending the creation of a new account for these purposes. In 2007, the FOMC authorized the allocation of all activity related to tri-party repurchase agreements to each of the Reserve Banks. Prior to this change, the activity was reported only by FRBNY.

2.80 - Federal Agency Obligations: Bought Outright and Held Under Repurchase Agreement (140-100,-125) .The New York Reserve Bank is authorized by the FOMC to purchase Federal Agency obligations for the System Open Market Account (SOMA) and to acquire such securities under repurchase agreements for its own account. By law, the securities must be either direct obligations of an agency of the United States, or fully guaranteed as to principal and interest by such agency.

On the day of settlement the New York Reserve Bank allocates a share of the transaction to each Reserve Bank, including the portion of interest accrued and the premium or discount. Profits and losses are allocated to each Bank according to holdings at the opening of business. (See 40.40 for further description of the allocation methodology.)

When these securities are purchased or sold, the net amount of the transaction is paid to or collected by the New York Reserve Bank from the dealer and only the par value is entered to this account. Other accounts that may be affected are interest accrued, premium on securities, discount on securities and, in the case of sales, profit and loss. For all domestic securities

transactions, premiums and discounts are recorded separately and amortized (accreted) on a straight-line basis. The securities are accounted for at amortized cost rather than fair value; therefore, no unrealized gains or losses are recognized. Federal agency obligations held under repurchase agreements are, however, accounted for consistent with the treatment of U.S. government securities held under repurchase agreements. (See paragraph 2.95).
(Note: The New York Reserve Bank has not held federal agency obligations outright since the end of 2003.)

2.90 - U.S. Government Securities Bought Outright: Bills, Notes, and Bonds (140-150,-175,-200). As is the case of acceptances and Federal agency obligations, purchases and sales of U.S. Government securities are conducted by the New York Reserve Bank under authorization and direction from the FOMC. The securities are bought from or sold to securities dealers and foreign and international accounts maintained at the New York Reserve Bank at market prices. Maturing securities may be exchanged with the Treasury for other securities or may be allowed to mature without exchange.

When securities are purchased or sold, the net amount of the transaction is paid to or collected by the New York Reserve Bank from the dealer and only the par value is entered to this account. Other accounts that may be affected are interest accrued, premium on securities, discount on securities and, in the case of sales, profit and loss. For all domestic securities transactions, premiums and discounts are recorded separately and amortized (accreted) on a straight-line basis. The securities are accounted for at amortized cost rather than fair value; therefore, no unrealized gains or losses are recognized.

On the day of settlement the New York Reserve Bank allocates a share of the transaction to each Reserve Bank, including the portion of interest accrued, and the premium or discount. Profits and losses are allocated to each Bank based on the holdings at the opening of business. (See 40.40 for further description of the allocation methodology.)

Holdings of U.S. Government securities are in book-entry form and are pledged as collateral to secure Federal Reserve notes. Specific securities are not allocated to the individual Reserve Banks and the amounts on each Bank's books reflect an undivided interest.

2.95 - U.S. Government Securities: Held Under Repurchase Agreement (140-225). The New York Reserve Bank is authorized by the FOMC to acquire U.S. Government securities under agreement with the dealer to repurchase the securities (securities purchased under agreements to resell). The securities are allocated to other Reserve Banks. The repurchase agreements generally consist entirely of agreements through third-party custodial arrangements. (For a more detailed description, see 40.25.)

3.10 - Items in Process of Collection (150-025,-050,-100,-150). Consists of items, including but not limited to cash letters, return items, and automated clearing house files, deposited with the Federal Reserve for collection and, on the balance sheet date, have not yet been presented to the paying bank. The items are segregated on FR 34 according to the accounts described in the following paragraphs. Sufficient detail or subsidiary accounts should be maintained to identify the general nature of the transactions for float reporting purposes (see 11.40), including transportation delays and midweek/holiday closings.

Transit Items--Federal Reserve Banks (150-025). Represents amounts due from other Federal Reserve Banks and Branches. The preliminary total will include transfers of funds, ACH activity, securities transfers, etc., for which payment is expected on the same day through the Interdistrict Settlement account. The balance reported on the FR 34 is after application of settlement credits and will, therefore, represent the total of items forwarded to and still in process of collection with other Districts, including cash letters, ACH activity, securities, and electronic transfers. Wire transfers received too late to credit depository institutions should be debited to this account and credited to Deferred credit items -- Other items in process (150-100).

Transit Items--Depository Institutions (150-050). Represents the amount of items including cash letters, return items, etc., which have been dispatched for collection and will be settled with depository institutions located in own office territory. This account is charged when items are forwarded for payment. This account also includes: ACH credit transactions when the originating depository institution cannot be debited on the transaction date because of a holiday or mid-week closing; and deferred debit entries for depository institutions located and/or settled in another Reserve office using Same Day Settlement procedures. Cash letters reported not received by the cut-off hour by paying banks because of transportation delays should be reported in this account. Work that has been identified as lost (i.e. has remained in Transit Items for 3 business days) should not be included in this account, but should be transferred to an Adjustments, net account.

Other Items In Process (150-100). Represents the aggregate amount of items including Regional Check Processing Center (RCPC) items held overnight for processing or dispatch on the following day, exchanges for clearing houses, and return items held over for look-up. Only items for which credit has been passed or deferred to depositors are included. Also includes the redemption value of future due securities or coupons held pending maturity and for which the

Reserve Bank has elected to credit the deferred credit account and credit has been passed or will be passed to customer accounts on a pre-determined availability schedule, securities transfers where a depository institution has been credited but the Reserve Bank is unable to complete the transaction and debit ACH return items that have been held over. This account also includes open items between an RCPC and its main office.

Adjustments, net (150-150). The balance in this account represents the net amount (+ or -) of check related adjustments and any other adjustments relating to items that are debited to items in process of collection including differences that are temporarily held in abeyance pending final resolution. The account contains the net of both debit and credit adjustments to items originally recorded in an items in process of collection account such as unlocated differences in settlement, unlocated departmental differences, loose items, cash letters determined to be lost (see *Transit Items--Depository Institutions (150-050)*, missing bundles reported by drawee banks, items believed to be listed but not enclosed in outgoing cash letters, adjustment requests received from Banks containing insufficient information, errors on clearing house statements discovered too late to correct, and cash letter changes discovered too late for adjustments to be made to accounting charges. Also included are check truncation adjustment items where the adjustment arises from a difference occurring between a depository institution and a Reserve Bank. Treasury check truncation adjustment items and other government related adjustment items where the adjustment arises from a difference between a Reserve Bank and the Treasury Department or another government agency, which do not affect float should be held in Suspense Account--General pending resolution. Transactions involving items in process of collection that have been dispatched by the Federal Reserve office for which the office is unable to determine the destination distinction between other Federal Reserve Banks and depository institutions should also be included in this account. Petty differences or items below a certain threshold amount are entered to a difference account in Other assets or a current expense account (as described in paragraph 4.40), as are all other differences where it is probable that the difference will not be resolved or where it is decided that it is not feasible to conduct further research.

3.40 - Bank Premises--Land (160-025). The balance in this account represents the original cost of land (less any charge-offs); incidental expenses in connection with the purchase; cost of wrecking old buildings (less salvage); and paving, grading, or landscaping.

3.45 - Bank Premises--Buildings (including vaults - 160-050). Includes the total cost of buildings, including improvements and additions, that are owned by the Reserve Bank.

3.50 - Bank Premises--Machinery and Equipment (160-075). Includes machinery and equipment associated with building structures that are considered part of the building and will convey with the building when it is sold. Examples include air conditioning units, boilers, elevators, and heating or lighting equipment.

3.55 - Bank Premises--Construction Account (160-100). Includes any major construction or renovation. During construction, all costs of a new building, the purchase price of a building to be renovated, and all improvement and renovation costs are reported in this account. When the construction is completed, amounts to be capitalized should be transferred to the appropriate accounts under "Bank Premises." For detailed accounting procedures, see Chapter 3.

3.60 - Bank Premises--Depreciation (160-125). Depreciation is accrued monthly on each building and each unit of machinery and equipment. A more detailed description of capitalization and depreciation of Bank premise assets together with reporting requirements is contained in Chapter 3.

3.65 - Furniture and Equipment (170-025). This account contains furniture, furnishings, fixtures, office equipment, automotive equipment, and operating equipment such as computers, incinerators, and shredding machines required for specific operations.

3.66 - Furniture and Equipment--Depreciation(170-050). Depreciation is accrued monthly on furniture and equipment in accordance with the provisions contained in Chapter 3.

3.70 - Claims Account Closed Banks (170-075). Direct costs incurred in connection with the collection of paper of failed banks or other obligations, such as court costs of filing suits, collection fees paid attorneys, cost of recording mortgages, premiums paid on fire and other insurance policies covering property held under mortgage, etc., should be charged to this account. The amount of any overdraft not offset should be included.

3.85 - Foreign Currencies (170-100,-110). Represents participation in balances payable in foreign currencies and includes premiums, discounts, accrued interest on investments denominated in a foreign currency, as well as swap and warehousing arrangements. The accounts are opened and maintained, by the New York Reserve Bank, with foreign central banks and the Bank for International Settlements (BIS) as prescribed by the FOMC. Balances result from market and off-market transactions for the purpose of stabilizing fluctuations in international flows and exchange values of various currencies and other needs as authorized by the FOMC. Foreign currency holdings are invested in so far as practicable, considering needs for minimum working balances. Each day, the foreign currency holdings and outstanding swap commitments are revalued at current market exchange rates. The net increase or decrease in value of balances payable in foreign currencies is transferred to profit and loss, with the exception of the change in value of swap and warehousing commitments, that may be reflected in exchange translation accounts on the books of the New York Bank, when appropriate. Each Federal Reserve Bank participates in the foreign currency accounts and in the profit or loss due to revaluation. The participation rate is based on the ratio of each Bank's capital paid-in and surplus to the total capital paid-in and surplus of all Federal Reserve Banks, as determined at the first of each year. If the distribution of a loss on the revaluation yields a negative Undistributed net income position, immediately contact the Accounting Section of the Division of Reserve Bank Operations and Payment Systems for authorization to temporarily debit the Surplus account to cover the deficiency (see 60.20, Interest on Federal Reserve Notes).

3.90 - Reimbursable Expenses and Other Items Receivable (170-125). Includes expenses that are reimbursable to the Bank and miscellaneous amounts that the Bank has advanced or paid on behalf of others. Individual ledger accounts are maintained as necessary to facilitate control. Each is based on actual amounts with the exception of an account holding expenses that are estimated at the end of each month that will be reimbursed in the future.

For the most part, the accounts will represent claims for fiscal agency work performed for the U.S. Treasury (e.g., public debt operations) and for Government departments and agencies. Other accounts consist of receivables due from employees such as loans or dining room charges and amounts due from others such as security deposits with airlines for the use of credit cards, losses incurred in the handling or transportation of currency that are expected to be recovered, or amounts due from Treasury for mutilated currency. Accounts may also be maintained for miscellaneous services rendered others and purchases of goods and services for other Reserve Banks or for other offices in own District.

Under ordinary circumstances, the amounts that are included in claims for expenses reimbursable or recoverable will represent a calculated part of items such as salaries, retirement contributions, furniture and equipment rentals, etc., that are paid initially by the Bank and included in gross expenses. In some cases, however, expenditures by the Bank are earmarked at the outset for reimbursement or recovery. Such expenditures are not included in the Bank's expenses and are debited directly to one of the receivable ledger accounts herein pending receipt of payment.

An account covering estimated fiscal agency reimbursable expenses is carried for the purpose of reflecting a more accurate current expense figure. The unvouchered claims for the month are estimated at the end of the month and debited to this account and credited to the current expenses account. The balance is closed out when vouchers covering actual expenses are prepared.

3.93 - Allowance for Doubtful Treasury Reimbursement (170-130). This account is a contra-asset account to the Reimbursable Expenses and Other Items Receivable Account. At the time entries are made to the reimbursable account, an estimate is made of the amount of the reimbursable that will not be reimbursed due to lack of appropriated funds by the Treasury. The original offset to this account is a debit to the Capital account--Cost of Unreimbursed Treasury Services. When actual amounts are determined that will not be reimbursed, the Allowance account should be debited and the Reimbursable account should be credited. As a general rule, there should be little to no activity in this account as full costs of providing Treasury services will be passed to the Treasury. The account, however, will be maintained for contingency purposes.

3.94 - FDIC assumed indebtedness (170-140). This account represents depository institution discount window loans that have been subsequently assumed by the FDIC. Payment and maturity schedules are worked out with the FDIC on a case-by- case basis.

3.95 - Interest Accrued (170-150). This account represents interest accrued, but not yet collected, on earning assets. The accruals are based on holdings of such assets at the opening of business and are calculated and debited to the respective ledger accounts daily and credited to earnings. The principal ledger accounts are as follows:

Interest accrued on securities in System Open Market Account. Entries are made upon wire advice from the New York Reserve Bank. Interest accrued on securities is debited to the account beginning the day that a security is purchased and ending the day before the security is sold or matures. Daily accruals are computed on individual issues by dividing the amount of interest to be earned by the number of days to the payment date.

Interest accrued on loans. The daily accrual is based on the rate in effect on the previous day divided by 365 days. Accrual on a one-day loan is unnecessary.

4.00 - Premium on Securities (170-175). Premium on securities represents the unaccreted amount paid in excess of the face value of securities in the System Open Market Account. On the date of purchase, such excess is debited to this account and daily thereafter an equal portion of the premiums, computed on individual issues, is credited to the account. The daily amortization is determined by dividing the premiums paid by the number of days to the call date of the issue. When securities are sold, any applicable premium is credited to the account. All entries are made upon advice from New York.

4.10 - Overdrafts (170-200). This account is used to record depository institution overdrafts with the Reserve Bank, and is debited by the amount necessary to restore the deposit account to a zero balance.

4.20 - Deferred Charges (170-225). Deferred charges arise through long-term prepayments of expenses. Deferred charges $25,000 or greater should be capitalized and amortized over the current and prospective periods that benefit from the expenditure. Deferred charges will include items such as multi-year maintenance or licensing agreements and costs of major improvements to leased space that should be amortized over the life of the contract or lease respectively (see Chapter 3 for further discussion of leasehold improvements). Once a prepayment has been properly recorded in the deferred charges account, it does not need to be reclassified as prepaid when the remaining amortization period falls below a year. Advance payments for vendor purchases held in this account pending delivery should not be amortized, but should be reversed when goods or services are received.

The deferred charges account should also be used to record charges for internal use software, which is defined as software acquired, internally developed, or significantly modified for use by the Reserve Banks in performing their operations. Internally developed software should be capitalized if the cost exceeds $100,000 and externally-purchased software should be capitalized if the costs exceed $25,000.[1] For internal use software acquired from a vendor with costs of $100,000 or greater, contract or lease terms should also be reviewed to determine if the acquisition qualifies for accounting treatment as a capital lease (see 30.80). Standard desktop

[1] From 1992 until 1998, computer software purchased from vendors with an acquisition cost of $50,000 or greater was capitalized in this account and amortized over its estimated useful life, not to exceed three years. From 1999 to 2004, Reserve Banks capitalized the costs for internal use software whether purchased externally or developed internally if the costs exceeded $100,000 in this account. Beginning in 2005, to make the threshold consistent with other prepaid expenses, the capitalization threshold for externally-purchased software, such as license fees, was lowered from $100,000 to $25,000.

utility software, however, should be charged to current expense. [2] Expenditures for bulk purchases of a number of identical low-cost software licenses that are individually below the capitalization threshold should be capitalized as a single asset if the total cost is $100,000 or more and the license agreement is for a period longer than a year.

Costs incurred during software development are capitalized or expensed depending on the stages of development (preliminary stage, development stage, and post-implementation stage). Costs incurred during the preliminary stage, such as evaluation of alternatives and prototype development, are expensed. Costs incurred in the development stage that are capitalized include:

- External costs of materials and services (for example, consulting fees and salary, retirement, and other benefit costs of employees directly associated with the product.)
- Costs associated with time spent specifically to oversee developers (programmers), if determinable.
- Expenditures related to system integration, which includes consultant fees and salary, retirement, and other benefit costs of employees directly associated with the integration effort. Integration costs must be analyzed to determine the allocation between hardware or software.
- Travel costs for staff, consultants, or vendors should be capitalized if they are directly related to the software development.

Costs incurred during the development stage related to general and administrative expense and end-user testing and training should be expensed. Post-implementation stage costs generally should be expensed, except the cost of prepaid maintenance contracts, provided that the costs meet the FAM thresholds for prepaid assets or deferred charges. Other non-capitalizable costs include process re-engineering costs, data conversion costs, and training costs.

When internal use software is purchased and the purchase price includes non-capitalizable items (e.g. training), the price must be allocated among capitalizable and noncapitalizable items based on fair value. The costs for web-site development are accounted for in the same manner as costs of internal use software.

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[2] Desktop utility software is generally defined as software that is licensed per personal computer, rather than per server or per user. Examples of desktop utility software include Microsoft Word, Lotus Notes, and Norton anti-virus software.

Expenditures made to change existing software assets are considered either improvements or maintenance. Expenditures to existing software assets that meet the capitalization thresholds discussed above should be capitalized if the improvement provides additional capabilities and meets one of the following criteria:

- The quantity of output or operating efficiency of the asset is significantly increased.
- The quality of output is significantly increased.

Improvements should be recorded as separate assets with unique useful lives determined in accordance with the discussion of useful lives below. When the results of efforts to rewrite or improve the software are significant enough to be considered a replacement to the existing software and the expenditures meet the capitalization criteria, the costs should be capitalized. Because the former software asset is significantly altered, the net book value of the former software asset is expensed.

The costs of shared capitalized software projects (i.e., software developed by more than one Reserve Bank) should be transferred to the books of the Reserve Bank that owns the software. The Bank that owns the software should account for the entire software asset, including related amortization and disposal costs. Absent contracts or agreements that delineate ownership, the Reserve Bank that exercises control over the software is the Bank that owns the software.

The estimated useful life over which the costs will be amortized should reflect the circumstances for that specific asset. The maximum useful life that should be assigned to a software asset is generally 5 years. For perpetual license agreements, the deferred charge should be amortized over a reasonable period generally, not to exceed 5 years, based on the type and use of the software. In unusual situations, a request to establish a longer useful life must be submitted for Board staff approval. At a minimum, each Bank should assess the useful lives of software assets annually.

Categorization of some software development may not be as easily determined from the above guidance and may require more analysis with the product or support office, business area, and review by Board staff to determine whether the software costs should be capitalized or expensed. Also, Banks should review the “Accounting Guidance for Internal Use Software Costs” for additional information related to the appropriate accounting for these costs. When in

SOL, go to the following section: System/Accounting and Financial Management/RBOPS FRB Financial Accounting/Accounting Guidance.
(Note: The accounting treatment for software developed internally for external use (sale) should be determined in consultation with the FRB Financial Accounting Section of the Board's RBOPS Division.)

4.30 - Prepaid Expenses--Materials and Supplies (170-250). This account is used to record the cost of materials, forms and supplies such as remote-access tokens which are carried in the Bank's general stock for release over future periods as well as the spare parts inventory for the BPS-3000 currency processors. Items which are purchased for immediate delivery to the requesting department, such as weapons and ammunition for the police force, food for the cafeteria, currency and coin pouches for the money department, books and pamphlets for the library, public information displays, etc., should not be included unless the purchases are clearly for inventory. Items purchased for direct usage, however may be posted to this account when such posting and simultaneous withdrawal facilitates inventory control. Freight charges should be reflected in the cost of supplies purchased, whether for inventory or direct usage. When impracticable to distribute freight charges over a number of items, the cost may be applied to the largest item(s) of purchase. Freight charges billed separately, and that relate to items already in inventory, may be charged to expense. The treatment of freight charges billed separately must be consistent throughout the District (i.e., either all such charges must be charged to expense, or all such charges must continue to be capitalized).

Appropriate records should be maintained to assure that the cost of materials and supplies in actual inventory, along with materials and supplies that have been delivered to operating departments during a month, may be verified against the balance sheet. Separate subsidiary accounts should be maintained to record supplies issued during the month and the appropriate expense entries should be made by month-end. A physical inventory of materials and supplies should be conducted at least annually and any necessary adjusting entries made to expense. Items which become obsolete or which have only limited use over future periods, such as an unused supply of a monthly bulletin issued two months earlier, should be expensed unless the Reserve Bank feels that the demand for the item is likely to recur at a pace that justifies the continued recordkeeping. In the case of supplies that are sold out of inventory, the offsetting entry should be made to cash, items in process of collection, or other designated payment medium.

Purchases for future consumption should be uniformly debited to this account and expensed by the last business day of the month based on the supplies actually used during the month, and the average cost of such supplies should always be used in calculating the expense charge. A possible method of determining average cost is as follows:

> The average cost of each supply item should be calculated by dividing the total cost of the items on hand by the number of units on hand. Upon receipt of a new shipment, the cost of the items received should be added to the previous total cost of the items on hand, the units should be added to the existing quantity, and the new total cost should be divided by the new quantity to arrive at the new average cost. Supplies should be issued at the established average cost until the next shipment is received.

The salaries and related expenses which are incurred within the Bank on duplicating and printing forms, stationery, pamphlets, etc., or on making parts or other items of supply, may also be debited to the account and deferred to the month of actual usage, provided senior management has approved a policy for capitalizing such costs.

The following are illustrations of possible methods to account for different types of inventory transactions:

> 5,000 note pads, of which none was in stock on January 1, are purchased on January 10 for $500 or 10 cents each and another 5,000 are purchased on January 25 for $600 or 12 cents each. On January 31 it is determined that 8,000 pads were requisitioned from stock. A credit of $880 is made against the prepaid account and a debit is made to expenses, based on the average cost of 11 cents for the 8,000 pads that were actually used. In February 10,000 pads are purchased for $1,000, making an average cost of 10.17 cents to be applied against February requisitions.

> A one year's stock of accounting forms is printed internally by a Reserve Bank which has a policy of capitalizing in-house jobs costing more than $1,000. The cost of paper, previously debited to the prepaid account, amounts to $2,000 and salaries and other expenses incurred in printing and binding amount to $6,000. The $2,000 for the stock paper is credited to the prepaid expense account and charged to expenses of the Printing and Duplicating activity when the items are withdrawn from supplies. The $2,000 and the $6,000 are subsequently debited to the prepaid account upon completion of the job and an offsetting credit is made to the contra expense account. The $8,000 then would be the basis for determining the unit cost which will be used to charge expenses when the item is issued from stock.

> The annual report of the Bank is printed in February. Two-thirds of the copies are distributed immediately and all but 100 of the remaining copies are distributed and expensed in succeeding months of the year. The 100 remaining copies are charged to expenses at the end of the year, since continued record keeping would serve no useful purpose.

Do not average or otherwise commingle costs for different publications or products that are designed for consumption over different years. For example, the cost of any remaining copies of a specific publication covering the period through 1977 should not be added to the cost of an updated version of that publication which is released beginning in 1980, but should be expensed promptly.

<u>4.33 - Prepaid Expenses--Pension Costs (170-260)</u>. This account is used by the New York Reserve Bank to record the funded status of defined benefit retirement plans when the

plans are overfunded as required by FAS 158. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation, as defined by FAS 87.

4.35 - Prepaid Expenses--Other (170-275). This account reflects all prepaid expenses not specifically covered by paragraphs 4.30 and 4.33. As noted in paragraph 1.20, all prepayments of $25,000 or more are entered into this account or the deferred charges account (see 4.20) including assessments by the Board of Governors. Additionally, some inventory type items other than materials and supplies, such as airline tickets, are also recorded in this account when they are received with the offset to Sundry Items Payable and expensed when the travel is completed. At the Reserve Bank's option, items which will be consumed within the month may be expensed and not entered to this account. This account may also be used for various control purposes, such as recording travel advances to employees and salary advances prior to the date of regular salary payment. Individual ledger accounts should be maintained as necessary to permit effective control. Advance payments for vendor purchases held in this account pending delivery should not be amortized.

4.40 - Difference Account, Net (170-300). Differences are reported in the account to permit settlement between incoming and outgoing work processed in various areas. A difference is an out-of-balance condition resulting from the normal operation of a department where it is probable that the difference will not be resolved or where it is decided that it is not economically feasible to conduct further research. The account thus contains amounts that the Bank has determined to be either uncollectible, unpayable, or else not worth the effort of doing so. While their disposition is considered final, entries to this account are subject to reversal. The account contains both overages and shortages and is shown net on the asset side of FR 34. The balance in this account should be removed and applied to current expense monthly and at year-end regardless of the year in which the differences originated. At the option of any District, unresolved items in the Adjustments, net or Suspense accounts for which research is complete may be written off directly to Current expense, bypassing the Difference account, providing the General Auditor agrees that sufficient control and documentation exist to ensure a clear audit trail absent the Difference account entries. An expensed item that is resolved subsequently should be applied directly to expenses of the current period. General ledger accounts are maintained as necessary to permit effective control. The sources of differences are generally as follows:

Currency and Coin. Tellers verifying incoming deposits are sometimes unable to locate differences in the work. Also, institutions will report back any differences that they find in shipments from the Reserve Bank. Any difference identifiable as to depositing institution is applied back to the depositor and is not entered in this account. Differences that result from counterfeits identified during alternative currency processing should be charged to this account.

Other. Internal differences may occur in a variety of Reserve Bank settlement operations such as the balancing of paid savings bonds, cafeteria receipts, and postmaster's deposits. Any difference that will be resolved and reversed should be posted to a suspense account.

4.50 - Suspense Account--General (170-325). This account represents miscellaneous debit items that are temporarily held in abeyance pending disposition. In the case of differences, the suspense account contains amounts whose disposition has yet to be decided and which the Bank has reason to believe are collectable or payable. The suspense account is used to record other items about which there are questions or which for other reasons are being held pending functioning to the appropriate account. Examples are (1) savings bond redemptions that are received too late for a charge to the Treasury's account, (2) expense items that arrive too late in the day to be vouchered or that are being held for additional information, (3) other transactions that require additional information or verification before the charge can be made to the proper account, and (4) checks cashed for employees that have been returned due to non-sufficient funds, etc. The only check-related items to be held in this account are Treasury check truncation adjustment items, and other government related adjustment items, where an unlocated difference arises between a Reserve Bank and the Treasury Department, or another government agency, and a depository institution has been credited pending resolution of the difference. Treasury check truncation adjustment items where an unlocated difference occurs between a depository institution and a Reserve Bank that is float related should be held in the adjustments, net account under items in process of collection or deferred credit items as appropriate. Items that cannot be resolved should be cleared from this account by a credit and offset by a Difference account debit or may be debited directly to current expense as described in paragraph 4.40.

4.60 - Other Real Estate, net (170-350). Property purchased for future bank use is reported in this account pending final approval of the site for construction. Upon final approval of the site, the property is transferred to the Bank premises accounts. Bank-owned property which has been vacated pending disposition should be transferred to this account and carried at net realizable value (also see 30.96).

4.70 - Currency and Coin Exhibits (170-375). Represents the cost of currency and coin contained in exhibits or acquired for display purposes. (Exhibits borrowed from other Reserve

Banks or from the Treasury are reported as a custody item.) The exhibits are acquired pursuant to the following guidelines:

> There is no objection to the maintenance of currency and coin exhibits by the Reserve Banks, or to their retaining individual silver dollars or other pieces of coin and currency for actual use in such exhibits.
>
> Duplicate pieces of currency and coin that are in excess of exhibit needs should not be held for "trading" purposes, but instead should be returned to the Treasury.
>
> There is no objection to the Reserve Banks' using the currency and coin received in the ordinary course of business to fill out their exhibits, or to their purchasing individual items from dealers or others for this purpose.
>
> It is inappropriate for the Reserve Banks to bid on miscellaneous collections of currency and coin offered for sale by executors of estates or others, and also inappropriate for them to trade or sell currency and coin to collectors and dealers.
>
> In those instances where Reserve Banks receive permanent donations of exhibits, this account should reflect an estimate of the fair market value of the exhibit at the time of the donation. The offset should go to the profit and loss account.

4.80 - Old Currency Series (170-400). This account contains old currency issues held pending forwarding to the Treasury for redemption as mutilated currency as follows:

Treasury notes of 1890 Silver certificates, large size
Federal Reserve notes, large size
United States notes, large and small size
National Bank notes, large and small size
Federal Reserve Bank notes, large and small size
Gold certificates large and small issued prior to January 30, 1934

4.90 - Miscellaneous Cash Items (170-425). The account consists of petty cash funds, the deposit with the System's Benefits Office for the account of long term disability payments, such items as Canadian and foreign currency and coin that are held pending shipment or exchange, and government coupons due at a future date for which credit has been passed inadvertently. U.S. Government-sponsored agency securities and coupons which are being processed by the Reserve Bank or are in transit to the New York Reserve Bank for collection should be reported in this account along with interest payments on book-entry U.S. Government sponsored agency securities that were processed too late in the day to meet the deadline for wiring the New York Reserve Bank. Amounts paid by New York should be carried in the unclassified account to the extent that the Bank has not collected from the individual agency. (See 11.20.)

4.95 - Suspense Account--Pricing (170-450). In ordinary circumstances, this account will include the net of debit and credit items that have been reversed out of an institution's account because of error or other questions. The items are held in this account pending resolution. Those that cannot be resolved and charged back to an institution should be removed from this account and from the earnings account to which they were originally entered. Except where there are indications of unreasonable or repetitive exceptions to the billings by the Reserve Bank, some questioned items may not be worth the effort of searching. When such items are credited to the institution's account, they should be debited to the earnings account.

4.97 - Accrued Service Income (170-475). The purpose of this account is to allow for the recognition of income from services in the month in which it is earned and income from explicitly priced float in the month incurred. Accruals may be made daily but should not be less than weekly, on Wednesday or the preceding business day before Wednesday if Wednesday is a holiday, and at the end of the month. The accruals may be on any suitable basis including projections made from the previous month's experience. Accruals within the month are a means for achieving an orderly growth in earnings. The month-end accrual should be used to adjust the month's earnings to an amount reasonably close to what will actually be realized from the services rendered during the month, unless, of course, the daily or weekly accruals are designed to automatically achieve such results. To avoid duplications in the combined earnings of all Banks, the amounts owed or due from other Reserve Banks should be taken into account in the accrual process.

In order to isolate amounts owed or due from other Reserve Banks, subsidiary accounts should be set up within this general ledger account to include accrued service income due from depository institutions, accrued service income due from other Reserve Banks, and accrued service income due to other Reserve Banks. Thus, the net balance in the general ledger account will be the net amount of income expected to be received for services.

5.00 - Interdistrict Settlement Account (180-025). The cumulative net amount owed or due from other Federal Reserve Banks as a consequence of the daily settlement procedure is reported in this account with a credit balance indicated by a minus sign. The daily settlement between Districts is conducted by the centralized Integrated Accounting System (IAS), which captures the data needed to conduct settlement. Once settlement has been effected, IAS posts the appropriate entries directly to each Reserve Bank's accounts.

Included in this process are the monthly Federal Reserve note clearings and the annual settlement through the gold certificate account of the cumulative interdistrict settlement position.

5.10 - Branches or head office--interoffice account (190-025). This account is provided for reporting a net debit or credit balance due between the head office and Branches as a result of the cumulative effect of daily settlements. This account is consolidated on the District's balance sheet. At management's discretion, an office may use only the asset or liability account for the net entries (see 11.95).

10.01 - Federal Reserve Notes Outstanding (210-025). Represents the net amount of Federal Reserve notes that are outstanding from the Federal Reserve Agent to the Bank. The account consists of the cumulative net issues of the present size currency minus the amount that has been returned for destruction and credit. Currency of the present size (approximately 2.61 inches by 6.14 inches) was issued beginning in July 1929; the outstanding large-size Federal Reserve notes, which were issued from 1914-1929 were removed from Reserve Bank liabilities in 1961 pursuant to the Old Series Currency Adjustment Act and absorbed into the Public Debt.

Eleven denominations of Federal Reserve notes make up the outstanding amount. Seven denominations--$1, $2, $5, $10, $20, $50, and $100--are being issued to the Banks currently. Issuance of larger denominations of $500, $1,000, $5,000 and $10,000 was discontinued in July 1969 and the notes are returned for destruction whenever they are received by Reserve Banks from circulation.

Federal Reserve notes are a first and paramount lien on all of the assets of the issuing Reserve Bank. Certain of these assets are also set aside as a specific pledge with the Federal Reserve Agent in order to meet a requirement in Section 16 of the Federal Reserve Act that the notes that are in circulation outside Reserve Banks be fully collateralized. The collateral must consist of legally specified assets, alone or in any combination: (1) gold certificates, (2) U.S. Government and agency obligations, (3) special drawing rights certificates, (4) certain other assets, chiefly loans under Section 13 and foreign currencies acquired under Section 14, and (5) any other asset of a Federal Reserve Bank. The notes are also obligations of the United States Government but the liability of the Government would arise only in the event of the liquidation of the Reserve Banks and then only to the extent that collateral and remaining assets of the Banks were less than the full amount of notes in circulation.

Federal Reserve notes are printed by the Bureau of Engraving and Printing as ordered by the Board of Governors. They are held in the vaults of the Bureau until the Board directs that they be shipped to (1) a Federal Reserve Agent, the Board's representative at the Reserve

Bank, or (2) upon authorization from the Agent, to the Reserve Bank cash department. Notes held by the Agent are not monetized--i.e., they are not reported on the balance sheet. They are kept in separate vaults and their status is no different in this respect than if they were still in vaults at the Bureau of Engraving and Printing. There is no advantage in keeping stocks of agent cash at Reserve Banks and in practice all notes are shipped from Bureau of Engraving and Printing facilities in Washington, D.C. or Ft. Worth, Texas, to the cash departments. They are issued to the Reserve Bank on the day of shipment, at which time Federal Reserve Notes Outstanding account is credited and Federal Reserve Notes Held by Bank and Branches account is debited. The reverse occurs when notes are canceled and destroyed, as explained in Chapter 5.

10.25 - Federal Reserve Notes--Held by Bank and Branches (210-050). This account consists of all present size currency held by the Bank, including currency held in off-site locations, regardless of the Bank of issue. All present size currency is handled and processed for balance sheet reporting purposes as Federal Reserve notes even though small amounts of silver certificates or United States notes may be present. The latter are determined by formula when credit is being taken for unfit currency that is destroyed, and appropriate adjustment is made to the U.S. Treasury general account. Also included is canceled currency held pending destruction and currency destroyed in "late shift" work on the balance sheet date.

10.26 - Federal Reserve Notes--In Transit (210-075). This account is used to record issued notes in transit to or from the Bank, such as new currency that has left the Bureau of Engraving and Printing facilities in Washington D.C. or Ft. Worth, Texas, but has not yet been received by the Reserve Bank (including shipments to other Federal Reserve facilities), or for currency that has been shipped from one Reserve Bank to another (Fed-to-Fed shipment), but has not been received.

10.30 - Deposits: Depository Institutions (220-025). Section 19 of the Federal Reserve Act provides for the establishment of reserve requirements for all depository institutions, including commercial banks, savings banks, savings and loan associations, credit unions, and industrial banks that have transaction accounts or nonpersonal time deposits. Reserve requirements also apply to Edge Corporations, U.S. agencies, and branches of foreign banks. The balances that are maintained by all such institutions with the Reserve Bank, including amounts in pass-through arrangements, are reported in this account. The account also includes clearing accounts and balances that may be maintained with the Reserve Bank.

10.40 - Due to Other FR Banks--Collected Funds (220-075). Amounts which are owed to another Federal Reserve Bank and which, in ordinary circumstances, would have been paid in the day's Interdistrict Settlement are reported in this account. For example, where the Reserve Bank office to which the funds are owed is closed and cannot accept credits through the Settlement account, where Same Day Settlement transactions cannot be sent because the receiving office closed before the sending office, or where due to unusual circumstances the sending office cannot transmit its Goldwire. A separate subsidiary account should be maintained for Same Day Settlement transactions. The balance in this account should equal the amount that would have been reported on the Goldwire had the office participated in the Interdistrict Settlement.

10.50 - U.S. Treasury--General Account (220-100). As part of its function as Fiscal Agent for the United States Treasury, and as provided by Section 13 of the Federal Reserve Act, each of the Reserve Banks maintains a deposit account for the Treasury. Deposits in this account include funds realized on the sale of government securities or savings bonds, Federal tax receipts, payments for goods or services rendered by the Government, and payments of Reserve Bank earnings. The account is used by Treasury to make interest payments and redemption payments on government obligations and to pay government checks and other items drawn on the account. Prior to closing each day's books, the balance in this account is consolidated at the New York Reserve Bank.

10.60 - Foreign Deposits (220-125,-130). Foreign central banks and governments maintain deposit accounts with Reserve Banks for international settlement and other purposes. The accounts are opened with the New York Reserve Bank. The portion of the balances estimated to be in excess of what is needed for current transactions are participated among the Reserve Banks on the basis of each Bank's capital and surplus ratio.

10.70 - U.S. Treasury -- Special Account (220-140). This account is used by the New York Reserve Bank at the direction of the Treasury for certain Treasury deposits that require segregation from both the general account and the account used for exchange stabilization transactions (see 11.10).

10.80 - Officers' and Certified Checks (220-150). The balance in this account represents the total of all unpaid checks issued by the Federal Reserve Bank, with exception of noncurrent checks which are periodically written off and charged to the Profit and Loss account.

11.01 - International Organizations (220-175). This account consists of balances of international organizations, such as the International Monetary Fund, Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, International Development Bank and International Finance Corporation. The law provides that any Reserve Bank which is requested to do so by such organizations should act as its depository or as its fiscal agent, and requires the Board of Governors to supervise and direct the carrying out of these functions.

11.10 - Secretary of Treasury Special Account (220-200). This account is carried on the books of the New York Reserve Bank and is used by the Treasury for exchange stabilization transactions.

11.20 - Government-Sponsored Agency Accounts (220-225); Less Unclassified Charges (220-250); Net (220-275). Government-sponsored agencies such as the Federal National Mortgage Association maintain redemption accounts with the New York Reserve Bank to cover maturing coupons and securities that are received by Reserve Banks for payment. Balances are maintained by the agencies to cover the amounts that are due on any given payment date. Payments on definitive obligations by Reserve Banks other than the New York Reserve Bank are carried in the miscellaneous cash items account pending charge to the New York Reserve Bank. Payments by the New York Reserve Bank are entered directly to the unclassified account. When the paid coupons and securities are verified according to the respective agency, the New York Reserve Bank credits the unclassified account and charges the appropriate agency account.

11.25 - FRB as Fiscal Agent (220-325). This account is used by the New York Reserve Bank to accommodate rare situations in which the Federal Reserve, to fulfill legal requirements, must hold funds for eventual distribution on behalf of the Treasury in a "non-Treasury" deposit account.

11.30 - Miscellaneous Deposits (220-400). A wide range of miscellaneous deposit accounts are carried on the books of the Reserve Banks. The deposits arise from depositary responsibilities assigned to the Reserve Banks by law--such as accounts opened by the Federal Deposit Insurance Corporation to cover closed banks and checking accounts opened by government agencies. Deposits also arise from work in process at the Reserve Banks, such as payments received from employee subscriptions to savings bonds, funds received for the account of new depository institutions which have not as yet opened for business, and interest paid on securities held pending redemption in federal estate tax cases. Deposit accounts are also carried for purposes that are peculiar to only one or a few Reserve Banks. The Board of Governors, for example, maintains a general fund account at Richmond to cover general disbursements and another to cover payroll charges, and the Federal Reserve Employee Benefits Office maintains accounts with the New York Reserve Bank. The individual accounts and balances comprising this account should be detailed on the Reverse of the form 34. The individual account descriptions should be adequate to identify the different types of accounts maintained under this heading. For example, Due to Treasury--Interest on FR notes is a sufficient description, rather than Miscellaneous Deposit account 1, etc.

11.40 - Deferred Credit Items (230-025,-050,-075,-100,-125,-150). These accounts are the counterpart of items in process and arise from the fact that Reserve Banks do not give immediate credit for all checks or other items deposited with them for collection or, in some cases, are unable to pass credit on the due date for items that the Reserve Bank has already collected. Where possible, credit is deferred according to a schedule that allows time for the items to be collected. The difference between the asset accounts and these accounts represents the net of checks or other items that, although not yet collected, have already been credited in accordance with a specified time schedule to the accounts of the institutions that deposited them. This difference, called "float", measures on a System basis the net amount of Federal Reserve credit generated by the collection process by providing credit on items deposited with the Federal Reserve for collection prior to actual collection. Sufficient detail or subsidiary accounts should be maintained, as in items in process of collection (3.10), to identify the general nature of the transactions for float reporting purposes (e.g., cash letters, ACH, noncash, etc.).

The amounts are carried in the following accounts:

Other Offices Own District (230-025). Represents cash letters or other items received by one office in a District from another office or from depository institutions for collection for which credit is deferred and which will be settled with another Reserve office located in the same District. On a combined report for the District, the amount is closed to the asset account for items in process of collection.

Other Federal Reserve Banks (230-050). Represents cash letters or other items which are received from other Districts or their depository institutions for which the other District will process the credit to the depository institution based on notification from the depository institution. Those items received directly from depository institutions in other Districts for which the other District would have no notice (such as Same Day Settlement items) should be recorded in the Depository Institutions account below.

U.S. Treasury -- General Account (230-075). Consists of items received for deposit to the Treasury's account on which credit is deferred, such as items in payment for federal taxes, marketable securities, savings bonds, and checks deposited by various federal agencies to the Treasury's account.

Depository Institutions(230-100). Represents cash letters and other items received from institutions in own territory or which have been dispatched by them to another Federal Reserve office for collection and ACH items which cannot be credited because the depository institution is closed, all of which will be settled with institutions within a Reserve office's own territory. Deferred credit entries for depository institutions located and/or settled in another Reserve office using Same Day Settlement procedures should be included in this account.

Other Items in Process (230-125). Represents credit items held over by the Federal Reserve office. This account includes, but is not limited to, electronic transfers where one depository institution has been charged but the Federal Reserve office cannot complete the transaction by passing credit to a depository institution, credit ACH return items which have been held over, and any prefunded credit ACH items.

Adjustments, net (230-150). Includes the net amount of adjustments (+ or -) that are made to items originally credited to any deferred credit items account prior to the date that the original entries are removed and credited on an immediate basis. Adjustments to deferred Treasury items processed via CA$H Link should be reflected in the Deferred Credit Items: U.S. Treasury General Account above.

11.50 - Accrued Dividends Unpaid (240-025). This account represents the liability for dividends accrued to date on Reserve Bank capital paid-in from member banks that have not been paid (as described in paragraph 1.10). Dividends accrued daily at the rate of one-half of one percent per month and charged to the Dividends Accrued Since January 1 account (330-175) are credited to Accrued Dividends Unpaid as a liability for dividends that are due but are unpaid.

11.60 - Unearned Discount (240-050). This account includes unearned discount on acceptances and, although rare, the discount on any loans under paragraph 3 of Section 13 of the Federal Reserve Act. Pending the creation of a new account, this account also includes the contract value of reverse repurchase agreements. As a practical matter, reverse repurchase agreements constitute the entire balance in this account.

11.65 - Discount on Securities (240-075). Discount on securities represents the amount paid under the face value for securities in the System Open Market Account. The face value is recorded in the asset account for securities. On the date of purchase the amount of the discount is credited to this account. The daily accrual is determined by dividing the discount by the number of days to the maturity date of the issue. When securities are sold, any remaining unamortized discount is debited to this account. All entries are made upon advice from New York.

11.70 - Sundry Items Payable (240-125). The account covers numerous items to be disbursed at a later date, such as amounts deducted from salaries for federal and state income taxes, United Fund, insurance, etc. The account also includes specific items which are due but have not yet been paid, staff salaries accrued at the close of the month, taxes on real estate, transportation charges, equipment purchases, lease payment obligations under capital leases, active employee medical liabilities and interest payable accrued for reverse repurchase agreements. Amounts charged to this account for equipment purchases or services must be for items received or services rendered and for which the Reserve Bank has a firm obligation outstanding (see .90). Obligations under operating leases are accrued as service is provided, whereas capital lease obligations are recorded at the inception of the lease. A separate subsidiary account should be established to record obligations under capital leases.

11.80 - Suspense Account--General (240-150). This account represents miscellaneous items for which credit has been received but processing or information is necessary before final disposition is effected. Some of the more common types are (1) overages in government deposits awaiting receipt of an additional certificate of deposit, (2) savings bonds missing from stock, and (3) overages reported in card bond shipments to Bureau of Public Debt. The only check-related items to be held in this account are Treasury check truncation adjustments where an unlocated difference arises between a Reserve Bank and the Treasury Department and a depository institution has been debited pending resolution of the difference. Similarly, funds transfers received too late in the day for crediting the account of a government agency should be included in this account until the agency can be credited. Items that cannot be resolved should be cleared from this account and credited to either the difference account or a current expense account (see paragraph 4.40). Items relating to items in process of collection and deferred credit items should not be included in this account.

11.85 - Earnings Credits Due to Depository Institutions (240-175). Earnings credits have been authorized by the Board on clearing balances that are maintained by depository institutions with Reserve Banks. The credits can be used only to offset charges an institution incurs in its use of System services. This account represents a liability, the balance of which consists of amounts earned by depository institutions for application against future billings. At a minimum, this account is credited on the last day of each month to reflect earnings credits which have been earned during the month and the offsetting entry is made to cost of earnings credits (see 12.35). Earnings credits are earned at the time balances are held, even though the specific liability is not determined until the account position is finalized. The Reserve Bank may maintain separate subsidiary accounts to record the accrual and to record earnings credits that are eligible for use against charges for use of Federal Reserve services. When earnings credits are used or expire unused, the account is debited. The amount of used credits is credited to income from services and expired amounts to cost of earnings credits. Earnings credits are deemed expired if, during the 52 week period after they have been granted, they have not been applied to billings or if an institution having unused credits is liquidated.

11.87 - Exchange translation liability (240-190). Used by the New York Reserve Bank to record unrealized profits or losses from the daily revaluation of foreign exchange contracts.

11.90 - Accrued Expenses Unpaid--Estimated (240-200). Daily or at least each Wednesday this account is credited by the difference, if any, between actual expenses incurred up to that point in the month and estimated expenses for the same period. A contra-account is maintained in current expenses, and the purpose is to reflect in weekly condition statements a reasonably accurate amount reflecting expenses to date. The account is debited at month end, thus leaving a zero balance (see .60 and .80).

11.92 - Accumulated Postretirement Benefit Obligation (240-300). This account is used to recognize the funded status of defined benefit retirement plans, and other postretirement benefit plans, when the plan(s) are in an underfunded position, indicating a net obligation. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation, as defined by FAS 87, 106, and 158. Included in this account will be balances related to (1) the nonqualified retirement Benefits Equalization Plan (BEP), (2) the Supplemental Employee Retirement Program (SERP), and (3) postretirement medical and life insurance benefit plan. Entries related to these plans are based on actuarial valuations and actual payments made by the OEB on behalf of the Reserve Banks. Monthly benefits payments made by the OEB on behalf of each Reserve Bank will offset the recorded liability for these plans. The offset to the monthly and annual accruals for the BEP and SERP plans are offset to the net periodic pension cost (330-060) or Accumulated Other Comprehensive Income (AOCI) (a sub-account of 320-025, Surplus), as required.[3] The offset to the monthly and annual accruals for postretirement medical and life insurance are posted to the Operating Expense account (330-050) or AOCI, as required (see paragraph 12.33).

This account is also used to record the liabilities for the long-term disability or workers compensation plan obligations in accordance with FAS 112, Employers' Accounting for Postemployment Benefits. Entries for these plans are based on actuarial valuations and actual benefit payments made by the OEB on behalf of the Reserve Banks; the payments will offset the recorded liability for these plans. At year-end, each Reserve Bank will have to adjust the recorded obligations for the postemployment benefit plans, and the offset is posted to the Operating Expense account (330-050).

The liability associated with the Thrift Benefits Equalization Plan (Thrift BEP) is also recorded in this account. The Thrift BEP entries are made using information provided by the OEB at year-end based on the Plan account balance (not actuarially determined). Monthly payments made by the OEB on behalf of each Reserve Bank will offset the Thrift BEP liability.

[3] The accounting treatment will be determined annually and will be based on the materiality of the obligation to the overall balance sheet.

At year-end, each Reserve Bank may have to adjust the recorded obligation for the Thrift BEP, and the offset is posted to the Operating Expense account (330-050).

Significant reductions in staff or changes in pension or medical plan benefits may require the recognition of additional gains or losses. As a practical matter, Reserve Banks should coordinate with Board and OEB staff when they anticipate substantial changes to staffing or the plan benefits.

Note that the liabilities for active medical expenses are not reflected in this account. (See paragraph 1.02)

<u>11.95 - Branches or head office--interoffice account (240-825)</u>. This account is provided for reporting a net credit balance due between the head office and Branches as a result of the cumulative effect of daily settlements. This account is consolidated on the District balance sheet. At management's discretion, an office may use only the asset or liability account for the net entries (See 5.10).

<u>12.01 - Capital Paid-In (310-025)</u>. Represents the outstanding paid-in value of capital stock issued to member banks as required by law. The par value of shares is one hundred dollars and the paid-in value is fifty dollars. A member bank is required to subscribe to the capital stock of its Reserve Bank in an amount equal to 6 percent of its capital and surplus. Half of the subscription is paid in and the other half is subject to call. (The shares do not carry the power through voting to control the management of the Reserve Bank as does ordinary stock in private banks and corporations.) Changes in a member bank's stock or surplus may require an adjustment in its holdings of the Reserve Bank's capital stock as outlined in Regulation I. The stock may not be transferred, nor may the owning bank hypothecate its shares.

<u>12.10 - Surplus (320-025)</u>. The balance of this account represents the portion of net income that is retained by the Bank. At the end of each year surplus should be credited (or debited) with whatever amount is necessary to equate the balance in the account with the amount of paid-in capital. Other than at the end of the year, no changes in surplus should be made without specific approval by the Board of Governors. Should the year-end Capital Paid-In balance require adjustment between December 31 and year-end closing, this account must be re-equated to the adjusted paid-in capital amount during the closing process (See Section 60.25 - Special Year-End Procedures).

Accumulated Other Comprehensive Income (AOCI) is treated as a component of each Reserve Bank's Surplus account and the Bank should establish the necessary accounts to separately identify and record transactions related to AOCI. The balance of AOCI should be included with the Bank's surplus balance in computing the amount necessary to equate surplus with the amount of paid-in capital, as discussed in the preceding paragraph.

The purpose of surplus is to provide additional capital and to help lessen the possibility of Reserve Banks' having to call on member banks for additional capital. Various changes have taken place over the years in the level of surplus (see 12.60). The present level was established in 1964. Previously, it was two times the balance of the paid-in capital.

12.20 - Current Income (330-025). Includes income from all sources for the year to date. The income is derived from assets such as securities, loans and foreign currencies, from services rendered to depository institutions and others, from charges that are imposed for deficient reserves and overdrafts, and from other accounts. Significant income items should be accrued as described in paragraph 4.97 when earned. Other income is ordinarily credited when received.

Individual ledger accounts are maintained for control purposes and to facilitate verification of income according to source. In the case of income from services, the ledger should be supported by subsidiary accounts in the same detail as the schedule of priced services. These subsidiary accounts must be posted currently and, together with any accrual accounts that the Bank elects to maintain separately, add to the total in the ledger at the close of business each day.

A subsidiary account may also be established for each priced service to record variances between accrued service income and the amount actually charged depository institutions due to absorption of differences. The use of this account should facilitate reconcilement of the general ledger with internal cost/revenue reports.

The income from services is the gross amount and will therefore include charges for services that are collected by the Reserve Bank against earnings credits on clearing balances. See paragraph 11.85 for the entry to earnings credits.

12.30 - Operating Expenses (330-050). The balance of this control account represents combined year-to-date actual and estimated net expenses, as follows:

Accrued Expenses Estimated. This account and its contra-account in other liabilities provide for the accrual of net expenses on an estimated basis.

Operating Expense. The balance of this account represents year-to-date recorded expense.

Expenses Reimbursed. This is a credit balance consisting of actual reimbursements.

Expenses Estimated to be Reimbursable. This account and its contra-account in other assets provide the means for estimating reimbursements at the end of the month.

12.33 - System Net Periodic Pension Cost (330-060). This account is used by the New York Reserve Bank to record the net periodic pension cost for the Federal Reserve System computed in accordance with the provisions of Financial Accounting Standards Board Standard No. 87. This account is also used by each Reserve Bank to record net pension costs associated with the nonqualified retirement (BEP) and the Supplemental Retirement Program (SERP) accruals. The Employee Benefits Office (OEB) will provide information necessary to process entries to this account. Entries should be made at least monthly.

12.35 - Cost of Earnings Credits (330-075). The amount in this account represents year-to-date earnings credits granted to depository institutions whether used or unused. During the year, the balance in this account will be decreased only when unused earnings credits expire. At the end of each month and at year-end, earnings credits that have been earned by depository institutions but have not yet been granted by the Reserve Bank should be accrued in this account.

12.40 - Profit and Loss (330-100). During the year this account is used for recording income and losses which are not current in nature or are not applicable to current earnings or current expenses. The balance represents the net total of miscellaneous entries, such as the following:

Profit or loss on sales of foreign exchange.
Profit or loss due to revaluation of foreign currency holdings and outstanding swap commitments.
Discount on foreign currency.
Loss on counterfeits (only with approval of the FRB Financial Accounting Section of the Board’s RBOPS Division).
Interest expense incurred for reverse repurchase agreements.
Profit or loss on sales of securities held in System Open Market Account.
Charge-offs on bank premises.
Recoveries of amounts previously charged off as losses.
Profit or loss on sale of other real estate (that was originally acquired for potential Bank use).
Recoveries and unrealized losses on the value of other real estate held for sale (that was originally acquired for potential Bank use).
Losses (that are not expected to be recovered) or recoveries related to the handling or transportation of money that do not relate to daily bank operations.
Losses absorbed under the loss sharing agreement.

Reimbursement from Treasury for purchases of uncut sheets of FR notes.
Profit or loss on sale of works of art.

For further discussion of the profit and loss account, see paragraphs 60.60 and 60.61.

12.43 - Cost of Unreimbursed Treasury Services (330-110). This account is used to record the cost of services provided to the U.S. Treasury for which recovery is not anticipated. At the time entries are made to the reimbursable account, an estimate is made of the amount of the claim that is not expected to be received. The offsetting account would be the contra-asset account, Allowance for Doubtful Treasury Reimbursement or Reimbursable expenses for direct write-offs. Near the end of each year, adjusting entries may be required in order for the balance in this account to equal the cost of services provided to the Treasury during the year for which the Treasury has informed the Federal Reserve reimbursement will not be made or which the Federal Reserve has determined is unlikely. This account will be closed out at the end of each year. Commencing in 2001, it is anticipated that costs in this account will be generated primarily from District or Special projects that have not been approved by the Bureau of Public Debt or the Financial Management Service of the U.S. Treasury.

12.45 - Assessments by Board of Governors (330-125,-150).

Board Expenditures (330-125). Section 10 of the Federal Reserve Act authorizes the Board to levy semi-annually upon the Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses for the half of the year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year. The Board is also authorized to leave on deposit in the Reserve Banks the proceeds of such assessments. Pursuant to this authority, the Board maintains accounts with the Federal Reserve Bank of Richmond and at the time of each assessment requests credit for one-half of the amount to its General Fund account at Richmond. The remaining half is called at the beginning of the second following month; i.e., the first business day in March and September.

Banks other than Richmond remit through the Interdistrict Settlement Account. Each Bank debits prepaid expenses for its own payment and thereafter prorates one-third of the amount monthly to the FR 34 account.

F.R. Currency Costs (330-150). Section 16 of the Federal Reserve Act requires that all expenses in executing the laws relating to the procurement of Federal Reserve notes, including expenses incidental to their issue and retirement, be paid by the Reserve Banks and included in the Board's assessment against the Banks. The costs, monthly for printing and quarterly for shipping and Treasury's issuance and retirement expenses, are paid by the Board and levied against the Reserve Banks on the basis of each Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31st of the previous year. Also included in the assessments are costs for purchases of aluminum pallets and shipping pouches and seals whenever such supplies are required.

Separate accounts should be maintained for (l) cost of printing, (2) cost of shipping (including the periodic assessment for pouches and seals), (3) retirement costs, and (4) research and development costs for F.R. currency.

<u>12.50 - Dividends Accrued Since January 1 (330-175)</u>. The balance of this account represents the year-to-date accumulated dividends on outstanding capital stock paid-in from member banks. The balance is increased each day throughout the year and at year-end, it is closed out as part of the distribution of net earnings. The amount added to the account each day is computed on the total Reserve Bank capital paid-in from member banks as of the opening of business that day (close of business previous day) as described in paragraph 1.10 (Accrued Dividends).

<u>12.60 - Interest Paid on Federal Reserve Notes (330-200)</u>. Under authority of Section 16 of the Federal Reserve Act, the Board has determined that the Reserve Banks will pay to the U.S. Treasury, as interest on Federal Reserve notes, all net earnings after providing for dividends and the amount necessary to equate surplus with paid-in capital. This concept originated in 1947. As a result of operations essential to Government financing during the war, and operations required by the needs of business and the public for credit and currency, earnings of the twelve Federal Reserve Banks were at relatively high levels. It was expected that net earnings of the Federal Reserve Banks for 1947, after payment of the statutory dividends to member banks, would aggregate more than $60,000,000. In view of these facts and the fact that at the end of 1946 the surplus of each Federal Reserve Bank was equal to its subscribed capital, the Board decided to invoke the authority, granted to it under Section 16 of the Federal Reserve Act, to levy an interest charge on Federal Reserve notes issued by the Federal Reserve Banks. The purpose of this interest charge was to pay into the Treasury approximately 90 percent of the net earnings of the Federal Reserve Banks for 1947.

The authority to levy an interest charge on Federal Reserve notes not covered by gold certificates had not been used previously, chiefly because of the existence, prior to 1933, of so-called franchise tax provisions of the law that had a similar effect; that is, of transferring excess earnings of the Reserve Banks to the Treasury. Under these provisions, which were repealed in 1933, each Federal Reserve Bank was required to pay a franchise tax to the government equal to 90 percent of its net earnings after it had accumulated a surplus equal to its subscribed capital. To the end of 1932 the Federal Reserve Banks had paid franchise taxes to the United States Treasury amounting to $149 million. At that time the Federal Reserve had accumulated surplus accounts of $278 million, as compared with subscribed capital aggregating $302 million. In the amendment of the Federal Reserve Act, contained in the Banking Act of 1933, providing for the establishment of the Federal Deposit Insurance Corporation, Congress required each Federal Reserve Bank to pay an amount equal to one-half of its surplus on January 1, 1933, as a subscription to the capital stock of the FDIC on which no dividends would be paid. These stock subscriptions amounted to $139 million and reduced the surplus of the Federal Reserve Banks to an equivalent figure, or considerably less than one-half of their subscribed capital. Congress, therefore, eliminated the franchise tax in order to permit the Federal Reserve Banks to restore their surplus accounts from future earnings. Net earnings for the next ten years were relatively small, and at the end of 1944 the combined surplus accounts of the Federal Reserve Banks were less than 75 percent of their subscribed capital. During the next two years, however, net earnings increased substantially, due primarily to large holdings of Government securities accumulated through open market operations. This made possible transfers to surplus accounts that increased the combined surplus of the Federal Reserve Banks to $439,823,000 at the end of 1946, as compared with subscribed capital of $373,660,000.

Under the circumstances, the Board concluded that it would be appropriate for the Federal Reserve Banks to pay to the Treasury the bulk of their net earnings after providing for necessary expenses and the statutory dividend. In effect, this involved paying currently to the Treasury funds which, under existing law, would otherwise come to it only in the event of liquidation of the Federal Reserve Banks. The Federal Reserve Act still provides that, in case of liquidation of the Federal Reserve Banks, any surplus remaining after the payment of all claims shall be paid to the Treasury. By invoking its authority under Section 16 of the Federal

Reserve Act, the Board was able to accomplish the same results as were accomplished by the payments of franchise tax, i.e., the transfer of excess earnings to the Government.

The Reserve Banks currently remit payment to the U.S. Treasury on a weekly basis. The amount consists of all net earnings after dividends and amounts necessary to equate surplus with paid-in capital. (See 60.20 for computation and reporting of interest payments.)

12.65 - Transferred To or From Surplus (330-225). The purpose of this account is to hold the amount which will equate surplus to capital paid-in as of December 31 of each year. The amount remains in this account until the closing of the books in January of each year.

The account is also used when a Reserve Bank has to "borrow" from Surplus due to sustained losses, which cause Undistributed Net Income to fall to a deficit position. The "borrowed" amount should be removed from the account, at a minimum, on each Wednesday until the entire amount has been removed. (See 60.20).

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FR 34—Edition 2008

BALANCE SHEET

______________________________, 2008

Accounting Section, Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System, Washington, D.C. 20551

ASSETS

GOLD CERTIFICATE ACCOUNT	110-025
SPECIAL DRAWING RIGHTS certificate account	120-025
COIN	130-025
LOANS AND SECURITIES:	
Loans to depository institutions	140-025
Loans to others	140-050
Acceptances	
Bought outright	140-070*
Held under repurchase agreement	140-075
Federal agency obligations:	
Bought outright	140-100
Held under repurchase agreement	140-125*
U.S. Govt. securities bought outright:	
Bills	140-150
Notes	140-175
Bonds	140-200
U.S. Govt. sec. held under repurchase agreement	140-225*
Total U.S. Government securities	140-275
Total loans and securities	140-800
ITEMS IN PROCESS OF COLLECTION:	
Transit items—	
Federal Reserve Banks	150-025
Depository institutions	150-050
Other items in process	150-100
Adjustments, net	150-150
Total items in process of collection	150-900
BANK PREMISES:	
Land	160-025
Buildings (including vaults)	160-050
Building machinery and equipment	160-075
Construction account	160-100
Total bank premises	160-110
Less depreciation	160-125
Bank premises, net	160-150
OTHER ASSETS:	
Furniture and equipment	170-025
Less depreciation	170-050
Furniture and equipment, net	170-060
Claims account closed banks	170-075
Foreign currencies	170-100
(gross $)	170-110*
Reimbursable exp. and other items receivable	170-125
Less allowance for doubtful reimbursement	170-130
Reimbursable expenses, net	170-135
FDIC assumed indebtedness	170-140
Interest accrued	170-150
Premium on securities	170-175
Overdrafts	170-200
Deferred charges	170-225
Prepaid expenses:	
Materials and supplies	170-250
Pension costs	170-260*
Other	170-275
Difference account, net	170-300
Suspense account—general	170-325
Other real estate, net	170-350
Currency and coin exhibits	170-375
Old currency series	170-400
Miscellaneous cash items	170-425
Suspense account—pricing	170-450
Accrued service income	170-475
Total other assets	170-800
Interdistrict settlement account	180-025
Branches or head office—interoffice account	190-025
TOTAL ASSETS	190-050

LIABILITIES

FEDERAL RESERVE NOTES:	
Outstanding (Received from Agent, net)	210-025
Less—Held by Bank and branches	210-050
—In transit	210-075
Federal Reserve notes, net	210-100
DEPOSITS:	
Depository institutions	220-025
Due to other F.R. Banks—collected funds	220-075
U.S. Treasury—general account	220-100
Foreign	220-125
Foreign (gross $)	220-130*
Other deposits:	
U.S. Treasury—Special Account	220-140*
Officers' and certified checks	220-150
International organizations	220-175
Secy. of Treasury special account	220-200*
Govt.-sponsored agency accounts	220-225*
Less unclassified charges	220-250*
Net	220-275*
FRB as Fiscal Agent	220-325*
Miscellaneous	220-400
Total other deposits	220-450
Total deposits	220-500
DEFERRED CREDIT ITEMS:	
Other offices—Own District	230-025
Other Federal Reserve Banks	230-050
U.S.-Treasury—general account	230-075
Depository institutions	230-100
Other items in process	230-125
Adjustments, net	230-150
Total deferred credit items	230-500
OTHER LIABILITIES:	
Accrued dividends unpaid	240-025
Unearned discount	240-050
Discount on securities	240-075
Sundry items payable	240-125
Suspense account—general	240-150
Earnings credit due to depository inst.	240-175
Exchange translation liability	240-190
Accrued expenses unpaid—estimated	240-200
Accumulated Postretirement Benefit Obligation	240-300
Total other liabilities	240-800
Branches or head office—interoffice acct.	240-825
TOTAL LIABILITIES	250-025

CAPITAL ACCOUNTS

CAPITAL PAID IN	310-025
SURPLUS	320-025
INCOME, EXPENSES, AND DIVIDENDS:	
Current income	330-025
Operating expenses (deduct)	330-050
Net periodic pension costs	330-060
Cost of earnings credits (deduct)	330-075
Current net income	330-090
Profit and loss, net	330-100
Cost of unreimbursed Treasury services	330-110
Assess. by Bd. of Gov. (deduct)	
Board expenditures	330-125
F.R. currency costs	330-150
Net income available for distribution	330-160
Deduct:	
Dividends accrued since January 1	330-175
Interest paid on Federal Reserve notes	330-200
Transferred to or from surplus	330-225
Undistributed net income	330-275
TOTAL CAPITAL ACCOUNTS	340-025
TOTAL LIABILITIES & CAPITAL ACCTS:	350-025
Maturity distribution of loans: 15 days or less	615-020
16–90 days	615-025
Over 90 days	615-030
Total loans	615-035
Maturity distribution of acceptances: 15 days or less	615-040*
16–90 days	615-045*
Over 90 days	615-050*
Total Acceptances	615-055*

*Reported by New York only

(Monthly)

Special depositaries, Treasury tax and loan accounts	$	
	Definitive	Book Entry
Collateral for Treasury tax and loan accounts:	$	$
Held in own vaults		
Held by other offices in own district		
Held by other F.R. Banks		
Held by depository institutions		
Collateral for loans:		
Held in own vaults		
Held by other offices in own district		
Held by other F.R. Banks		
Held by depository institutions		
Collateral for overdrafts:		
Held in own vaults		
Held by other offices in own district		
Held by other F.R. Banks		
Held by depository institutions		
Accountability to Treasury for U.S. Government securities:		
Marketable securities—		
Retired		
Canceled redeemed		
Non-marketable securities—		
On hand		
On consignment with—		
Issuing agents		
Branches		
Savings bonds issued—book entry †		
Accountability for other securities:		
U.S. Government agencies—		
*Unissued		
Retired		
Canceled redeemed		
International Organizations—		
*Unissued		
Retired		
Canceled redeemed		
Other custodies held as fiscal agent of the Treasury:		
Gold— Held in own vaults		
Held by other F.R. Banks		
Other		
Custodies held for:		
Commodity Credit Corporation		
U.S. Treasury—		
Special gold custody account:		
For display purposes		
Other		
Other Government departments, agencies, and officials—		
Held in own vaults		
Held by other offices in own district †		
Held by other F.R. Banks		
Held by depository institutions		
Other offices in own district— †		
Unissued U.S. Government securities on consignment—		
On hand		
With issuing agents		
Other		
System Open Market Account		
Other F.R. Banks		
Depository Institutions—		
Securities, etc.—		
Held in own vaults		
Held by other offices in own district		
Held by other F.R. Banks		
Held by depository institutions		
Foreign correspondents—		
Acceptances		
Securities —Held in own vaults		
—Held by others		
Earmarked gold—Held in own vaults		
Foreign Debt Collateral		
Held in own vaults		
Held by others		
International Bank for Reconstruction & Dev.—securities		
International Finance Corporation—securities		
International Monetary Fund —securities		
—gold		
International Development Association—securities		
Inter-American Development Bank—securities		
Asian Development Bank—securities		
Miscellaneous custody items		
Collateral and custody items in process		
TOTAL		

† No amount will be shown against this caption on combined report. *Reported by New York only.

OTHER DEPOSITS—MISCELLANEOUS

NAME OF ACCOUNT	AMOUNT
	$
Memorandum Accounts	
Food coupons pending —verification	
—destruction	
Noncash collection items: Securities and coupons on hand	
U.S. Government and agency coupons: Unclassified (or redeemed)	
Suspense or holdover	
Miscellaneous cash items	
International coupons: Redeemed	
Suspense or holdover	
Coupons detached from safekeeping holding awaiting shipment to paying agents	
Coupons clipped from unissued Treasury and agency stock	

CHAPTER 2
COLLATERAL AND CUSTODIES

20.01 - General. The preceding chapter discusses the daily reporting of the assets and liabilities of Federal Reserve Banks. Chapter 2 is concerned with the accounts covering securities and other valuables, which are to be reported at the end of each month on the back of the FR 34. Federal Reserve Banks act as custodians for securities and other valuables pledged by depository institutions as collateral for borrowings from Reserve Banks and securities pledged as collateral to the Federal government. As fiscal agents, the Banks also act as custodians for securities pledged by nondepository institutions, including securities that are held for Government departments and officials in a fiduciary capacity. As the issuing and/or paying agents for the U.S. Government and certain Government-sponsored agencies, the Reserve Banks are accountable for unissued stock and for retired or paid securities, held pending shipment or destruction. The Reserve Banks also hold gold and other valuables, in accordance with safekeeping agreements with the Treasury, foreign central banks, and other institutions. The objective in reporting the various collateral and custody items on the reverse of the FR34 is to assure adequate disclosure for purposes of verification and control. For purposes of this chapter, “book entry” securities refer to Fedwire book entry securities only.

20.02 - Book Entry vs. Definitive Custodies. Two amount columns are provided on the reverse of form FR 34: one titled "Definitive" and the other titled "Book Entry." All book entry securities should be reported in the Book Entry column and all definitive securities and other custodies, including custody receipts, should be reported in the Definitive column. Custodies in book entry form that are held for the reporting office by another Federal Reserve office should also be shown in the Book Entry column, and included on the line for "Held by other offices in own District" or "Held by other FR Banks," as the case may be.

20.03 - Special Depositaries, Treasury Tax and Loan Accounts. As fiscal agents the Reserve Banks maintain records for certain balances in the Treasury's deposit accounts at commercial banks and thrift institutions. For example, when qualified depositaries that hold investments of Treasury balances receive payment for Federal taxes, the depositaries hold the funds until the Treasury withdraws or calls the balances held at the depositaries. The depositaries are classified as either A, B, or C for purposes of calls, with C class being the largest. When investments mature or calls are made, the funds are remitted through the reserve accounts of depository institutions. The balance reported in this item should represent the aggregate of the individual demand deposit accounts, as well as open-ended note accounts.

20.04 - Classification/Valuation of Holdings.

Classification: To properly reflect the location, purpose and accountability for custodies recorded on the books of the Federal Reserve Banks, the various collateral and custody accounts are subdivided into four categories: *Held in Own Vaults*, *Held by Other Offices in Own District*, *Held by Other Federal Reserve Banks*, and *Held by Depository Institutions*. In general, all book-entry securities (except securities issued by international organizations) should be classified as *"Held In Own Vaults."* For book-entry securities issued by international organizations, all Federal Reserve Banks (except the Federal Reserve Bank of New York) should classify their holdings of these securities as *"Held By Other FRBs."* The Federal Reserve Bank of New York, however, should classify their holdings of these securities as *"Held In Own Vaults."* The Federal Reserve Bank of New York should then classify the roll-up of all the other Reserve Banks' holdings of these securities as *"Custodies Held For Other F.R. Banks"* (See FAM 21.10).

The following characteristics should be considered to determine the proper classifications for custodies on both Office and District level FR-34s. The descriptions below focus on definitive holdings, however, except for the reference to trust receipts, the same principles apply to book-entry securities. The classifications of *"Held by DI's"* and *"Held by Other Offices in Own District"* only apply to definitive securities and should never be used for book entry securities:

Location of Physical Security

All custodies held by an Office must appear on that Office's FR-34 Reverse as *Held in Own Vaults*. Trust receipts held by an Office that represent custodies held outside the System are classified as *Held by Depository Institutions*.

Collateral Function

Custodies are recorded on the books of the Federal Reserve System for one of two purposes: collateral to protect the System or a government entity against certain risks; or as a safekeeping service. Custody items held as collateral should be reflected in the appropriate function (Loans, TT&L, etc.); if the same custody is used to collateralize differing transactions during the day, it should be reflected on the FR-34 Reverse under the function it serves at end-of-day and should be recorded and carefully monitored in departmental records to reflect the purpose served intraday. Other security holdings are reflected in the appropriate *Custodies Held for...* accounts.

Location of Applicable Function

The Federal Reserve System has a wide variety of both decentralized and consolidated processes at the District and Office levels. In order to reflect proper accountability on the FR-34 Reverse, Offices which have functional units that may require collateral must reflect all of this associated collateral on their FR-34 Reverse regardless of where that collateral is located. To distinguish between physical accountability and functional accountability, Offices should reflect these custodies as *Held by other offices in own District* or *Held by other Federal Reserve Banks*. Trust receipts held by other Offices or FRBs are treated the same as other custodies in these accounts; only the office which has physical possession of the trust receipts is required to distinguish on the FR-34 Reverse whether the security is physically held in a Federal Reserve vault or at a depository institution.

The following are examples of proper classification on each office's FR34 reverse and on the combined District's FR34 reverse:

Example #1: Loan Function is centralized at the Head Office; safekeeping functions are decentralized.

Collateral for Loans:	FR34 Head Office	FR34 Branch 1	FR34 Branch 2	FR34 District Combined
Held in own vaults	200	100	200	500
Held by other offices in own District	380	---	---	N/A
Held by other FR Banks	25	---	---	25
Held by depository institutions	150	50	30	230

Example #2: Function is decentralized in all offices; Custody safekeeping is entirely centralized at Branch 1 except for trust receipts entirely held at Branch 2. (each office has 200 TT&L collateral)

Collateral for TT&L	FR34 Head Office	FR34 Branch 1	FR34 Branch 2	FR34 District Combined
Held in own vaults	---	500[1]	---	500
Held by other offices in own District	200	30	130	N/A
Held by other FR Banks	---	---	---	---
Held by depository institutions	---	---	100[2]	100
1/ Head Office=200; Branch 1=170; Branch 2=130 2/ Branch 1=30 Branch 2=70				

Valuation: Definitive collateral that will be redeemed at par at maturity and all book entry collateral should be reported at par value. Holdings of definitive collateral whose par value may increase (as in the case of certain collateralized mortgage obligations or CMOs) or decrease (as in the case of mortgage-backed securities) should be reported at the current outstanding principal value.

<u>20.05 - Collateral for Treasury Tax and Loan Accounts (Definitive and Book Entry)</u>. Pursuant 31 CFR 203, the funds held in Treasury Tax and Loan accounts, except for amounts covered by FDIC insurance, are secured by the pledge of collateral. The collateral must be of a type deemed acceptable by the Treasury Department as covered in the Code of Federal Regulations. Holdings of collateral should be subdivided and reported as described in paragraph 20.04.

20.10 - Collateral for Loans (Definitive and Book Entry). All loans made by the Reserve Banks are secured by collateral, except for a rare circumstance under the law that a loan to an individual, partnership or corporation may be secured by an endorsement satisfactory to the Reserve Bank. Where feasible to minimize unnecessary bookkeeping, a Reserve Bank should carry securities in this account even though the owning bank is not currently borrowing. Holdings should be subdivided and reported as described in paragraph 20.04.

20.15 - Collateral for Overdrafts (Definitive and Book Entry). Reserve Banks may, in certain situations, require a depository institution to pledge collateral in the event the institution's deposit account becomes overdrawn during the day or is overdrawn at the close of the business day. Any such collateral pledged for overdrafts is to be subdivided and reported as described in paragraph 20.04.

20.20 - Accountability to Treasury for U.S. Government Securities: Marketable Securities (Definitive only). Reserve Banks no longer process these items. Items sent to Reserve Banks in error should be forwarded to the Treasury's Bureau of Public Debt and reported as Collateral and Custody Items in Process (see 21.50) until shipped to the Bureau of Public Debt.

20.40 - Accountability to Treasury for U.S. Government Securities: Non-marketable securities (Definitive only).

Savings Bonds Un-issued On Hand – Report the face value of savings bonds (all series), retirement plan bonds, and individual retirement plan bonds that fall into the following categories: Un-issued stock; spoiled bonds; issued bonds not reported to the Treasury (for example, sales and issues on reissue such as bonds issued for claims to replace valid issued bonds that were lost, stolen, or destroyed); un-issued stock claims (bonds lost, stolen, or destroyed before being issued); canceled sales for which the original bond is not in-house; and bond shipments awaiting delivery to issuing agents.

The Pittsburgh Branch of Federal Reserve Bank of Cleveland is the only office that reports a balance in this account. The balance in this account represents the National Warehouse stock on hand and the portion of stock consigned to the Pittsburgh Branch, as a consignment agent.

20.45 Accountability to Treasury for U.S. Government Securities— On Consignment: Non-marketable Securities (Definitive only).

Savings Bonds on Consignment with Issuing Agents - Report the face value of savings bonds (all series), retirement plan bonds, and individual retirement plan bonds consigned to all issuing agents (this excludes stock consigned to the Pittsburgh Branch). Bonds that are lost, stolen, or destroyed, should be included until the Treasury Department has notified the Reserve Bank that credit is allowed. Only the Pittsburgh Branch should report this account.

20.50 Savings bonds issued -- book entry. This account includes book-entry savings bonds held in safekeeping for trustees of qualified employees' savings and thrift plans. (Cleveland Reserve Bank, only)

20.55 - Accountability for Other Securities (Definitive only). This account should be reported by the New York Reserve Bank only.

U.S. Government Agencies - This account includes the total accountability for bearer and registered (designated and undesignated) securities of U.S. Government agencies.

Unissued - Report the par value of the general and reserve stock of bearer and registered (designated and undesignated) U.S. Government agency securities, including spoiled and mutilated securities.

Retired - Report the par value of all bearer and registered U.S. Government agency securities retired before maturity as a result of processing servicing transactions; such as, interdistrict transfers, conversions to book-entry, denominational exchanges, and registered exchanges for bearer.

Canceled Redeemed - Report the par value of all matured bearer and registered U.S. Government agency securities for which the depositors have been paid.

20.70 - Accountability for Other Securities (Definitive only).

International Organizations - This account includes the total accountability for bearer and registered (designated and undesignated) securities issued by international organizations; such as, the International Bank for Reconstruction and Development. This account should be reported by the New York Reserve Bank only.

Unissued - Report the par value of the general and reserve stock of bearer and registered (designated and undesignated) securities issued by international organizations, including spoiled and mutilated securities.

Retired - Report the par value of all bearer and registered securities issued by international organizations that have been retired before maturity as a result of processing servicing transactions; such as, denominational exchanges and transfers of ownership.

Canceled Redeemed - Report the par value of all matured bearer and registered securities issued by international organizations for which the depositor has been paid and the issuer has been charged.

20.80 - Other Custodies Held as Fiscal Agent of the Treasury. This account includes gold held for the Exchange Stabilization Fund or any other holdings of gold as agent of the Treasury, as shown below. Custodies besides gold include collateral acquired under the loan guarantee program pursuant to the Defense Production Act of 1950, as amended. "Special custody account: Other" *ordinarily* will be used only by the Federal Reserve Bank of New York under specific instructions.

Gold - Held in own vaults
    Held by other Federal Reserve Banks
Other

Gold that a Reserve Bank owns should be reported in Currency and Coin Exhibits (170-375, see section 4.70).

20.85 - Custodies Held for Commodity Credit Corporation. This includes all custodies held for the Corporation. Where Branches do not act as custodians for the Commodity Credit Corporation but hold such custodies for the account of the head office, the Branches should show them as "Custodies held for other offices in own District." The head office would report the custodies according to the proper classification.

20.90 - Custodies Held for U.S. Treasury. Custodies held for the Treasury are subdivided according to the captions below. Under the special gold custody account for display purposes, there should be reported gold coins and gold certificates held as specimen under special authority from the Treasury Department.

Special gold custody account:
  For display purposes gold certificates
  Other gold bars

20.95 - Custodies Held for Other Government Departments, Agencies and Officials (Definitive and Book Entry). This account includes custodies held for the Directors and Commissioner of Internal Revenue; Judges and Clerks, U.S. District Courts (includes CRIS holdings); Public Housing Administration; General Services Administration; Federal Deposit Insurance Corporation; Immigration and Naturalization Service; Secretary of the Treasury; U.S. Treasury (as security for Government deposits in other than Treasury Tax and Loan Account); withheld food coupons pending review by the Department of Agriculture, State Treasuries; and others. Holdings should be subdivided and reported as described in 20.04.

21.05 - Custodies Held for Other Offices in Own District (Definitive only). Custodies held by head office for Branches and by Branches for head office and other Branches are reported in this account. No amount will appear opposite this caption on the combined form FR 34, inasmuch as it would represent a duplication of amounts reported elsewhere under the appropriate classification by the office for whose account the custodies are held.

21.06 - Custodies Held for System Open Market Account. Includes all securities held in custody for the System Open Market Account. Securities loaned or undelivered should not be included. This account should be reported by the New York Reserve Bank only.

21.10 - Custodies Held for Other Federal Reserve Banks (Book Entry only). Items included represent custodies held for other Federal Reserve Banks (but not for other offices in own District). The Federal Reserve Bank of New York should include in this account those securities issued by international organizations, which can officially be held only by the New York Reserve Bank but which may, de facto, be held in book entry safekeeping by other Reserve Banks. Thus, this category would include the roll-up of all the other Reserve Banks' holdings of international securities.

21.15 - Custodies Held for Depository Institutions (Book Entry only). The account covers ordinary safekeeping of regular and "strippable" securities, including the corpus from any stripped security and pledges by depository institutions to various municipalities, county, state, and other officials (other than U.S.) generally referred to as "pledged" securities or "joint safekeeping." Also included are securities issued by international organizations that can officially be held only by the Federal Reserve Bank of New York but that are, de facto, held by other Reserve Banks. Holdings should be subdivided and reported as described in 20.04.

21.25 - Custodies Held for Foreign Correspondents (Definitive and Book Entry). All safekeeping items for foreign central banks and governments, including the Bank for International Settlements, are reported by the New York Reserve Bank only, according to the following captions:

Acceptances
Securities
Earmarked gold--Held in own vaults

21.28 - Foreign Debt Collateral (Definitive and Book Entry). Includes collateral held by the Reserve Bank as collateral agent, as well as trust receipts representing collateral held by other custodians, in accordance with various Foreign Debt agreements. Collateral denominated in foreign currencies should be converted to dollars upon receipt; no further revaluation for fluctuations in exchange rates is necessary. Holdings should be subdivided as shown. This account should be reported by the New York Reserve Bank only.

Held in own vaults
Held by others

21.30 - Custodies Held for International Organizations (Definitive and Book Entry). All safekeeping items held for International Bank for Reconstruction and Development, International Finance Corporation, International Monetary Fund and other international organizations, are reported by the New York Reserve Bank only, as follows:

Internat'l. Bank for Recon. & Dev. - securities
Internat'l. Finance Corp. – securities
Internat'l. Monetary Fund – securities
– gold
Internat'l. Dev. Assn. - securities
Inter-American Dev. Bank - securities
Asian Dev. Bank - securities

21.40 - Miscellaneous Custody Items (Definitive and Book Entry). This account includes ordinary safekeeping other than such safekeeping referenced earlier in this chapter. It also includes any collateral from dealers held by a Reserve Bank in connection with loans of securities from the System Open Market Account and prepaid postage provided by others for use in the provision of services such as RDS postage provided by the Treasury.

21.50 - Collateral and Custody Items in Process (Definitive and Book Entry). This account includes the total accountability for definitive and book-entry securities that are being held pending ultimate disposition. Report the par value of all securities for which processing or delivery has not been completed. For example: Treasury securities erroneously submitted to the Reserve Bank and awaiting return to the customer for forwarding to Treasury; book-entries held pending transfer to the Treasury on original issue or release of registered securities; municipal or corporate securities held pending deposit to or delivery from safekeeping; unopened "said-to-contain" envelopes for noncash; and outgoing security and coupon shipments held by registered mail personnel. Savings bonds received for redemption, exchange, or reissue and paid savings stamps should not be reported.

21.55 - Memorandum Accounts (Definitive only). Report the following items at the end of each month.

Food Coupons Pending Verification - Report the face amount of all unprocessed food stamps and verified food stamps that have not been transferred to the destruction team.

Food Coupons Pending Destruction - Report the face amount of all food stamps that have been transferred to the destruction team and are being held pending destruction.

Noncash Collection Items:

Securities and Coupons on Hand - Report the face amount of all municipal and corporate coupons and bonds as well as bankers acceptances, both past and future due, that are being prepared for delivery to paying agents or for return to depositors.

U.S. Government and Agency Coupons:

Unclassified or Redeemed - Report the face amount of all Treasury and Government agency coupons, held pending shipment, for which the depositor has been paid and the Treasury or the agency has been charged.

Suspense or Holdover - Report the face amount of all Treasury and Government agency coupons that have not been paid or are not yet eligible to be paid.

Miscellaneous Cash Items - Report the face amount of all agency coupons held pending shipment, payable through accounts maintained at FRB New York for which the depositor has been paid and the miscellaneous cash items account (the Government sponsored agency accounts - unclassified at New York) has been charged.

International Coupons:

Redeemed - Report the face amount of all coupons issued by international organizations, held pending shipment, for which the depositor has been paid and the international organizations have been charged.

Suspense or Holdover - Report the face amount of all coupons issued by international organizations that have not been paid or that are not yet eligible to be paid.

Coupons Detached from Safekeeping Holdings - Report the face value of all corporate and municipal coupons that have been detached from securities held in safekeeping and are being prepared for or being held pending shipment. At each Reserve Bank's option, two sub-accounts may be maintained internally: unverified coupons and verified coupons.

Coupons Clipped from Unissued Agency Stock - Report the face value of all coupons that have been detached from unissued U.S. Government agency and international organizations stock that are being prepared for or being held pending shipment. At the Reserve Bank's option, two sub-accounts may be maintained internally: unverified coupons and verified coupons. Holdings in this account should be reported by the New York Reserve Bank only.

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CHAPTER 3
PROPERTY AND EQUIPMENT

30.01 - General. This chapter discusses property and equipment accounts. These accounts consist of the five accounts listed in the Bank Premises section of the FR 34 balance sheet, the Furniture and Equipment account and its related allowance for depreciation account, and the Other Real Estate account listed in the Other Assets section of the FR-34. This chapter also gives instructions concerning leasehold improvements and software which are discussed in Deferred Charges (see also paragraph 4.20).

Property and equipment, also referred to as fixed assets, are used in the production and distribution of services by all Federal Reserve Banks. Fixed assets have three primary characteristics:

1. Acquired and held for use in operations, (i.e., not held for sale).
2. Long-term in nature (greater than 1 year) and
3. Possess physical substance.

Generally Accepted Accounting Principles (GAAP) generally require fixed assets to be recorded at their cost, including all normal expenditures to bring the asset to a location and condition for its intended use.

The capitalized cost of an asset is written off periodically, or depreciated, in a manner that is systematic and rational after consideration of any salvage values (see paragraph 30.75). Allocating the cost of a long-lived asset over the accounting periods which the asset is used matches its cost with revenue generated throughout its useful life. The Federal Reserve System uses the straight-line method for depreciating fixed assets.

Most assets should be capitalized using the individual asset method. An alternate method of capitalization, the pooled method, must be used when capitalizing Furniture/Furnishings/Fixtures. The pooled method may be used, at the Reserve Bank's option, when Board FRB Financial Accounting staff has approved capitalizing a bulk purchase of low-cost equipment. The pooled asset method is described in paragraphs 30.46 and 30.55-30.58. All other paragraphs relate to individual asset accounting. The useful lives and capitalization thresholds discussed in the following paragraphs reflect minimum accounting requirements for Reserve Banks. Based on local experience or practice, Reserve Banks may establish policies authorizing shorter useful lives or lower capitalization thresholds. Such policies must be in writing, applied consistently within the District, and provided as information to the FRB Financial Accounting Section of the Board's RBOPS Division.

30.05 Historical Information. The accounting rules for capitalizing and depreciating property and equipment have remained the same over the years with only minor departures for special circumstances. Prior to 1922, for example, several offices were authorized to charge larger amounts of depreciation against earnings because of inflated construction costs during and after World War I, and in 1922 FRB-Minneapolis was authorized to write off $500,000 to reduce the book value of its quarters to the approximate market value.

Beginning in 1995, the Federal Reserve Banks began recognizing impairment losses consistent with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (FAS 121), which was superseded by FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets in August 2001. Accordingly, write-downs of property and equipment will occur periodically as a result of adjusting assets to their estimated fair values (see 30.95).

Accounting for Asset Retirement Obligations (FAS 143), as interpreted by FIN 47, requires recording an asset and related liability for conditional asset retirement obligations, such as the legal requirement to remediate environmental hazards in land and buildings (for example, asbestos). Application of these standards can be complex, and Reserve Bank staff must consult with the FRB Financial Accounting Section of the Board's RBOPS Division prior to making any accounting entries.

30.06 - Publication of Property and Equipment Information. Property and equipment information is published weekly, monthly and annually in various publications as described in paragraphs .40 and .50. A detailed table showing costs and net book values, by office, for land, buildings, building machinery and equipment, construction and other real estate also appears in the Board's Annual Report.

30.10 - Land. This account includes all expenditures to acquire a site (such as purchase price, closing costs, and attorney/recording fees), and costs to prepare a site for construction (such as the removal of existing structures, draining, filling, and clearing).[1] The account should

[1] Accounting for any environmental remediation costs must be determined in consultation with FRB Financial Accounting Section of the Board's RBOPS Division.

be debited when property is purchased for immediate Bank use or when a property that was previously carried in Other Real Estate is approved for construction. Land is carried on the Reserve Bank's books at cost and is not depreciated.

If the property includes a building or other structure which is intended to be used for banking purposes, the portion to be charged to Land should be based on the assigned value in the purchase document or, in the absence of such specific information, on the appraised value. When appraised values are used and are different from the purchase price, the cost should be distributed on a pro-rata basis in the same proportion as the value of Land, Building, and Building Machinery and Equipment bears to total appraised value.

If the purchased property includes a building or other structure, which is to be razed, the entire purchase price should be allocated to the account. The cost of removing such structures should be charged to the account and the proceeds from the sale of salvaged materials should be credited. Incidental costs of demolishing the building (such as liability insurance, measures taken to maintain adjacent property during operation, reinforcement of walls of adjacent buildings, other repairs made for safety, and reconnection or construction of sewers) should also be included in this account.

30.15 - Land Improvements. The Land Improvements account is used to record costs incurred for capital land improvements which have limited lives (e.g., sidewalks, fountains, and fences). Land improvements that cost $100,000 or more must be capitalized. The Land Improvements account is reported as a sub-account to Land. The allowance for depreciation for land improvements is reported as a sub-account to the bank premises allowance for depreciation.

The cost of each improvement should be recorded in a subsidiary ledger within the Land Improvements sub-account and depreciated over its own unique estimated useful life. Depreciation is recorded by debiting depreciation expense and crediting Accumulated Depreciation for Land Improvements. The maximum useful life for land improvements is 20 years.

30.20 - Building. This account is used to record costs of acquiring or constructing a building to be used by the Bank. The cost of a building should include all expenditures related directly to its acquisition or construction. Generally, all costs incurred beginning with excavation through completion of construction, are considered part of the building costs. The cost of the building should not include the cost of land, land improvements, or fixed machinery and equipment.

This account should be charged when a building is purchased for immediate Bank use or when the Construction account is closed upon completion of a project. Thereafter, only major alterations, renovations and improvements may be added to the capitalized cost of the building.[2] Building improvements must be capitalized if the cost is $100,000 or more, and if the improvements meet the capitalization criteria defined in section 30.70.

Such major improvements should be recorded and depreciated individually in the Bank's subsidiary records. The account should be credited only when the building or major improvement is sold, demolished, or otherwise retired, such as by transfer to the Other Real Estate account.

Projects such as repairing, painting or refurbishing should be charged to expense unless they meet the capitalization tests for improvements as defined in section 30.70. The maximum useful life of a building is 50 years. Improvements should be assigned unique useful lives, not to exceed 50 years.

30.25 - Building Machinery and Equipment. This account comprises stand-alone or supplemental equipment with a shorter expected life than the building but that would remain as part of a building upon its sale or abandonment by the Reserve Bank. The account should be debited when a building is purchased or when the Construction account is closed out upon completion of a project. The account should be credited when the equipment is disposed of, or when the building to which it pertains is sold or transferred to the Other Real Estate account. Subsequent purchases or capitalizable improvements to building machinery and equipment will be recorded by increasing the Building Machinery and Equipment asset account (see section 30.70). Building machinery must be capitalized if the cost is $50,000 or more and meets the capitalization criteria defined in section 30.70.

When property is purchased for immediate use, the estimated amount of machinery and equipment that is included in the building should also be included in this account. If the purchased property includes building machinery and equipment which is to be dismantled, the proportionate cost allocable to such machinery and equipment should be charged to the asset

[2] Accounting for any environmental remediation costs, such as asbestos abatement should be determined in consultation with FRB Financial Accounting Section of the Board's RBOPS Division.

account Land. If the building or other structures are to be held for future Bank use, no allocation will be necessary since the entire cost of the property will be charged to Other Real Estate. The maximum useful life of building machinery and equipment is 20 years. Improvements may be assigned unique useful lives, not to exceed 20 years.

30.30 - Construction Account. This account is used to accumulate all capitalizable costs relating to a building or renovation project, and is closed out following completion of the project. This account should be charged for all costs of a new building, the purchase price of a building to be held for future use pending renovation, and all renovation and improvement costs. Receipts from the sale for such items as scrap or recoveries of building costs for such items as change orders and insurance should be deducted from the amount of the project to be capitalized.

Upon completion of a given project, amounts that were accumulated in this account should be analyzed and capitalized in accordance with the provisions contained in this chapter. Construction projects should be capitalized in a timely fashion (i.e. when the project is substantially complete) and, if necessary, in portions. Resolution of punch list items and billing disputes should not delay capitalization unless their nature is so significant that the asset(s) are rendered virtually unusable until resolution. Reserve Banks may capitalize and depreciate salaries of employees directly engaged in construction projects if they are performing functions that an outside contractor or consultant would be retained to perform if the internal staff were not available or did not have the necessary expertise. Personnel costs associated with management oversight should not be capitalized if they are of an administrative nature. See 30.40 for examples of capitalized items.

As costs are incurred, they should be analyzed for propriety as capital costs related to the project. Expense items should not be carried in this account except as necessary when commingled with other costs. When such expense items are finally determined, they should normally be applied to the current year's expenses. Similarly, costs related to building and construction projects, such as consulting fees and survey costs, that have not been and are not likely to be approved by the Board in the near future should be expensed when incurred, rather than included in this account.

30.40 - Examples of Classification of Capitalized Bank Premises Assets. The following are examples of disbursements, which are to be capitalized as land, land improvements, building, and machinery and equipment. The list is intended to suggest the scope of the Bank Premises accounts and is not exhaustive.

LAND	
Amount paid to vendor Back taxes (not paid before acquisition) 1/ Clearing Commissions (real estate) Cost of options and appraisals Demolition Earth work Environmental remediation 2/ Internal Revenue stamps Legal expenses Outdoor landscaping - new building or significant redesign of the land	Permits Recording deed and lease Relocation costs (paid to or for tenants requested to vacate) Site drainage Soil treatment Subsurface exploration Title examination Unexpired leases Utility relocations
LAND IMPROVEMENTS	
Built-in concrete benches and planters Fences and gates Flag poles Fountains, pools, and monuments Irrigation systems	Other site improvements (retaining walls, stationary bollards) Parking lots Plazas and patios Sidewalks, curbs, pavers, and handrails Site lighting
BUILDING	
All permanent and demountable partitions (except freestanding) Architects and consultants fees Book and record vaults Brick, marble, limestone and granite cut stone work foundation Builders' risk and other insurance Built-in fire protection equipment (e.g. sprinkler systems) Built-in loading dock equipment Built-in maintenance systems Built-in shooting range equipment Built-in window treatments Built-in window washing equipment Casework (built-in furniture) Ceiling and support systems Cement or metal floors and stairs Damp proofing and water proofing Ducts, conduits, cables, wiring and power points for building machinery and equipment Electrical wiring Elevator shafts Environmental remediation 2/ Excavation Finished hardware Fire and storm doors Floor and roof construction (incl structural and raised) Foundation systems (piles, walls, piers, and footings) Fuel connections	Hoist Indoor built-in artwork Indoor built-in landscaping 3/ Licenses and permits Lighting fixtures Mail chutes and conveyors Mill work and dimension lumber Moving stairs and walks Parking garages/structures Permanent flooring (including initial installation of carpeting in building) Plastering Plumbing Reinforced concrete work Rolled steel doors Sanitation/sewer lines Sheet metal work Sky lights Structural steel work Temporary construction fencing Temporary utilities and facilities during construction Restroom and bath accessories Vapor barriers and insulation Vaults including racks and files, doors and day gates Walls and wall systems (incl studs) Windows
BUILDING MACHINERY AND EQUIPMENT 4/ (Excluding the Ducts, Cables, Wiring, Conduits and Power Points)	
Heating and Air Conditioning Equipment	
Boilers Commissioning (<u>testing of all HVAC equipment)</u> Compressors and fans	Cooling towers, chillers, and water tanks Environmental control consoles Heating, ventilating and air handling equipment Pumps
Electrical and Mechanical Equipment	
Dynamos and stationary electric motors Electrical panels and transformers Non-portable uninterrupted power sources (UPS) Non-portable power-distribution units (PDU)	Elevators Pumps Switchgear and generators
Kitchen and Dining Room Equipment	
Built-in dishwashers Built-in hoods and vents Built-in stoves and ovens Built-in grilles	Built-in, walk-in freezers and refrigerators Steam tables and serving line equipment Built-in dispensing equipment Built-in ice makers Built-in pizza ovens
Other Equipment	
Audio/visual equipment Cash residue equipment Surveillance and protection equipment (excluding TV cameras and monitors)	Parking equipment Retractable bollards and moveable gates

1/ Amounts paid after acquisition should be expensed.

2/ Reserve Banks must consult with the FRB Financial Accounting Section of the Board’s RBOPS Division to determine if capitalization is appropriate.

3/ When landscaping involves the roof of a secure wing and the roof of the space below plaza ground level these landscape costs should be prorated between building and land improvements.

4/ Initial installation costs of equipment may be recorded as a building cost if not readily identifiable in billing of construction costs.

30.45 - Furniture and equipment. Furniture and equipment includes computing equipment, automotive equipment, furniture/furnishings/fixtures, operating equipment, and artwork.

30.46 - Methods of Capitalization - Furniture and Equipment. Two accounting methods are followed in capitalizing and depreciating these assets--the "individual asset" method (as is used for all other asset categories) and the "pooled asset" method.

Assets, regardless of cost, classified as Furniture/Furnishings/Fixtures must be capitalized and depreciated using the pooled asset method. In addition to purchased furniture, a Reserve Bank may, at its option, capitalize and depreciate salaries and the outside cost of materials that are consumed in the construction of furniture and equipment by Reserve Bank personnel. These costs are also capitalized and depreciated using the pooled asset method.

Equipment with a cost of $5,000 or more must be capitalized using the individual asset method. Equipment with a purchase cost below $5,000 should be expensed. Bulk purchases of equipment that individually costs less than $5,000 but represent significant capital outlays may be capitalized at the option of the Reserve Bank, following discussion with and approval by Board FRB Financial Accounting staff.

The pooled asset method of capitalizing, depreciating, and handling improvements is discussed in paragraphs 30.55-30.58. All other paragraphs in this chapter relate to the individual asset accounting method. Maximum useful lives for furniture and equipment asset groupings under both the individual asset and pooled asset method are found in table 30.78.

30.50 - Equipment. Equipment (with the exception of those items that are pooled) should be capitalized on an individual item basis and recorded within the appropriate asset account. This account should be charged for the full acquisition cost of items and care should be taken to ensure asset and liability accounts are properly reflected at the time the asset is received. Full acquisition cost includes all expenditures necessary to bring the asset to a location and condition in which it is usable for the purpose intended. Included in the acquisition cost, therefore, would be such items as follows:

- installation costs
- assembly
- freight
- warehousing

- insurance
- taxes

Installation costs should include external costs of services such as consultants who are contracted to work on the installation project, and salary and related benefits of staff and travel expenses incurred by staff or consultants who are directly involved with the installation project. Integration costs that are related to the installation of equipment should also be capitalized. Capitalized installation costs of equipment should include the cost of initial programming if 1) the cost is included in and is indistinguishable from the price of the purchased equipment, and 2) the programming is an integral part of the equipment and is not the type that could be performed in-house, and 3) there is no readily determinable fair value for the software. Internal use computer software with an acquisition cost of $100,000 or greater should be capitalized as a deferred charge (see paragraph 4.20 for further information).

Full acquisition cost should also include trade-in allowances (i.e., the amount capitalized when an asset is traded-in for a new asset should equal the cash outlay for the new asset plus the lesser of 1) the net book value of the asset traded-in or 2) the allowance provided for the trade-in). Further information on trade-ins is found in paragraph 30.90.

30.55 - Pooled Asset Method. The pooled asset method is used to account for furniture, furnishings, and fixtures. Pooling allows small dollar/large quantity assets to be appropriately reflected on the financial statements without imposing the unnecessary administrative burden of tracking each asset individually. Under the pooled asset accounting concept, no individual item has a recorded and separately identifiable book value. Rather, it is the group (pool) account that carries a book value. Accordingly, as will be noted from the following instructions, once a pool account has been established, the amount in the pool account remains unchanged for as long as the pool account remains in existence (until it is fully depreciated).

All purchases handled under the pooled asset method are to be capitalized into pooled accounts at full acquisition cost, including, where applicable, such items as outside installation costs, furniture assembly, freight charges, warehousing, insurance, and taxes. Each calendar year will be considered as a separate pool and all purchases made within a given calendar year will be considered a part of that pool account.

If a Reserve Bank has been granted approval to capitalize a particular bulk purchase of low-cost equipment, that purchase will be handled similarly to pooled assets, in that the items will not be individually tracked or have separately identifiable book values.

30.56 - Pooled Asset Depreciation. Depreciation will be calculated monthly on the gross amount of each pool account, using the "straight-line method." Depreciation on each furniture pool account will begin in the first month following the end of the pool year (calendar year). Guidelines on useful lives of pooled assets are found in table 30.78. Depreciation will continue until the allowance for depreciation equals the amount of the pool account, at which time the pool account will be credited and the related allowance for depreciation will be debited for the amount of the pool account (effectively removing these accounts from the balance sheet).

30.57 - Pooled Improvements (or Betterments). The costs paid to an outside vendor for significant improvements or betterments made to furniture, furnishings, and fixtures will be capitalized. When such expenditures are made, the amount will be added or capitalized in the appropriate pooled asset account for the year in which the expenditures are made. Such capitalized improvement or betterment costs will be treated as a purchase made during the year and will be depreciated, along with the other purchased assets in the pool, over the life of that particular pool account.

30.58 - Disposals and Trade-ins of Pooled Asset Items. The following is the treatment to be used when any item carried in a pooled asset account is (a) sold, the salvage received from the sale should be credited against the appropriate current year pool; (b) traded in on a new item which also is to be carried in a pooled asset account, the appropriate pooled asset account for the current year is to be debited with the net purchase price (full acquisition cost less trade-in) of the new asset. If the new item (for which the pooled item was traded in) will not be pooled, it should be expensed at the net purchase price; (c) lost, stolen or junked, with no salvage or trade-in value received, no entries are to be made for Balance Sheet accounting and reporting purposes.

30.60 - Examples of Classification of Capitalized Furniture and Equipment Assets. The following are examples of expenditures that are to be capitalized as furniture and equipment. The list is intended to suggest the scope of the furniture and equipment accounts, and is not exhaustive.

<table>
<tr><th colspan="2">FURNITURE AND EQUIPMENT</th></tr>
<tr><td>Equipment:
Computing Equipment: (if > $5,000 or bulk purchased with approval)
Computers
Desktops and laptops
Network
  routers
  switches
  wireless equipment
Peripheral equipment
 associated initial stockage of telephones (capitalized after 1/1/1985)
  CBX/PBX telephone systems
  check reader/sorters
  collators
  consoles (not consoles described in 30.41)
  disc drives
  fax machines
  file and printer servers
  magnetic tape terminals
  mass storage units (network attached storage (NAS))
  optical character readers
  printers
  remote job entry terminals
  removable disc packs
  scanners
  storage area network (SAN)
  tape drives / tape back-up systems
  terminal controllers
  visual display terminals
Security
  intrusion detection/prevention systems
  PKI, identity, and authentication systems
Servers
 portable uninterrupted power sources (UPS)
Telecommunications Systems (e.g. Private Branch Exchange (PBX)), Automated Call Distribution (ACD)
  video conferencing equipment</td>
<td>Operating Equipment:
<u>Operating Equipment</u>: Includes incinerators, built-in and operationally dedicated material handling and conveying systems, operationally dedicated high-density filing systems, lobby exhibits (incl. A/V, lighting, built-in displays), mechanical devices such as folding machines, photocopiers, coin and currency counting and sorting machines, including high-speed equipment, currency shredding equipment, fork lift trucks, internal currency and coin transport systems, TV surveillance cameras and monitors.

<u>Building Maintenance Equipment</u>: Includes vacuum cleaner, waxing machines, sanding machines, portable trash compactors, etc.

<u>Shop Equipment:</u> Includes drill presses, lathes, electric saws, etc.

<u>Kitchen and Dining Facilities Equipment</u>: Includes refrigerators (other than built-in, walk-in refrigerators and freezers), cash registers, microwaves, vending machines etc.

<u>Medical Services Equipment</u>: Includes sterilizers, sunlamps, scales, hospital beds, stretchers, etc.

<u>Audio-visual Equipment</u>: Includes video equipment, cameras, projectors and screens, sound systems, speakers etc.

<u>Protection Equipment</u>: Biometric devices, access control devices, MAG locks, magnetrometers, x-ray machines etc.</td></tr>
<tr><td>Automotive Equipment:
  Automobiles
  Tractors
  Trucks</td>
<td>Artwork: Includes moveable original works of art created by professional artists. Includes paintings, outdoor artwork (statuary), statues and graphics. Does not include framed poster art.</td></tr>
<tr><td>Furniture, Furnishings and Fixtures:
<u>Furniture</u>: Includes desks, chairs, credenzas, book cases, cabinets, tables, lamps, files (except operationally dedicated high-density filing systems), lockers, stools, initial stockage of cafeteria tableware and dishes, etc.

<u>Furnishings and Fixtures</u>: Includes carpet tiles, window treatments, freestanding partitions and cubicle components (such as shelves, work surfaces, cabinets, and file drawers).</td>
<td></td></tr>
</table>

<u>30.70 - Expenditures to Existing Buildings and Equipment</u>. Expenditures to existing buildings and equipment consist of the cost of additions, improvements and major replacements to an asset (see descriptions below). These expenditures should be analyzed to determine if they should be capitalized or charged to expense in the current accounting period. Expenditures to

existing assets that meet the capitalization threshold of the Reserve Bank for similar assets are considered capitalizable if at least one of the following criteria is met:

1. The useful life of the existing asset is increased by more than one year.
2. The quantity of output or operating efficiency of the asset is significantly increased.
3. The quality of output is significantly increased.

Repairs and maintenance costs incurred to maintain an asset at its current level of operation are not capitalizable and should be charged to expense.

The cost incurred for any asset (other than PCs) that does not meet the criteria described above or the capitalization threshold of the Reserve Bank for similar assets, and the outside cost of normal repairs and maintenance required to maintain those assets in proper condition should be expensed in the period incurred.

ADDITIONS:

Additions are increases to, or extensions of, an existing building. Additions that meet one or more of the criteria described above should be recorded in a separate subsidiary account of the Buildings account and generally depreciated over the remaining life of the principal asset. If the addition is considered to have an independent service life of its own, depreciation is accrued over the new service life.

IMPROVEMENTS:

Improvements (or betterments) represent major modifications of an existing asset such as major renovations to an existing building or overhaul to equipment that will significantly increase its efficiency. Demolition costs resulting from the improvements of internal structures such as walls or flooring are also considered part of the improvement.

Improvements made to buildings or equipment that meet one or more of the criteria described above should be recorded separately in the appropriate subsidiary account. These improvements should be depreciated over the remaining life of the principal asset. If the improvement is made to a building and is considered to have an independent service life of its own, depreciation is taken over its own service life. When conducting floor renovations, Reserve Banks should look to their historical renovation trends to determine if the renovation should be given a unique useful life. For example, if the Reserve Bank has a history of renovating floors every ten years, a useful life of ten years would most likely be assigned to a current renovation. However, if floor renovations are rare, or no particular trend emerges in the frequency of the renovation, a Reserve Bank may consider assigning the remaining useful life of the building as the useful life of its current renovation. Improvements that replace assets with a separately distinguishable book value should be treated as a replacement (see replacement requirements below). See paragraphs 30.85-30.87 for the appropriate treatment of leasehold and tenant improvements.

The cost of improvements made to equipment that meets one of the criteria described above should be debited to the appropriate asset account. The depreciation rate for the asset should be recalculated based on the new estimated useful life, net book value, and salvage value of the asset. The revised depreciation charges should begin in the first month following final payment, or when the asset is placed in service, whichever occurs first.

The accounting for costs associated with improvements made to computer equipment should be capitalized if the improvement meets the $5,000 capitalization threshold of individual assets and the improvements are tangible. To illustrate, assume that a two-year old computer is initially purchased for $l,000,000 and the expected useful life is set at six years. At the end of four years, an improvement is made for $300,000 which is considered tangible and is expected to extend the useful life two years beyond the original useful life period (four years from the time of the improvement) and increase the salvage value $30,000. Initially, the computer was being depreciated at $150,000 per year to a salvage value of $100,000. After the improvement, it would be depreciated at $142,500 per year to a salvage value of $130,000. An equipment improvement that can function independently of the underlying asset (for example, a storage array added to a server that can be moved to another server if needed) should be capitalized as a separate asset with a unique useful life. If the improvement cannot function independently of the underlying asset, the costs associated with the improvement should be depreciated over the remaining useful life of the original underlying asset.

REPLACEMENTS:

A replacement is a substitution of an existing asset by a new asset. Replacements should be capitalized if they meet one of the criteria discussed above. Replacements should be accounted for under the substitution approach which requires the net book value of the old asset to be calculated and removed from the books. The net book value of the old asset is charged to current expense. The new asset should be depreciated over its own useful life.

30.71 – Capitalization Thresholds. For an outlay to be capitalized, it should be material in value. For purposes of recognizing long-term physical assets, materiality is defined as equal to or greater than established capitalization thresholds. Table 30.72 provides the capitalization thresholds for the types of assets described in this chapter. The thresholds stated in the table represent the lower limit above which these transactions must be capitalized. A Reserve Bank has the option to implement more stringent (lower) thresholds if it deems such a policy preferable. If a more stringent threshold is used, the Reserve Bank must consistently apply the threshold throughout the District (i.e., the head office and Branches must all use the same capitalization thresholds for all asset classes.) Such policy must be documented and provided as information to the FRB Financial Accounting Section of the Board's RBOPS Division.

Table 30.72 – Capitalization Thresholds.

ASSET CLASSIFICATION	CAPITALIZATION THRESHOLDS (Individual Assets)
Land	All acquisitions
Land Improvements	$100,000
Building and Improvements	$100,000
Building Machinery & Equipment	$50,000
Equipment and Improvements	$5,000
Furniture, Furnishings, and Fixtures	All using the pooled asset method (see 30.46).
Externally-Purchased Software	$25,000
Internally-Developed or Significantly Modified Software	$100,000
Leasehold Improvements	$25,000
Tenant Improvements	$25,000

30.75 - Depreciation. Depreciation is defined as the accounting process of allocating the cost of tangible assets to current expense in a systematic and rational manner in those periods expected to benefit from the use of the asset. Depreciation is an occupancy or usage cost and, therefore, should begin when a building is occupied, when an improvement is complete, or the month following the date equipment is placed into production. When constructing a building, if it is occupied prior to the closing of the Construction account, depreciation should be estimated as closely as possible and applied to current expense effective in the month in which at least 50 percent of the Reserve Bank's staff is operating from the new quarters. Any adjustments for over or under estimates of depreciation, as may be determined when the Construction account is closed and final figures for Building and Building Machinery and Equipment are capitalized, should be adjusted to current expense in the current month.

For all assets reported on the balance sheet, depreciation is recorded by debiting current expense and crediting the related allowance for depreciation on the balance sheet. Thus, the amount of accumulated depreciation reported on the balance sheet represents the sum of the individual depreciation charges accrued on each asset recorded in the subsidiary accounts of the Bank.

Assets are depreciated on a straight-line basis. The depreciable basis of an asset is its acquisition cost less its estimated salvage value. The formula for calculating the straight-line method of depreciation is as follows:

Cost less Salvage Value/Estimated Useful Life (in months) = Monthly Depreciation Charge

Depreciation should continue until the asset is fully depreciated or disposed of. At the end of an asset's estimated useful life, the asset's net book value should equal its salvage value and depreciation should be discontinued. The asset and related allowance for depreciation should not be removed from the balance sheet until the asset is retired/disposed of, even if the net book value of the asset is zero.

Appropriate subsidiary records, reflecting the original acquisition cost, the cost of any improvements, and allowance for depreciation balance should be maintained in all cases. Land, artwork, and assets held for sale or future use are not depreciated.

30.76 - Depreciation Rate and Salvage Value. Table 30.78 provides information for establishing useful lives and salvage values for the types of assets described within this chapter. Similar assets, within an asset category, that have the same useful lives may be grouped for depreciation purposes, as long as memorandum records are maintained detailing the original charges to the account by piece of equipment. It should be noted that Table 30.78 provides parameters within which the Reserve Bank may determine the appropriate depreciation schedule for assets. It should not be viewed as an indication of rates that are automatically to be assigned to new or used equipment. If a Reserve Bank has a special case where the documented useful life or salvage value of an asset exceeds the guidelines set forth, a request, with substantiating documentation, should be sent to the Manager of the FRB Financial Accounting Section of the Board’s RBOPS Division for review and approval. A Reserve Bank may utilize a lesser useful life or salvage value than the guidelines listed without Board notification with the exception of the bank building (excluding improvements).

The depreciation rate should be based on the expected unique useful life to the Reserve Bank, taking into account such factors as probable technological obsolescence and projected capacity limitations consistent with the Bank’s long-range procurement plans, industry information, and improvements. The salvage value assigned to an asset should reflect the Reserve Bank's expected recovery upon sale or trade-in of the asset. Assessments of the useful life and salvage value of all assets, excluding building but including Building Improvements, and Building Machinery and Equipment should be reviewed annually, at a minimum. Should the Reserve Bank note a change in the expected remaining useful life or salvage value of the asset, the depreciation rate should be adjusted prospectively such that the remaining net book value is depreciated to the estimated salvage value over the expected remaining useful life of the asset.

<u>Table 30.78 - Maximum Useful Lives and Salvage Values</u>.

ASSET CLASSIFICATION	MAXIMUM ESTIMATED USEFUL LIFE (Individual Asset)*	MAX. EST. USEFUL LIFE (POOLED)	MAXIMUM EST. SALVAGE VALUE
Land Improvements	20 years	N/A	0
Building and Improvements	Building -50 years Improvements - Unique life or remaining life of building	N/A	0
Building Machinery & Equip.	20 years	N/A	0
Equipment: **Computing equip. (other than PCs)**	As determined by Reserve Bank- see 30.76	N/A	(See 30.76)
Processing and office equipment	6 years		10 percent
PCs	3 years for standard technology; 4 years for state-of-the-art technology.		0
Automotive Equipment (including vans & minivans)	3 years	N/A	20 percent
Furniture, Furnishings and Fixtures	N/A	10 years	0
Software	5 Years	N/A	0
Leasehold and Tenant Improvements	Shorter of the unique life of the improvement or the remaining life of the lease	N/A	0

* The Division of Reserve Bank Operations and Payment Systems has assigned specific maximum estimated useful lives to the following assets:

<u>Ten (10) year useful life, zero salvage value:</u> Unisys check processing equipment.

<u>Fifteen (15) year useful life</u>: 1) High speed currency equipment, currency disintegrators and incinerators, and high density filing systems. 2) Offset printing presses.

<u>Twenty (20) year estimated useful life:</u> (1) Uninterruptable power systems. (2) Materials handling systems. (See 30.46)

Note: Peripheral equipment that is expected to have the same useful life as a mainframe computer should be depreciated over the life of the mainframe. However, if the useful life of such equipment is projected to be different from that of the computer, the equipment may be depreciated over a different period provided the equipment is not dedicated to, or an integral part of, the mainframe.

30.80 - Capitalized Lease. A lease that is entered into that transfers substantially all the benefits and risks of ownership of property to the Reserve Bank should be accounted for as the acquisition of an asset and the incurrence of an obligation.

The Financial Accounting Standards Board (FASB) Statement No. 13 establishes that leases which meet any one of the following four criteria at the inception of the lease should be classified as a capital lease:

1) The lease transfers ownership of the property to the lessee by the end of the lease term.

2) The lease contains a bargain purchase option. This is a provision that allows the lessee to purchase the leased property for a price sufficiently lower than the expected fair value of the property and the exercise of which appears reasonably assured.

3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. The estimated economic life is the estimated remaining period during which the property is expected to be economically usable for the purpose for which it was intended at the inception of the lease. This criterion should not be used if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

4) The present value of lease payments equals or exceeds 90 percent of the excess of fair value of the leased property over any related investment tax credit retained by the lessor. This criterion should not be used if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

To justify the additional time and expense of capitalizing a lease, the materiality test to apply is that the leased asset value equals or exceeds $100,000. If the lease has been determined to meet any one of the four criteria above and has passed the materiality test, the transaction should be treated as the acquisition of a capital asset. If the lease meets either criterion 1 or 2 listed above, the asset should be depreciated as any similar capital asset would be, otherwise, the asset should be depreciated over the lease term. The amount capitalized should be equal to the lesser of the current fair market value of the asset or the present value of the lease payments and the payment called for by the bargain purchase option (if any). The present value of the lease payments should be calculated using the current Treasury borrowing rate for a term comparable to the lease term unless the interest rate implicit in the lease, as computed by the lessor, is both readily determinable and less than the current Treasury borrowing rate. At the time of capitalization, a liability in the *Sundry Items Payable* account (see paragraph 11.70) should be recorded for the capitalized value of the lease. Additionally, a portion of each lease payment should be treated as interest expense at the time each payment is made such that a constant periodic rate of interest is in effect over the life of the lease. The interest rate used should be the same as that used in determining the present value of the lease payments.

In order to maintain proper accountability for capitalized leases, separate subsidiary accounts under the appropriate asset and liability categories should be established. Potential capital leases with lease payments over the lease term in excess of $500,000 along with the proposed accounting treatment should be sent to the FRB Financial Accounting Section of the Board's RBOPS Division for review.

For the purposes of this paragraph, the lease term is defined as the fixed non-cancelable term of the lease. The lease term should include any periods covered by bargain renewal options but should not include standard renewal periods. The lease term should also include the entire period up to the time a bargain purchase option becomes exercisable. See paragraph 30.86 for an example of how to determine the lease term or "known life of the lease."

Leases that do not meet any one of the four criteria listed above are accounted for as operating leases (see paragraph 1.24).

30.85 - Leasehold Improvements. Expenditures made in connection with the renovation or alteration of a major nature to space rented for Bank use should be capitalized. A leasehold improvement must be capitalized if the cost is $25,000 or more. The cost of minor repairs and maintenance involved in the upkeep of leased quarters should be charged to current expense. The term "renovations and alterations" as used here is intended to include the construction of any new building for Bank use on leased property where the title to the building passes to the owner of the land either upon completion of construction or termination of the lease agreement.

When the renovation or alteration of leased quarters is begun, a special subsidiary account entitled Deferred Charges--Leasehold Construction should be opened and the entire cost of the project should be charged thereto. Upon completion of the renovations or alterations, the account should be closed out and the total cost of the project transferred to Deferred Charges--Leaseholds. Both accounts are reported on FR 34 as deferred charges.

30.86 - Amortization of Leasehold Improvements. The amount charged to the Deferred Charges--Leasehold account should be amortized to current expense as rent over the known life of the lease. For purpose of this amortization, the "known life" of a lease is that period of time during which the Bank actually agrees to rent the property including periods covered by bargain renewal options but not including standard renewal periods. For example, if a Bank enters into an agreement to lease property for 5 years with a bargain renewal period after 2 years, the known life would be 7 years and the cost of the improvements would be amortized over that period. If, however, the 5 year rental period was followed up by a standard (rather than bargain) renewal period of 2 years, the known life and period of amortization would be 5 years. If either lease in the examples given above contained a cancellation clause that did not impose a significant penalty after a three-year period, rendering it essentially cancellable, the known life would be three years.

30.87 - Tenant Improvements. Significant expenditures associated with tenant improvements that are unique to the needs of the lessee should be accumulated in a subsidiary construction account until completion of the project. The expenditures should then be capitalized in one or more subsidiary accounts under the appropriate Bank premises asset. A tenant improvement must be capitalized if the cost is $25,000 or more. The reporting requirements are the same as the leasehold improvement instructions in paragraph 30.85. The amount charged to Bank premises as tenant improvements should be amortized to current expense as depreciation normally over the shorter of the useful life assigned to the asset class to which the improvement is capitalized, or the known life of the basic lease, but not longer than the original lease plus any renewal options. In the event that a tenant leaves before the expiration of the lease, any remaining unamortized amount should be charged to current expense as a loss on disposal of fixed assets.

30.90 - Disposals and Trade-ins. When disposing of assets (either voluntarily or involuntarily) the gross asset value and the related accumulated depreciation should be deducted from the appropriate asset account and from the allowance for depreciation account. Any difference between the net book value (gross asset value less accumulated depreciation) and the proceeds from a sale should be debited or credited to current expense. When an asset is traded in, if the net book value exceeds the trade-in allowance, that difference should be debited to current expense (i.e., the amount capitalized when an asset is traded in for a new asset should equal the cash outlay for the new asset plus the lesser of 1) the net book value of the asset traded-in or 2) the allowance provided for the trade in). When such an item is scrapped before it is fully depreciated, the remaining net book value will be debited to current expense. In the event equipment is sold by one Reserve Bank to another, any net difference between book value and selling price should be recorded as an increase or decrease to current expense on the books of the selling office. Any transfer of assets between offices of the same District should be made at book value. The receiving office should record the asset on a cost basis equal to the net book value.

30.95 - Asset Impairment. Consistent with FAS 144, assets should not be carried on the books at amounts significantly in excess of their fair values. Whenever major events or changes in operating circumstances indicate that the carrying amount of an asset may not be recoverable, an evaluation of the recorded carrying value of the associated asset should be performed to determine if a write-down due to impairment is needed. The following tests should be applied when such events or changes in circumstances occur or on an annual basis in the absence of such events or changes to determine if asset impairment is appropriate:

- A significant decrease in the fair value of an asset held for disposal.[3]
- A significant change in the extent or manner in which an asset is used or a significant physical change in an asset.
- A significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator.
- An accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset where these costs are not anticipated to be recoverable in the future.
- A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.
- A current expectation that it is "more likely than not" that the asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Impairment in value (whether partial or total) should be judged permanent and material before a write-down can occur. At the time an asset is judged to be materially and permanently impaired, a loss should be recognized. As a general rule, the loss associated with the impairment of Land, Building (in-service date prior to 1996), and Building Machinery and Equipment (BM&E), should be charged to Profit & Loss. The loss associated with impairments of Land Improvements, Building Improvements (in-service date after 1995), and Furniture and Equipment should be charged to Current Expense.[4] The offset should be recognized by reducing the book value of the asset through a credit to the asset account if the asset is held for use. The reduction in book value for impaired assets held for disposal should be credited to an asset

[3]This does not include assets that have been in production (and depreciated accordingly) and that will continue to be used throughout their useful life for the asset's intended purpose.

[4] FAM allows Reserve Banks to treat an addition (improvement/renovation) to a building as an independent asset and be depreciated using its own unique useful life if the addition is considered to have an independent service life of its own (see paragraph 30.70- Additions). Such an asset is referred as specialized improvement and the loss associated with the impairment of a specialized improvement is normally charged to expense. FAM was revised in 1996 to allow for specialized improvements.

valuation account. The valuation account may be adjusted for subsequent revisions in estimates of fair value less costs to sell, provided that the carrying amount of the asset does not exceed its original carrying value (prior to any impairment recognition). At the time the write-down is made, the useful life and salvage value of the impaired asset should be evaluated and adjusted accordingly.

All write-downs of impaired assets must be approved by the FRB Financial Accounting Section of the Board's RBOPS Division. Information such as the description of the asset, whether the asset will be written down or written-off, the reason for the impairment, and the proposed entries to account for the asset impairment should be provided along with the request for approval. The fair value of assets considered for impairment should be determined in accordance with FAS 157, Fair Value Measurements. A fair value measurement assumes that an asset is exchanged in an orderly transaction between market participants, and assumes the highest and best use of the asset. In determining the amount of an impairment, the fair value is not to be reduced for transaction costs such as incremental direct costs to sell the asset. For more detailed step-by-step instructions and guidance associated with asset impairment following FAS 144, refer also to the "FRB Accounting for Costs Associated with Restructuring 2003-2004" memo that can be found in the SOL: [redacted] When in SOL, go to the following section: System/Accounting and Financial Management/RBOPS FRB Financial Accounting/Accounting Guidance.

<u>30.96 - Other Real Estate.</u> This account should be debited upon acquisition of real estate to be held for future Bank use or when Bank property is vacated pending disposition. All costs associated with the purchase of real estate should be capitalized. Generally, buildings carried in this account should not be depreciated. When the site is approved for construction, Other real estate should be transferred to the appropriate Bank premises accounts (in most cases, Land).

In some cases, other real estate will include buildings with tenants. Income and expenses involved in operating buildings purchased after 1976 should be functioned through current expenses. If the real estate contains a building that will eventually be razed, depreciation should be discontinued upon acquisition.

The carrying amount of other real estate that is held for sale should not exceed its fair value. The carrying value of other real estate held for sale should be evaluated by the end of the calendar year, at a minimum, to determine if adjustments are necessary (see 30.95). This does not necessarily require an annual formal appraisal; however, valuation methodologies should be consistent.

<u>31.00 – Real Estate Reporting Requirements</u>. Paragraph 60.94 provides instructions for the preparation and submission of required accounting reports FR 612 and FR 892.

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CHAPTER 4
CENTRAL BANK UNIQUE ACCOUNTING

40.01 – General. The Federal Reserve Bank of New York (FRBNY) has been authorized by the FOMC to execute open-market transactions on behalf of the Reserve Banks. This chapter summarizes the unique and specific accounting policies followed by the FRBNY.

40.05 – Participated Accounts. The following accounts are those in which each Reserve Bank participates or has an undivided interest.

- Federal agency obligations bought outright
- U.S. Government securities bought outright
- Foreign Currencies
- Interest Accrued and Interest Payable -- includes fee income and interest accrued on securities lending
- Interest Income and Interest Expense
- Premium and Discount on securities
- Foreign deposits
- Reverse Repurchase Agreements
- Tri-party Repurchase Agreements

40.10 - Interest Earnings and Expense. Interest on securities is accrued daily. Because, as a general rule, SOMA securities are purchased before noon each day and sold before noon on the day of settlement, the majority of the daily interest earnings recognized pertains to the day of purchase rather than the day of sale. Accordingly, interest accruals and the amortization of premiums and discounts are recognized beginning on the day that a security is purchased and ending the day before the security matures or is sold.

40.20 - U.S. Government and Federal Agency Securities. These securities are held in the System Open Market Account (SOMA) at the FRBNY. Premiums and discounts are recorded separately and amortized (accreted) on a straight-line basis. Earnings are accrued daily to the interest accrued account (see 40.10). All realized gains and losses are determined by the specific identification method within fungible classifications. These assets and related income and the associated gains and losses are allocated to each Reserve Bank based on the Bank's designated share of the SOMA portfolio (see 40.40).

40.25 - U.S. Government Securities: Held Under Repurchase Agreements. The FRBNY is authorized by the FOMC to acquire U.S. Government securities under agreement with a dealer to repurchase the securities at an established point in time (securities purchased under agreements to resell). The FRBNY may engage in tri-party purchases of securities under agreements to resell ("tri-party agreements"). Tri-party agreements are conducted with two custodial banks that manage the clearing and settlement of collateral. Acceptable collateral under tri-party agreements is determined by the FOMC. The tri-party agreements are accounted for as financing transactions with the associated interest income accrued over the life of the agreements. The repurchase agreements generally consist entirely of agreements through third-party custodial arrangements.

40.30 - U.S. Government Securities: Reverse Repurchase Agreements (temporarily 240-050). In December 2002, the FRBNY replaced matched sale-purchase transactions with securities sold under agreements to repurchase. Securities sold under agreements to repurchase, unlike matched-sale purchase transactions, which were accounted for as separate sale and purchase transactions at an agreed upon rate at the commencement of the transaction, are treated as secured borrowing transactions with the associated interest expense recognized over the term of the transaction, generally overnight. The par values of securities that are sold under agreements to repurchase are deducted from the SOMA portfolio balance when calculating assets available for collateral for Federal Reserve notes. The contract amounts of securities sold under agreements to repurchase are temporarily being transmitted to the Board in the Unearned Discount account (see 11.60).

40.35 – Securities Lending. The FRBNY, on behalf of the Reserve Banks, may lend U.S. government securities held in the SOMA to securities dealers and to banks participating in U.S. government clearing arrangements. These securities-lending transactions are fully collateralized by other U.S. government securities and the collateral taken is in excess of the market value of the securities loaned. The FRBNY charges the participating dealer or bank a fee for borrowing securities.

40.40 - SOMA Participation. All domestic securities activity, with the exception of acceptances is allocated to each Reserve Bank on daily basis. Prior to February 2007, when the FOMC's authorization specified that activity related to tri-party repurchase agreements would be participated to all other Banks, the activity was reported only by

FRBNY. The allocation includes the portion of interest accrued and premium or discount. Gains and losses are allocated to each Bank based on holdings at the opening of business. Allocation is made on the basis of percentages that are derived from an annual settlement of interdistrict clearings and equalization of gold certificate holdings as explained below. The percentages that are used for allocating the account prescribed by the FOMC are calculated as follows:

> In April of each year the Board and the Markets Group at the Federal Reserve Bank of New York calculate the average daily balance on each Bank's Interdistrict Settlement account during the preceding 12 months. The average daily settlement account balance (plus or minus) is applied to each Bank's gold certificate account total.
>
> A calculation is then made of the amount each Bank should have in its gold certificate account to equal the System average of gold certificates to Federal Reserve notes outstanding. In this calculation, an amount is set aside in FRBNY's account to accommodate future gold sales by the U.S. Treasury..
>
> The adjustment that would be required in each Bank's gold certificate total is applied by the FRBNY against each Bank's holdings in the System Open Market Account. Thus, a desired decrease in a Bank's gold certificate account is achieved by increasing the Bank's holdings of securities.
>
> The resulting percentage of each Bank's participation in the System Account is used, until the next reallocation, as the basis for allocating the daily SOMA transactions.
>
> The following is a simplified illustration of the procedure that is performed each April: Assume that Reserve Bank A has gold certificates balance of 105, securities of 2,000, outstanding Federal Reserve notes of 2,000, and during the 12 months ending in March, its ISA settlement account averaged -5. The gold certificate total of all Banks combined is 10 percent of the combined Federal Reserve notes.
>
> 1. The ISA settlement account will be adjusted by debiting it for 5
> 2. The offset to the above ISA entry is to credit the gold certificate account for 5.
> 3. The gold certificate account will be adjusted to equal ten percent of the outstanding notes total (2,000 x 10% = 200), increasing the gold account by 100 (200 -100 = 100).
> 4. The offset to the final change to gold account (100) is deducted from the SOMA securities account (2,000 – 100 = 1,900).

	Gold		ISA		SOMA	
Balance	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
before the annual adj.	105			10	2,000	
1. ISA			5			
2. Gold		5				
3. Gold	100					
4. Securities						100
Balance after adj.	200		-	5	1,900	

<u>40.50 - Investments Denominated in Foreign Currency (170-100,-110)</u>. The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits and foreign government debt instruments denominated in foreign currencies with foreign central banks and the Bank for International Settlements (BIS). Balances result from market and off-market transactions for the purpose of stabilizing fluctuations in international flows and exchange values of various currencies and other needs specified by the FOMC. Foreign currency holdings are invested in so far as practicable, considering needs for

minimum working balances. This account includes the amortization of premiums and discounts and the accrual of interest. Each Reserve Bank is allocated a share of the foreign-currency-denominated assets, realized and unrealized gains and losses, and interest on the basis of its designated share of the total portfolio. Each Reserve Bank's share of the portfolio is determined based on the ratio of its capital and surplus to the total capital and surplus of all Federal Reserve Banks, as determined at the first of each year (see 3.85).

Investments denominated in foreign currencies are limited, by FOMC policy, to an average maturity of no more than eighteen months (calculated using the Macaulay duration) and are accounted for at cost on a settlement-date basis, adjusted for amortization of premiums and accretion of discounts using the straight line method. These investments are guaranteed as to principal and interest by the foreign governments, or are contracts with the foreign central banks or the BIS. Foreign-currency-denominated assets of the Reserve Banks are revalued daily at current market exchange rates in U.S. dollars, with any unrealized exchange gains or losses recognized in profit and loss. Interest income is recorded on the accrual basis. Gains and losses resulting from sales of securities are determined using the weighted average cost method.

<u>40.60 - Foreign Exchange (F/X) Swap</u>. This is a renewable, short-term reciprocal currency arrangement generally for up to one year, between two parties, the FRBNY, on behalf of the Reserve Banks, and an authorized foreign central bank, which mutually agree to exchange their currencies up to a prearranged maximum amount and for an agreed-upon period of time. These arrangements give the Federal Reserve temporary access to the foreign currencies that it needs to support its international operations, and gives the authorized foreign central bank temporary access to dollars.

The FRBNY will generally invest the foreign currency received under an F/X swap arrangement in interest-bearing instruments, and the interest income on these holdings is accrued and included in interest income on investments denominated in foreign currencies. Drawings under the F/X swap are structured so that the party initiating the transaction (drawer) bears the exchange rate risk upon maturity. Each day the swap commitments are revalued at current exchange rates and unrealized gains and losses on revaluation of the resulting foreign currency holdings are participated among the Reserve Banks with the offset to the exchange translation liability account on the books of the FRBNY.

<u>40.65 - Warehousing Agreement</u>. The FOMC has an agreement to "warehouse" foreign currencies for the U.S. Treasury and the Exchange Stabilization Fund (ESF). This is an arrangement under which the FOMC agrees to exchange, at the request of the

Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF for a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations. In general, this transaction is similar to the F/X swap; however, the parties are the Federal Reserve and the Treasury.

40.70 – Foreign Deposits. These deposits consist of non-interest bearing accounts held with the FRBNY by foreign central banks and governments for international settlement and other purposes. The portion of the balances estimated to be in excess of what is needed for current transactions is participated among the Reserve Banks on the basis of each Bank's capital and surplus. As a practical matter, foreign deposits are commonly invested overnight in reverse repurchase agreements conducted by the desk at the FRBNY.

40.75 – Euro Reverse Repurchase Agreements. The FRBNY, on behalf of the Reserve Banks, may enter into euro reverse repurchase agreements, under which foreign currencies are sold under agreements to repurchase. The maximum duration of a euro reverse repurchase agreement is 30 days, and SOMA pays interest at a specified interest rate. These transactions are treated as financing transactions where the currency received is treated as a liability and interest payable is accrued on a daily basis. Each Reserve Bank is allocated a share of the liability for euro reverse repurchase agreements, as well as the related accrued interest and interest expense, based on the foreign currencies allocation ratio (see 3.85).

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CHAPTER 5
FEDERAL RESERVE NOTES

50.01 - General. This chapter discusses special accounting and reporting procedures applicable to Federal Reserve notes. The Federal Reserve Act requires that Federal Reserve notes be issued to a Reserve Bank through the Federal Reserve Agent, or through an Assistant Federal Reserve Agent appointed by the Agent, upon pledge of adequate collateral security by the Bank. Until 1977 the local assistant agents held stocks of unissued notes as a source of supply for the cash departments and issued the notes to the Banks upon receipt of application for specific amounts. The procedure was changed beginning in 1978 and the local stocks were discontinued along with the need for the Reserve Banks to apply for specific amounts or to earmark specific collateral. As part of the new procedure the Federal Reserve Agents designated a member of the Board of Governors' staff in Washington as Assistant Federal Reserve Agent to control the issuance of notes and to monitor the adequacy of collateral that is pledged by each Bank under a continuing agreement. The agreement, executed by each Bank and Agent, results in the pledge of specified assets that the Bank may own at any time plus whatever amount may be required out of the Bank's other eligible assets, including its participation in U.S. Government and agency securities held in the System Open Market Account. The specified assets consist of the Bank's gold and SDR certificates, loans under Section 13 of the Federal Reserve Act, and assets acquired under the provisions of Section 14. In December 1990, the Board revised procedures for collateralizing FR notes, whereby assets denominated in foreign currencies that have been acquired under the provisions of Section 14 of the Federal Reserve Act may be pledged as collateral by the FR Agent or Assistant FR Agent in instances where other eligible assets are insufficient to secure Federal Reserve notes fully. In December 1999, the Federal Reserve Act was amended to broaden the range of discount window loans that may be used as collateral for Federal Reserve notes to include all loans to depository institutions. In October 2003, the Federal Reserve Act was further amended to allow all assets of the Federal Reserve Banks to be eligible as collateral for Federal Reserve notes and to specify that collateral is not required for currency held off-site on behalf of Federal Reserve Banks. A statement showing the amount of notes outstanding to each Bank, the notes requiring collateralization, and the various assets pledged as System collateral security is published weekly in the Board's H.4.1 release, and monthly in the Federal Reserve Bulletin.

50.05 - Denominations. Seven denominations of Federal Reserve notes are issued currently. Before 1963 the issuance was limited to denominations of $5 and up. The $1 notes were authorized in 1963 as a replacement for $l silver certificates that were being discontinued because of the need for silver coinage; $2's were authorized at the same time but were not printed and issued until 1976. Larger denominations ($500, $1,000, $5,000, and $10,000) were first authorized primarily for interbank transactions by an amendment to the Federal Reserve Act in 1918. With demand for them shrinking, printing of these denominations was discontinued in 1946. The remaining inventories were delivered to Treasury for destruction in 1969 when it was determined that transactions for which the notes had previously been used could be met by other means, such as checks or $100 notes. Currently, circulating large denomination notes received in the normal course of business are destroyed.

50.10 - Printing. The Director of the Bureau of Engraving and Printing, under the direction of the Secretary of the Treasury, is responsible for the printing of Federal Reserve notes. Each year the Board places a printing order with the Director of the Bureau of Engraving and Printing based on the estimated need for new currency and inventory requirements. Thereafter, the Bureau of Engraving and Printing prepares a printing schedule, a copy of which is distributed to each Bank, and delivers the notes daily to a special vault pending shipment.

50.20 - Shipments. The Board's Division of Reserve Bank Operations and Payment Systems arranges for the shipments of Federal Reserve notes from the Bureau of Engraving and Printing to Federal Reserve offices in amounts sufficient to maintain inventories at agreed upon levels. The notes are shipped from the Bureau in the most economical quantities that can be arranged, considering the following: the facilities and the rates of the carrier, the capacity of the Federal Reserve offices to handle the shipments, the amount of insurance that can be provided, the printing schedule and availability of new notes at the Bureau, and unusual circumstances that sometimes warrant special shipments (such as armored carrier and airline strikes or the servicing of Reserve Banks moving into new buildings).

50.30 - Application for Notes. The law requires that a Federal Reserve Bank make application to the Federal Reserve Agent for the notes required by the Bank. Unless otherwise instructed, the Reserve Bank may make such application on a continuing basis as set forth in the screen at 52.01.

50.40 - Issuance. The notes are issued by the Assistant Federal Reserve Agent, normally on the day of shipment from Washington or Ft. Worth. When the Assistant Agent issues notes to the Bank through shipment from the Washington or Ft. Worth facility, the automated Currency Ordering System (COS) indicates the denomination, dollar amount, District of issuance, and receiving office. The shipments should be taken into Bank cash on the date shown in the COS, which is normally the day the shipment will be received. The notes should be credited to the account on FR 34 for Federal Reserve notes outstanding with the offset being reflected in Federal Reserve notes on hand or in transit. Amounts that are in transit at the close of business--i.e., have not been delivered by the courier--should be carried in a general ledger account entitled "Federal Reserve notes in transit."

Federal Reserve notes outstanding should be reflected only on the books of the head office and must agree with the records of the Assistant Federal Reserve Agent. The head office, normally the Cash Department, should originate the credit to Federal Reserve notes outstanding for shipments to the Branches based on the date shown in the COS. The contra entry should be made to the usual clearing account on the Bank's books such as the Interoffice account or the account due from Branch, depending on internal accounting procedure. The Branch should include the shipment as Federal Reserve notes on hand (or in transit) on the same day and enter the credit to the head office, again following the usual payments procedure between offices within the District.

For shipments of notes between Districts, only the receiving office should use the in transit account when notes are not received the day they are shipped. The sending office should debit due from receiver and credit notes held on the day shipped. The receiving office should debit either notes held or in transit and credit ISA due to sender on the shipment date. Currently Same Day Settlement is not used for Fed to Fed cash shipments.

The fact that a shipment may be taken in and pouches not opened until the following day should not affect the general ledger entries. In the event of error in the contents of the pouches or, in exigent circumstances, the return by the courier of a shipment to BEP or Ft. Worth, or rerouting to another Federal Reserve office, adjusting entries may be necessary. These situations, though, are unusual and the Assistant Federal Reserve Agent should keep the Reserve Bank fully informed.

<u>50.43 - Sales of Notes by the Bureau of Engraving and Printing</u>. Under a program initiated in 1981, the Department of the Treasury's Bureau of Engraving and Printing purchases Federal Reserve notes from Reserve Banks for sale to the public. The currency is sold in uncut sheets of 16 and 32 notes, over-the-counter and by mail to meet demands for souvenirs of visits to the Bureau and for paper money collections. When purchasing the notes, the Bureau authorizes the Reserve Banks to charge the Treasury's general account for the face value of the notes plus the cost of printing. The authorization is

contained in a modified Letter of Advice of Shipment ([redacted]), an example of which is contained in paragraph 52.03.

On the release date contained in the letter of advice, the Reserve Bank debits the Treasury's account for the total, credits the face value of the notes to F.R. notes outstanding and credits the amount received for printing costs to the profit and loss account. (See paragraph 60.61.)

50.45 - Retirement. Any Federal Reserve Bank may retire its Federal Reserve notes by returning them to the Federal Reserve Agent. The amount of notes that are retired should be debited on the balance sheet to Federal Reserve notes outstanding and removed from the amount of notes on hand. The notes may be reissued to the Bank as determined by the Assistant Agent in Washington. However, it is not the practice to retire notes.

50.50 - Redemption. The law requires that unfit Federal Reserve notes be canceled, destroyed, and accounted for under procedures prescribed and at locations designated by the Secretary of the Treasury and that the credit for the unfit notes be apportioned among the Federal Reserve Banks as determined by the Board of Governors.

All of the present size unfit currency in the $1-$100 denominations are to be regarded for initial accounting purposes as Federal Reserve notes. No sort is made of the Bank of issue. The amount of silver certificates and United States notes that are included in unfit currency are identified by formulae after the currency has been destroyed. After deducting such amounts and charging Treasury, redemption credit for the Federal Reserve notes is allocated among the Reserve Banks on the basis of percentages derived from the application of the following formula:

> A Federal Reserve Bank's share of unfit notes in the $1-$100 denominations delivered for destruction shall be the result of the division of (a) the net amount of the denomination outside the Bank at the beginning of the year by (b) the amount of the denomination outside all Federal Reserve Banks at the beginning of the year.

Unfit notes should be debited to Federal Reserve notes outstanding on the day the notes are destroyed. Branches should arrange for prompt advice to the head office of amounts that they process in order that reduction may be made currently on the head office books. Thus, all unfit currency processed within a particular District should be charged initially against that District's outstanding notes effective on the accounting day of destruction.

50.60 - Large Denomination Notes. The large denominations, consisting of $500-$10,000 Federal Reserve notes, are sorted by Bank of issue and are eventually charged to the issuing Bank for debiting against Reserve notes outstanding. However, to minimize the number of accounting advices and facilitate control over amounts outstanding, all such notes delivered for verification and destruction by a Reserve Bank should be charged initially against that Bank's outstanding notes. The Division of Reserve Bank Operations and Payment Systems will thereafter arrange for settlements between Reserve Banks. Such settlements will normally be scheduled in June and December. The Cash Departments will be informed of the settlement at least a week in advance and should enter data on the "Large note clearing" screen (52.05) in the FR5 system by the deadline indicated in the notification message sent by Board staff via electronic mail. If there were no large denomination notes redeemed during the period, zeroes should be entered in the total columns on the screen. Board staff will notify Reserve Banks via electronic mail (52.04) to make entries to the Interdistrict Settlement account and to Federal Reserve notes outstanding to adjust for the allocation. Reserve Bank staff should retrieve the entries to be made on their Bank's books from the ISA adjustment screen in the FR5 system (52.10).

50.65 - Currency Destroyed by Treasury. Unfit and mutilated currency processed by the Treasury in Washington is functioned through the books of the Richmond Federal Reserve Bank. On the day of redemption, Treasury will advise Richmond by wire of the amount for each denomination, including the Bank of issue for $500-$10,000 notes. Richmond will credit the Treasury's General Account for the total and debit notes outstanding. The Federal Reserve Banks are responsible for reimbursement to the Treasury for retirement of FR currency. Each quarter the Treasury forwards to the Board a voucher, indicating the actual cost for services performed relative to the retirement of Federal Reserve currency during the previous quarter. Board staff calculates the pro rata amount of each Reserve Bank's assessment based on the Bank's share of the number of notes comprising the System’s net liability for Federal Reserve notes outstanding on December 31 of the previous year (52.12). Reserve Bank assessment entries will be processed via Same Day Settlement by FRB Richmond according to information reported on the CULDO wire (52.13).

50.70 - Monthly Note Allocations. The amount of the unfit $1-$100 denominations charged against outstanding Federal Reserve notes during a month will be reallocated by the Division of Reserve Bank Operations and Payment Systems in the following month, using percentages prescribed by Treasury for determining silver certificates and United States notes and the formula adopted by the Board for allocating Federal Reserve note redemption credit.

Cash Departments should provide the Division with the total amount of each denomination, $1-$100, charged off against outstanding Federal Reserve notes during the month, no later than the fifth business day of the following month. Reserve Bank Cash Department staff and a Bank Officer are responsible for entering and certifying the data, respectively, on the "Monthly Notes Redeemed" screen in the FR5 system (52.30). Data reported must agree with the total of the daily amounts reported destroyed by the cash departments for that month. Following the verification, the Division will combine the reports and subtract out the Treasury currency portion. The resulting totals for each denomination will be allocated to the Reserve Banks and an electronic mail advice (52.15) will be sent to each Reserve Bank instructing them to retrieve the entries to be made to their books from the "ISA adjustment" screen in the FR5 system (52.11). Each Reserve Bank will make entries to the Interdistrict Settlement Account and to Federal Reserve notes outstanding to adjust for the allocation. Richmond will also charge Treasury's General Account for the amount of Treasury currency.

51.01 - Notes Missing from New Packages of Currency. New currency is delivered by the Bureau of Engraving and Printing in 4000-note packages. Losses resulting from notes missing from these packages are borne by the Bureau. When the Bureau reaches a determination regarding missing currency, the Bureau will forward a check payable to the Reserve Bank covering the amount. The letter of advice accompanying the check will be addressed to the Vice President in charge of the money department at the Reserve Bank and will include a listing of the serial numbers and denominations of the notes. The Bureau will send copies of the letter to (1) the Assistant Federal Reserve Agent in Washington and (2) the Deputy Assistant Commissioner, Banking and Cash Management, Financial Management Service. The Assistant Federal Reserve Agent in Washington and the Reserve Bank will make entries on their respective records depending on the circumstances, as outlined below. In each case the offsetting entry will be reflected in the charge against Treasury's General Account for the Bureau's check.

Deficient packages shipped to depository institutions: For notes that were reported missing in the new packages received by depository institutions, the Reserve Bank will credit the institution and debit Profit and loss. A credit will then be made to Profit and loss.

Deficient packages held by Bank: For deficient packages that are in Reserve Bank cash, the Reserve Bank will credit Federal Reserve Notes: Held by Bank and Branches and debit Profit and loss. A credit will then be made to Profit and loss.

Deficient packages held by Agent: For notes that are missing in packages held by the Assistant Federal Reserve Agent, the packages will be issued to the Reserve Bank at the face value as if all notes were present. Upon receipt of such packages, the Reserve Bank will credit Federal Reserve Notes: Held by Bank and Branches by the amount of the shortage and debit Profit and loss. A credit will then be made to Profit and loss.

Notes missing from inventory at Bureau of Engraving and Printing. For all unissued notes (in either note or sheet form) which the Bureau determines to be missing from its inventories, the Assistant Federal Reserve Agent will issue the notes as shown on the Bureau's letter of advice. The Reserve Bank will credit Federal Reserve notes outstanding and debit Profit and loss, followed by a credit to Profit and loss.

51.50 - Statements of the Federal Reserve Agent. Section 16 of the Federal Reserve Act requires that each Federal Reserve Agent make daily reports to the Board of Governors on issues and withdrawals of Federal Reserve notes; in addition, the Board requires a monthly report in considerable detail. The reports are prepared by the Assistant Federal Reserve Agent in Washington. The daily report, conforming to FR 5 (52.20), should show the amount of Federal Reserve notes received from the Treasury, on hand, and outstanding, and the classification of collateral security held against Federal Reserve notes. The Assistant Agent should communicate to each Bank daily, for verification by the Bank against its balance sheet, the amount of Federal Reserve notes outstanding as shown on the FR 5 database. The District balance for Federal Reserve notes outstanding is computer-generated upon acceptance of all head office and Branch data. A copy of the notes outstanding screen from the FR 5 system is shown at 52.21.

The monthly report, conforming to FR 44 (see 52.25), should show by denomination the cumulative data for issues of notes, notes on hand, notes returned for destruction and credit, and amount outstanding at the end of the month. The amounts reported should agree where applicable with data reported on form FR 5. One copy of the report should be sent by the Assistant Federal Reserve Agent to the Department of the Treasury, Financial Management Service, Division of Government Accounts and Reports, Washington, D. C. 20226.

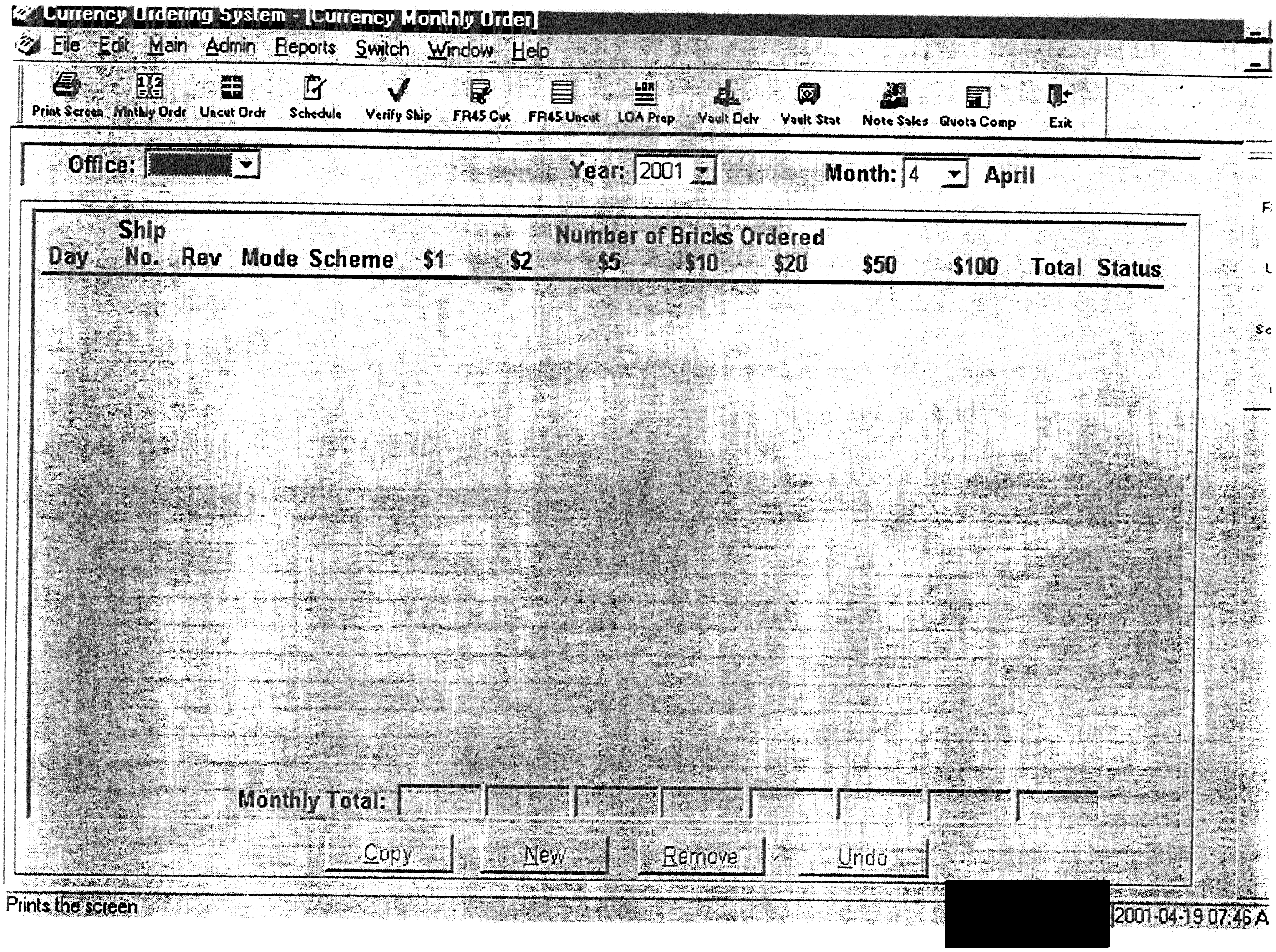
51.65 - Reports to the Assistant Federal Reserve Agent. The Assistant Agent in Washington receives information daily from Board Divisions, from Treasury and from the Reserve Banks. The data from the Reserve Banks include the amount of unfit notes redeemed for the day by denomination and office, and must be received by the Board by 10:00 p.m. EST daily (see 52.27). Other reported information is covered by instructions from the Assistant Agent. These include a report by the Division of Reserve Bank Operations and Payment Systems of changes in the gold and SDR certificate accounts, a report by New York of changes in holdings of securities in the System Open Market Account, and letters of advice of purchases of uncut sheets of notes by the Bureau of Engraving and Printing and of purchases of notes by the U.S. Treasurer.

51.70 - Accountability Records. Under an agreement with and at the request of the Treasury, the Division of Reserve Bank Operations and Payment Systems maintains the official accounts for Federal Reserve notes that are held in Washington by the BEP, at

Federal Reserve offices, by Federal Reserve Agents and that are outstanding to the Reserve Banks. Records with respect to notes printed and delivered to vaults at BEP are derived from advices received from the Production Division of the Bureau; records on currency released to Federal Reserve Agents or the Banks from shipment advices; and records on currency destroyed from FR 5 database as reported by each cash department followed by a certified monthly summary (see 52.30). The monthly summary should be reported by each Office by the fifth business day of the month following the end of the report period to permit early verification and subsequent certification by the Division to the Treasury. The Division also uses these records as a basis for certifying Federal Reserve note accounts to the Audit Departments at Reserve Banks and others.

51.75 – FR5 Resource Center. An FR5 System website has been developed and is now in production. The website can be accessed by entering the user's Board mainframe User ID and password. The FR5 User Guide and answers to frequently asked questions are features of the site. The URL for the site follows, and may be viewed also at 52.32, the welcome screen.

[redacted]


Currency Ordering System - [Currency Monthly Order]
File Edit Main Admin Reports Switch Window Help
Print Screen
Mnthly Ordr
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Schedule
Verify Ship
FR45 Cut
FR45 Uncut
LOA Prep
Vault Delv
Vault Stat
Note Sales
Quota Comp
Exit
Office: [redacted]
Year: 2001
Month: 4
April
Number of Bricks Ordered
Day
Ship No.
Rev
Mode
Scheme
$1
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2001-04-19 07:46 A

[redacted]

Bonnie Abbott
06/25/99 10:24 AM

To: RBOPS ISA Adjustments
cc:
Subject: Large Note Clearing for December 1998-May 1999

TO THE MANAGER OF THE ACCOUNTING DEPARTMENT AT EACH FEDERAL RESERVE BANK

BOSTON - S.DHINGRA, M.GILLENS

NEW YORK - J.MARRACCINO, J.LUCKIE

PHILADELPHIA - S.SIENKEWICZ, S. KRAMMER, S. TAYLOR, R. CRIMI

CLEVELAND - J.PFLUMM, D.STANLEY J.BRONISH

RICHMOND - S.HARIPRAS, C.ADAMS

ATLANTA - P. BLACKWELL, B.BROWN, B. YAMAATO

CHICAGO - D.DAVIDSON, L.KARIOTIS T. GIANOPOULOS, R. IONESCU

ST. LOUIS - B.WHITMAN, A. ADAMS

MINNEAPOLIS - D.LOWELL, L.BLUHM

KANSAS CITY - S.PARKER, R. BERRY C. BUYCKS, L. DAVIDSON

DALLAS - C.DAVIS, R. SHAHA

SAN FRANCISCO - K.NYGAARD A.YOUNG

THIS NOTICE IS TO INFORM YOU THAT THE ALLOCATION OF REDEMPTION CREDIT FOR UNFIT $500 - $10,000 NOTES DESTROYED DURING December 1998-May 1999 IS SCHEDULED FOR Tuesday, June 29, 1999.

AS YOU ARE AWARE, ADJUSTING ENTRIES MAY BE FOUND ON THE ISA ADJUSTMENTS SCREEN IN THE FR5 SYSTEM. STAFF MAY ACCESS THE ISA ADJUSTMENTS INQUIRY SCREEN BY CHOOSING OPTION 07 ON THE MAIN FRNOTES MENU. THE ADJUSTMENTS SUB MENU WILL APPEAR. TO VIEW THE ISA ADJUSTMENTS RESULTING FROM THE LARGE NOTE CLEARING, TYPE IN 2 IN THE SOURCE FIELD. THE MOST CURRENT DATA WILL APPEAR. VERIFY THAT THE DATE IS June 29, 1999. THE LARGE NOTE CLEARING ADJUSTMENTS WILL APPEAR ON THE SCREEN.

IF YOU HAVE QUESTIONS REGARDING THE CLEARING, PLEASE CONTACT [redacted]

BONNIE ABBOTT - BOARD

[redacted] DATE: 1999/07/29 TIME: 15:24:21

LARGE NOTE CLEARING ENTRY

(LARGE NOTES REDEEMED BY DISTRICT OF ISSUANCE)

ACTION: I (I=INQUIRE, A=ADD, C=CHANGE)

DISTRICT: 00 CERTIFIED?: (Y OR N)

6-MONTHS ENDING: 000000 (CCYYMM -- MONTH = 05 OR 11)

DISTRICT OF ISSUANCE	$500	$1,000	$5,000	$10,000
01 BOSTON				
02 NEW YORK				
03 PHILADELPHIA				
04 CLEVELAND				
05 RICHMOND				
06 ATLANTA				
07 CHICAGO				
08 ST. LOUIS				
09 MINNEAPOLIS				
10 KANSAS CITY				
11 DALLAS				
12 SAN FRANCISCO				
DISTRICT TOTAL				

ENTERED: / / CERTIFY: / /

F1=HELP F2=SPLIT F3=END F4=RETURN F5=RFIND F6=RCHANGE

F7=UP F8=DOWN F9=SWAP F10=LEFT F11=RIGHT F12=RETRIEV

[redacted] DATE: 1999/07/29 TIME: 15:24:56

ISA ADJUSTMENTS FOR LARGE NOTE CLEARING

AS-OF DATE: 19990629

----DISTRICT----		---NOTES OUTSTANDING ADJUSTMENTS---		-----ISA ADJUSTMENTS--	
1	BOSTON	3,500	DR	3,500.00	CR
2	NEW YORK	2,000	CR	2,000.00	DR
3	PHILADELPHIA	3,000	DR	3,000.00	CR
4	CLEVELAND	2,500	CR	2,500.00	DR
5	RICHMOND	18,500	CR	18,500.00	DR
6	ATLANTA	27,000	CR	27,000.00	DR
7	CHICAGO	36,000	DR	36,000.00	CR
8	ST. LOUIS	8,500	CR	8,500.00	DR
9	MINNEAPOLIS	3,000	DR	3,000.00	CR
10	KANSAS CITY	9,000	DR	9,000.00	CR
11	DALLAS	5,000	CR	5,000.00	DR
12	SAN FRANCISCO	9,000	DR	9,000.00	CR
	TOTALS	0		0.00	

RECORDS RETRIEVED

ENTER=PROCESS PF3=EXIT

F1=HELP F2=SPLIT F3=END F4=RETURN F5=RFIND F6=RCHANGE

F7=UP F8=DOWN F9=SWAP F10=LEFT F11=RIGHT F12=RETRIEV

[redacted] DATE: 2001/02/28 TIME: 08:21:33

ISA ADJUSTMENTS FOR SMALL NOTE CLEARING

AS-OF DATE: 20010222

----DISTRICT----		---NOTES OUTSTANDING ADJUSTMENTS---		-----ISA ADJUSTMENTS----	
1	BOSTON	244,721,354	DR	244,721,354.00	CR
2	NEW YORK	934,786,114	DR	934,786,114.00	CR
3	PHILADELPHIA	50,985,308	DR	50,985,308.00	CR
4	CLEVELAND	212,773,532	DR	212,773,532.00	CR
5	RICHMOND	210,525,219	CR	210,233,558.00	DR
6	ATLANTA	516,873,814	CR	516,873,814.00	DR
7	CHICAGO	291,487,363	DR	291,487,363.00	CR
8	ST. LOUIS	68,470,332	DR	68,470,332.00	CR
9	MINNEAPOLIS	48,843,112	CR	48,843,112.00	DR
10	KANSAS CITY	67,902,569	DR	67,902,569.00	CR
11	DALLAS	431,397,395	CR	431,397,395.00	DR
12	SAN FRANCISCO	663,778,693	CR	663,778,693.00	DR
	TREASURY	291,661	DR		
	TOTALS	0		0.00	

RECORDS RETRIEVED

ENTER=PROCESS PF3=EXIT

F1=HELP F2=SPLIT F3=END F4=RETURN F5=RFIND F6=RCHANGE
F7=UP F8=DOWN F9=SWAP F10=LEFT F11=RIGHT F12=RETRIEVE

Proration of Assessment to Cover Expenses of the Bureau of Engraving and Printing Department of the Treasury of the United States in Connection with Retirement of Federal Reserve Currency, July 1, 1998 through September 30, 1998

Federal Reserve Bank	Federal Reserve Note Net Liability December 31, 1997 (in thousands)	Percentage of total for each Bank	Pro rata amount
Boston	22,984,461	5.0243	$30,745.97
New York	179,315,981	39.1974	$239,868.30
Philadelphia	13,969,525	3.0537	$18,686.82
Cleveland	28,440,707	6.2170	$38,044.71
Richmond	32,458,918	7.0953	$43,419.81
Atlanta	30,390,342	6.6432	$40,652.71
Chicago	40,530,543	8.8597	$54,217.10
St. Louis	16,422,379	3.5898	$21,967.97
Minneapolis	4,791,554	1.0474	$6,409.59
Kansas City	13,540,863	2.9600	$18,113.41
Dallas	20,006,652	4.3733	$26,762.60
San Francisco	54,616,842	11.9389	$73,060.13
Total	457,468,768	100.0000	$611,949.11

Manager
FRB Financial Accounting Section
Division of Reserve Bank Operations and Payment Systems
09-Nov-98

T E L E G R A M

FEDERAL RESERVE COMMUNICATIONS SYSTEM

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

DECEMBER 1, 1998

TO ALL FEDERAL RESERVE BANKS

ATTENTION: ACCOUNTING AND CASH OFFICERS

CULDO - Retirement of FR Notes for JULY 1, 1998 through SEPTEMBER 30, 1998.

This wire is for information only. FRB Richmond will process the entries SDS for all FR Banks on DECEMBER 2, 1998.

	TOTAL
BOSTON	$30,746.00
NEW YORK	239,868.00
PHILADELPHIA	18,687.00
CLEVELAND	38,045.00
RICHMOND	43,420.00
ATLANTA	40,653.00
CHICAGO	54,217.00
ST. LOUIS	21,968.00
MINNEAPOLIS	6,409.00
KANSAS CITY	18,114.00
DALLAS	26,762.00
SAN FRANCISCO	73,060.11
	$611,949.11

SANTOLLA

ATTN: [redacted]
FR BANK OF NEW YORK

ATTN: J. GODFREY
FR BANK OF ATLANTA

ATTN: FR BANK OF BOSTON
SUSAN TAYLOR

ATTN: JAN MILLER-ACCTG DEPT
FRB MINNEAPOLIS

ATTN: KEITH WEBSTER
FRB SAN FRANCISCO

[redacted]

Bonnie Abbott

07/12/99 12:24 PM

To:	RBOPS ISA Adjustments
cc:	RBOPS FRB Financial Accounting
Subject:	SMALL NOTE CLEARING FOR June

SUBJECT: SMALL NOTE CLEARING

TO THE MANAGER OF THE ACCOUNTING DEPARTMENT AT EACH FEDERAL RESERVE BANK

BOSTON - S.DHINGRA, M.GILLENS

NEW YORK - J.MARRACCINO, J.LUCKIE

PHILADELPHIA - S.SIENKEWICZ, S. KRAMMER, S. TAYLOR, R. CRIMI

CLEVELAND - J.PFLUMM, D.STANLEY J.BRONISH

RICHMOND - S.HARIPRAS, C.ADAMS

ATLANTA - P. BLACKWELL, B.BROWN, B. YAMAATO

CHICAGO - D.DAVIDSON, L.KARIOTIS

ST. LOUIS - B.WHITMAN, A. ADAMS

MINNEAPOLIS - L.BLUHM, B. HUNTER C. SANDVIK

KANSAS CITY - S.PARKER

DALLAS - C.DAVIS, R. SHAHA

SAN FRANCISCO - K.NYGAARD A.YOUNG

THIS NOTICE IS TO INFORM YOU THAT THE ALLOCATION OF REDEMPTION CREDIT FOR UNFIT $1 - $100 NOTES DESTROYED IN JUNE IS SCHEDULED FOR Thursday, July 22, 1999. AS YOU ARE AWARE, ADJUSTING ENTRIES MAY BE FOUND ON THE ISA ADJUSTMENTS SCREEN IN THE FR5 SYSTEM. STAFF MAY ACCESS THE ISA ADJUSTMENTS INQUIRY SCREEN BY CHOOSING OPTION 07 ON THE MAIN FRNOTES MENU. THE ADJUSTMENTS SUB MENU WILL APPEAR. TO VIEW THE ISA ADJUSTMENTS RESULTING FROM THE SMALL NOTE CLEARING, TYPE IN 1 IN THE SOURCE FIELD. THE MOST CURRENT DATA WILL APPEAR. VERIFY THAT THE DATE IS July 22, 1999. THE SMALL NOTE CLEARING ADJUSTMENTS WILL APPEAR ON THE SCREEN.

IF YOU HAVE QUESTIONS REGARDING THE CLEARING, [redacted]

ALSO, PLEASE ADVISE ME IF YOU KNOW OF ANYONE WHO SHOULD BE ADDED TO OR DELETED FROM THIS MAILING LIST. I'M IN THE PROCESS OF UPDATING MY LIST IN CONNECTION WITH THE UPDATE TO THE FR5 LIST AND I WELCOME YOUR FEEDBACK.

THANKS.

DAILY STATEMENT OF FEDERAL RESERVE AGENT (FR5)
ON (MM/DD/YYYY) ____________________
FEDERAL RESERVE BANK OF ________________

FR Notes outstanding to Bank at opening of business	$________________
Plus notes issued	________________
Minus notes cancelled	________________
Returned to Agent	________________
Note clearing adjustment	________________
Equals notes outstanding at close of business	________________
Less notes held by Bank and branches	________________
Equals FR notes, net	________________

COLLATERAL SECURITY

Gold certificates	________________
SDR certificates	________________
U.S. government securities	________________ *
Eligible loans	________________
FDIC assumed indebtedness	________________
Foreign currencies	________________
Total collateral	________________ **
Notes held by Agent	________________

* U.S. government securities are the following line items from the FR34. Federal agency obligations: bought outright and held under repurchase agreement; U.S. government securities (bills, notes and bonds):bought outright and held under repurchase agreement.

** Federal Reserve notes are collateralized on an aggregate basis, rather than District by District. Therefore, a single District may or may not have adequate security to collateralize its own Federal Reserve notes.

[redacted] DATE: 1999/07/29 TIME: 15:29:09

NOTES OUTSTANDING INQUIRY

DISTRICT:
AS-OF DATE: 19990728 (CCYYMMDD)

NOTES OUTSTANDING OOB
+ CURRENCY SHIPMENTS
+ NOTES REISSUED
- NOTES REDEEMED
- NOTES RETURNED
- NOTES REDEEMED ADJUSTMENT

NOTES OUTSTANDING COB

ENTER=PROCESS PF3=EXIT

F1=HELP	F2=SPLIT	F3=END	F4=RETURN	F5=RFIND	F6=RCHANGE
F7=UP	F8=DOWN	F9=SWAP	F10=LEFT	F11=RIGHT	F12=RETRIEV

FR44
(REV 5/1991)

SYSTEM TOTALS
(IN DOLLARS)
END OF MONTH JULY 1999

10:06 TUESDAY AUST 10, 199

FEDERAL RESERVE NOTES	$1	$2	$5	$10	$20	$50
NOTES ISSUED:						
(1) 1928-1985 SERIES	38,218,668,132	851,760,000	70,003,879,680	168,601,566,280	330,546,244,940	63,600,400,
(2) 1988 SERIES	28,534,467,100	2,504,000	38,480,960,000	41,050,840,000	165,210,916,220	43,648,800,
(3) 1990 SERIES	17,472,000	0	67,200,000	19,183,040,000	87,304,320,000	40,486,420,
(4) 1993 SERIES	4,610,936,001	0	3,606,400,000	12,430,720,000	76,029,120,000	39,961,640,
(5) 1995 SERIES	17,499,330,000	311,872,000	18,897,120,000	25,610,880,000	56,259,520,000	192,000,
(6) 1996 SERIES	74,350,000	0	0	22,240,000	87,361,281,340	64,989,206,
(7)						
(8) NOTES REISSUED	1,190,833,476	753,376,140	3,930,389,130	9,880,447,000	13,988,311,860	3,351,772,
(9) TOTAL ISSUES	90,146,056,709	1,919,512,140	134,985,948,810	276,779,733,280	816,699,714,360	256,230,239,
(10) NOTES RETURNED:	1,067,137,476	444,712,140	3,638,409,130	8,864,487,000	13,144,551,860	3,351,772,
(11) NOTES REDEEMED TO DATE:	79,334,573,482	242,449,340	120,090,236,495	247,176,023,040	644,596,561,800	169,956,895,
(12) NOTES OUTSTANDING:	9,744,345,751	1,232,350,660	11,257,303,185	20,739,223,240	158,958,600,700	82,921,571,
(13) NOTES HELD BY AGENT:	0	0	0	0	0	

FEDERAL RESERVE NOTES	$100	$500	$1,000	$5,000	$10,000	TOTAL
NOTES ISSUED:						
(1) 1928-1985 SERIES	147,003,610,000	1,289,360,000	2,037,796,000	114,120,000	191,720,000	822,459,125,
(2) 1988 SERIES	112,180,800,000	0	0	0	0	429,109,287,
(3) 1990 SERIES	167,845,098,600	0	0	0	0	314,903,550,
(4) 1993 SERIES	72,416,000,000	0	0	0	0	209,054,816,
(5) 1995 SERIES	160,000,000	0	0	0	0	118,930,722,
(6) 1996 SERIES	381,598,400,000	0	0	0	0	534,045,478,
(7)						
(8) NOTES REISSUED	7,475,338,800	574,252,500	1,026,954,000	100,960,000	416,000,000	42,688,635,
(9) TOTAL ISSUES	888,679,247,400	1,863,612,500	3,064,750,000	215,080,000	607,720,000	2,471,191,614,
(10) NOTES RETURNED:	7,475,338,800	574,252,500	1,026,954,000	100,960,000	416,000,000	40,104,575,
(11) NOTES REDEEMED TO DATE:	419,443,225,600	1,145,925,500	1,871,072,000	112,410,000	188,360,000	1,684,157,732,
(12) NOTES OUTSTANDING:	461,760,683,000	143,434,500	166,724,000	1,710,000	3,360,000	746,929,306,
(13) NOTES HELD BY AGENT:	0	0	0	0	0	

[redacted] DATE: 1999/07/29 TIME: 15:30:32

DAILY NOTES REDEEMED

ACTION: I (I=INQUIRE, A=ADD, C=CHANGE)
OFFICE: 0000
AS-OF DATE: 19990729 (CCYYMMDD)

DENOMINATION	NUMBER OF NOTES	AMOUNT OF NOTES
$1		
$2		
$5		
$10		
$20		
$50		
$100		
$500		
$1,000		
$5,000		
$10,000		
TOTAL		

ENTERED: / / REVISED: / /
ENTER=PROCESS PF3=EXIT
F1=HELP F2=SPLIT F3=END F4=RETURN F5=RFIND F6=RCHANGE
F7=UP F8=DOWN F9=SWAP F10=LEFT F11=RIGHT F12=RETRIEV

[redacted] DATE: 1999/07/29 TIME: 15:30:54
MONTHLY NOTES REDEEMED

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ACTION            I          (I=INQUIRE, A=ADD, C=CHANGE)
OFFICE:           0000
AS-OF DATE:       199906     (CCYYMM) CERTIFIED?          (Y OR N)
        DENOMINATION      AMOUNT OF MONTHLY NOTES REDEEMED
           $1
           $2
           $5
           $10
           $20
           $50
           $100
           $500
           $1,000
           $5,000
           $10,000
           TOTAL

ENTERED:          /          /          CERTIFY:          /          /
ENTER PROCESS   PF3=EXIT
F1=HELP     F2=SPLIT     F3=END     F4=RETURN     F5=RFIND     F6=RCHANGE
F7=UP       F8=DOWN      F9=SWAP    F10=LEFT      F11=RIGHT    F12=RETRIEV
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Welcome to the FR5 System Website

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Mainframe Password:

Login

52.32

CHAPTER 6
REPORTING REQUIREMENTS

60.01 - General. This chapter contains instructions for reports arranged according to the frequency of each report. Payments of Reserve Bank earnings to Treasury and monthly reports of currency holdings by Reserve Banks are covered in paragraphs 60.20-30. Quarterly reports of earnings and of profit and loss entries and penalties for deficiencies in required balances are covered in paragraphs 60.50-70 and the annual reports, which are mainly for publication, begin with paragraph 60.80. A summary of all reporting requirements is contained in Table 60.99.

60.10 - Interdistrict Settlement. The daily settlement between Districts will be conducted by the centralized IAS system, which captures the data needed to conduct settlement. Once settlement has been effected, the IAS system will post the appropriate entries directly to each Reserve Bank's records.

60.11 - Effect of Holiday on Clearings. The Federal Reserve System observes the following holidays:

New Year's Day -- January 1
Martin Luther King's Birthday -- Third Monday in January
Washington's Birthday -- Third Monday in February
Memorial Day -- Last Monday in May
Independence Day -- July 4
Labor Day -- First Monday in September
Columbus Day -- Second Monday in October
Veterans' Day -- November 11
Thanksgiving Day -- Fourth Thursday in November
Christmas Day -- December 25

No settlement will take place on the above standard holidays. For holidays falling on Saturday, Federal Reserve Banks and Branches will be open the preceding Friday. For holidays falling on Sunday, all Federal Reserve offices will be closed the following Monday. When a Federal Reserve Bank or Branch closes for a non-standard holiday or unexpectedly, such as in the event of a local disaster, and is unable to participate in the clearing, the debits/credits for that office should be included with the debits/credits for the following business day and reported on the balance sheet in the line item "Due to other F.R. Banks – collected funds" (220-075).

60.20 - Interest on Federal Reserve Notes. The Board of Governors, under authority of Section 16 of the Federal Reserve Act, has established the following described rate of interest on the outstanding Federal Reserve notes of each Bank less the amount of gold certificates pledged with the Federal Reserve Agent:

> The interest rate on Federal Reserve notes not covered by gold certificates pledged with the Federal Reserve Agent as collateral security for such notes shall be the result of the division of (a) the net earnings of the Federal Reserve Bank after provision for dividends on its outstanding Capital Paid In

and for adjustments necessary to equate the amount of its Surplus with the amount of its Capital Paid In, by (b) the daily average amount of Outstanding Federal Reserve Notes of the Bank after deducting the daily average amount of gold certificates pledged with the Federal Reserve Agent as collateral security for such notes.

The payment should be made each Wednesday or on the next business day if Wednesday is a holiday. The amount of payment should be equal to undistributed net earnings shown on the FR 34 for the previous Wednesday (or the previous Thursday if the previous Wednesday was a holiday), except for a Wednesday falling within the last week of the year, after equating Surplus with Capital Paid-In.[1] In the event that a Reserve Bank is unable to equate Surplus with Capital Paid-In because Surplus exceeds Capital Paid-In, the Reserve Bank should limit the actual payment to the amount of the prior Wednesday's Undistributed Net Income (330-275). See paragraph 60.25 below for computation of payment at the end of the year.

Special care should be taken to determine whether a loss on the revaluation of foreign currency assets or other circumstances have caused undistributed net income to fall to a level below that of the calculated interest payment. If so, and undistributed net income is positive, transfer to Treasury only that amount that will bring undistributed net income to zero. If undistributed net income is zero or negative, no interest payment to Treasury should be made (see also paragraph 3.85). In either case, Board FRB Financial Accounting staff should be contacted. The distribution of a loss on the revaluation of foreign currency assets may result in the need to debit the Surplus account to cover the deficiency. If this is the case, surplus should be restored before making any Treasury payments. Also, surplus should be restored as of Wednesday and undistributed net income should be zero if surplus is not fully restored.

NOTE: Wednesday FR 34 figures for undistributed net income should be used even though more precise data may be available when the interest payment is computed.

60.25 - Special Year-end Procedures. The income, expense, and other capital accounts on the year-end FR 34 should include all amounts applicable to the year up to and including December 31, based on the best data available to the Reserve Bank at the time the books are posted. The net income on the FR 34 for December 31 should be fully distributed, with surplus being adjusted to the level of paid-in capital and remaining net income credited to Other deposits pending payment to the Treasury on the first Wednesday in January, or on the business day following if the Bank is closed on that particular Wednesday.

[1] See paragraph 12.10 in Chapter 1 for the definition of the Surplus Account. In 2006, the Reserve Banks adopted FAS 158, which required creating AOCI as a component of the Surplus Account.

NOTE: An account to record the surplus entry is included on the FR 34 in the space following interest paid on FR notes, identified as "Transferred to surplus" or "Transferred from surplus," as appropriate.

On the January year-end closing date designated by the Board, the previous year's income and expenses and other capital accounts data should be removed from the balance sheet. The amounts removed should be final data for the year as determined by the Reserve Bank and should agree dollar for dollar with the results for the year, which are reported elsewhere, such as in the annual PACS reports and the reports on income from services.

In some instances, adjustments to year-end balances may be discovered subsequent to December 31 but prior to the removal of the previous year's income and expenses and other capital accounts data from the balance sheet due to the availability of additional information. Such adjusting entries should be functioned to December 31 balances during the closing process when they serve to more accurately and completely reflect the financial condition of the Reserve Bank. Communication of these adjustments should be made to the Accounting Section of the Division of Reserve Bank Operations and Payment Systems through submission of the Adjusted Trial Balance reports (ATB). As a practical matter, the annual year-end accounting instructions (that include the Financial Results of Operations (FROP), ATB, and financial statement shell including footnotes) are sent to the Banks in the fourth quarter of each year to provide additional detailed reporting instructions.

60.30 - Currency Held by Federal Reserve Banks. Form FR 415 showing each type of paper money and coin held by the Reserve Bank at the end of the month is included at 61.01. The report combined for the District is due at the Board no later than the 6th business day of the following month. The data is used for calculating currency in circulation and must agree with the appropriate FR 34 accounts and figures reported to the U.S. Treasury on form TFS 4133.

60.50 - Income Report--General. In general, Federal Reserve receipts are derived as described below:

Revenues

Receipts based on fee schedules or price structures established for priced services as defined in the Monetary Control Act or as prescribed by the Board of Governors, and receipts for services incidentally related to priced services where the dollar amount of such receipts is material. For FR 95 reporting purposes, this revenue should be classified as income from services.

Income

Receipts representing interest on loans to depository institutions or others, penalties on reserve account deficiencies or overdrafts in reserve or clearing accounts, interest from System Open Market Account and foreign currency holdings, and other receipts specifically identified in 60.51 other than income from services.

Reimbursements

Receipts representing recoupment of expenses incurred in performing prescribed activities as Fiscal Agent for the U. S. Treasury and other Federal agencies.

Recoveries

All receipts other than those defined above as Revenue, Income and Reimbursements, including receipts that are not material in amount received in connection with services incidentally related to priced services.

Form FR 95 (61.10) is a report of income classified by source of earnings. Consolidated reports for each District are to be submitted for each of the first three quarters of the year. Quarterly reports should reach the Division by the 20th of the month following the report period and should reflect earnings only for that quarter (see 60.93). All amounts should be shown in whole dollars and the column should be balanced to the total. If an error is found in the amount of income reported for the current year, the necessary correcting entries should be made to the accounts in which the error occurred.

The following procedure should be used in accruing earnings on assets:

1. Calculate earnings on all types of earning assets for each calendar day on the basis of holdings of such assets at opening of business on such day or at close of business on the last preceding business day if the day in question is a Sunday or a holiday. (Regarding advances to member banks, accrual of earnings based on holdings at the opening of business should be calculated at the interest rate in effect on the previous day.) Earnings in nominal amounts may be credited when received except that all earnings, regardless of amount, should be accrued on the last day of the year.

2. Make entry of such accruals on books of the Federal Reserve Bank, either daily or as of each Wednesday, and on the last day of the month, provided that:
   a. If Wednesday is a holiday, entries made for Tuesday shall include accruals for one day's earnings on Tuesday's opening balance and one day's earnings on Tuesday's closing balance, except when January 1 falls on a Wednesday.
   b. If the last day of the month is a nonbusiness day, entries made for the last business day shall include accruals for any day or days thereafter during the calendar month on which the Federal Reserve Bank will be closed. For example, should the 29th day of the month fall on a Friday, entries for accrual of earnings on Friday the 29th would include one day's earnings on the opening balance on that day, and two days' earnings on the closing balance of the 29th, assuming a 31 day month.

3. If the first day of the month is not a business day, entries of accruals on the first business day shall include accruals for the day or days prior thereto within the calendar month on which the Federal Reserve Bank was closed. If entry of accruals is not made daily, the entry made on the first Wednesday of the month should include, accruals for any prior day or days within that calendar month.
4. In any calculation of average rates of earnings on assets, use holdings as at beginning of business rather than at close of business for each day included in the period under consideration in computing average daily holdings.

Premium on securities should be amortized into earnings at a uniform rate sufficient to exhaust the premium on the maturity date (call date if subject to call before maturity) of the securities. Discount on securities should be accumulated into earnings at a uniform rate sufficient to eliminate the discount on the maturity date of the securities.

60.51 - Income Report--Explanation of Items on FR 95.

Loans
Earnings on loans to depository institutions, and earnings from any other loans which, though rare, may include Federal Intermediate Credit Banks, other Federal Reserve Banks, and individuals, partnerships, or corporations.

Acceptances
Discount earned on acceptances, including earnings on acceptances held under repurchase agreement.

U.S. Government obligations--System account
Interest earned, plus discount amortized and less premium accreted, on U.S. Government and Agency obligations held in System Open Market Account. Discount earned on Treasury bills held in System Open Market Account.

Other U.S. Government obligations
Earnings on U.S. Government and Agency obligations held in Bank's own portfolio. This line item also includes interest income earned on repurchase agreements.[2]

Other securities
Interest earnings on bills, notes, revenue bonds and warrants issued by any state, county, district, political subdivision or municipality in the continental United States, including irrigation, drainage, and reclamation districts, plus discount amortized and less premium accreted.

Foreign currencies
Participation in interest received on deposit balances with foreign banks, discount earned on acceptances payable in foreign currencies, and other earnings from assets denominated in foreign currencies.

Income from services
Amounts collected under Section 11A of the Federal Reserve Act for services to depository institutions.

Deficiencies in required balances
Charges assessed depository institutions on the amount of their deficiencies in required balances.

Overnight Overdraft charges
Charges assessed depository institutions for overnight overdrafts in accounts maintained with the Reserve Bank.

[2] Prior to February 2007, when the FOMC's authorization specified that activity related to tri-party repurchase agreements would be participated to all other Banks, the activity was reported only by FRBNY.

Daylight Overdraft charges
Charges assessed depository institutions for intra-day (daylight) overdrafts in accounts maintained with the Reserve Bank.

Funds Settlement Fees
Earnings associated with the funds settlement component of the book-entry transfer of U.S. Treasury securities.

Examination Fees
Charges assessed foreign banks, Branches, and representative offices for costs associated with examinations.

All other
Other earnings that do not come within the above definitions should be reported in this classification. Amounts reported in this category should be broken down into specific categories in a footnote to the Income Report.

60.60 - Debits and Credits to Profit and Loss Account. A quarterly profit and loss statement, form FR 411 (61.15), should be forwarded to the Division by the 15th of the month following the report period. A brief description of the profit and loss account is given in connection with the discussion of the Balance Sheet in Chapter 1.

The profit and loss account is intended primarily to cover items for which no provision is made in current income or expenses (see 60.61). These include realized gains and losses on sales of securities and on foreign currencies, profit or loss on the sale of real estate (originally acquired for potential Bank use), the write-off of stale officers' and certified checks, losses that are sustained in the handling or transportation of currency, recoveries and unrealized losses on the value of other real estate (originally acquired for potential Bank use) held for sale, and gains or losses on the sale of works of art. The account should not normally be used to adjust prior year income or expenses except for the correction of prior year accounting errors when the amount would seriously distort income or expenses of the current year. Entries to the account for prior year items may be made only with the prior approval of the Accounting Section of the Division of Reserve Bank Operations and Payment Systems.

The profit and loss account should not include dividends and rebates on insurance policies or any additional premium payments on worker's compensation or other insurance regardless of the year for which the refunds or additional payments apply. Such amounts should be entered to current year income or expenses. Other items from the previous year which should normally be applied to current year income or expenses rather than profit and loss are receipts from vending machines, refunds from courier contracts, adjustments for the difference between accounts payable and the actual billings, and adjustments for the difference between accrued income from services and actual billings.

The profit and loss account should also exclude losses arising from the ongoing operations of the Reserve Banks. Any such losses should be charged to current expense.

Captions of entries on form FR 411 should clearly identify their nature. For example: "Loss of money mailed to First National Bank of City on September 22--$30,000" is informative and clearly identifies the nature of the entry. "Loss on shipments of money and securities--$30,000" would not be sufficiently informative.

Branch items, if any, should be combined with those of the head office. The total amounts reported on form FR 411 for the four quarters should agree with the corresponding amount shown on the December 31 before-closing form FR 34.

60.61 - Profit and Loss Report--Explanation of Entries.

Profit (loss) on sale of Bank premise assets or other real estate

The difference between net book value and the proceeds from the sale of Bank premise assets and other real estate (formerly used in bank operations).

Recoveries and unrealized losses on the value of other real estate held for sale

The difference between net book value and net realizable value of other real estate (formerly used in bank operations) held for sale. See 30.96.

Profit (loss) on sale of "Other assets acquired account closed banks"

Book profit or loss resulting from the sale (or other final disposal) of "Other assets acquired account closed banks." When an allowance for estimated losses on such property is carried, the entire difference between gross carrying value of the particular asset and the proceeds received, if disposition results in a loss, may be charged to the allowance unless such a charge would result in a debit balance therein, in which case the excess should be charged to "Profit and loss." If disposition results in a profit, the excess should be credited to "Profit and loss."

Losses (not expected to be recovered) on shipments of money

Recoveries of losses on shipments of money

Other recoveries

Other recoveries of amounts previously charged to profit and loss.

Losses covered by Loss Sharing Agreement

Rewards, advances, and expenses absorbed or prorated under the Loss Sharing Agreement.

Reimbursement from Treasury for purchases of uncut sheets of Federal Reserve notes

Errors found in work of prior years

Errors involving significant amounts reported in income or expenses prior to the current year. Correction of errors of lesser amounts should be made in the appropriate income or expense account. (The correction of errors between years through "Profit and loss" should be limited to items involving significant amounts and must have prior approval from the Accounting Section of the Division of Reserve Bank Operations and Payment Systems.)

Interest Expense

Interest expense for reverse repurchase agreements undertaken by the System Open Market Desk.

Profit or loss on foreign exchange transactions (net)

Participation in foreign exchange profits and losses, including revaluations of foreign currency holdings and outstanding swap commitments at current market exchange rates.

Discount on foreign currency

Loss on counterfeits (Only with approval of FRB Financial Accounting Section of the Board's RBOPS Division.)

Profit or loss on sales of United States Government securities held in System Open Market Account (net)

Profit or loss on the sale of works of art

60.70 - Charges Assessed and Waived for Deficiencies in Required Balances-Quarterly. Following the close of each calendar quarter, a report of charges applied to depository institution accounts for deficiencies in required balances (reserve or clearing) should be submitted to the FRB Financial Accounting Section of the Board's RBOPS Division on FR 1217, a copy of which is shown at 61.20. The report should be submitted by the 25th of the month and will serve as an advice of actions taken by Reserve Banks on waiver of penalties under delegated authority. A statement should be attached to the report describing the circumstances of each special waiver.

60.80 - Charge-Offs and Other Year-End Adjustments. A statement showing for the current year estimated income, expenses, and additions to and proposed deductions from income should be forwarded to the FRB Financial Accounting Section of the Board's RBOPS Division not later than December 15 of each year. If December 15 falls on a weekend, the report will be due to the Division the following Monday.

The statement may be submitted on FR 657 (61.25) with the word "estimated" typed and underscored across the top. A principal purpose of the statement is to inform the Board of large or unusual deductions in advance of the closing entries. Accordingly, the detail of additions and deductions on reverse of the estimated FR 657 may be omitted and an explanation given only with respect to a large or unusual item which was not covered in the quarterly FR 411 statements.

60.90 - Financial Results of Operation. A condensed statement showing income, expenses, and distribution of net earnings for the preceding calendar year as reported on the December 31 FR 34 (see 60.25) should be dispatched to reach the Accounting Section of the Division of Reserve Bank Operations and Payment Systems by 1:00 p.m. on the third business day of the year in the following form unless otherwise requested:

Code
EARL - Earnings from loans
EDGE - Earnings from acceptances
ESPY - Earnings from U.S. Government securities--System account
EPPA - Earnings from other U.S. Government securities
EFAC - Earnings on foreign currencies
ELSE - Income from services
ETCH - All other income
EACH - Total current income
EVER - Operating expenses
EPER - System net periodic pension cost
ETER - Cost of earnings credits
EARN - Current net income
EBID - Net additions or deductions
ERID - Cost of Unreimbursed Treasury services
ENID - Assessments for expenditures of Board of Governors
EGON - Assessments for cost of F. R. currency
EAST - Net income before payments to U.S. Treasury
EYRE - Dividends paid
EWES - Interest on Federal Reserve notes
EVEN - Transferred to surplus
TOME - Paid-in capital December 31
TORK - Surplus December 31

60.91 - Profit and Loss Statement. Annual profit and loss information, normally reported on form FR 657 (61.25), should be included in the annual Adjusted Trial Balance spreadsheets (ATB) and reported to the Division of Reserve Bank Operations and Payment Systems on the designated January closing date. The amounts in this section of the ATB should agree with the final data that is removed from the balance sheet (see 60.25). A detailed statement of additions to and deductions from current net earnings should be shown on the ATB according to annual instructions sent with the ATBs. These items should reflect (1) the amounts for the head office and Branches combined, and (2) the net for each category except that recoveries of losses on shipments of money should be listed under "Additions," and losses on shipments of money should be listed under "Deductions."

60.92 - Expense Report. Annual expense information is normally reported on form FR 96 (see 61.30), classified by object of expense. This information should be reported annually in even dollars, for head office and Branches combined, on the ATB spreadsheets and forwarded to the Division by the designated January closing date or other date as specified in special instructions from the Board. This early report is for use in preparation of the statement of income and expenses of the Federal Reserve Banks in the Board's Annual Report (and at times the February Bulletin). The amount reported for net expenses should agree with the same item reported in annual Profit and Loss information (FR 657) on the ATB.

60.93 - Income Report-Annual. An annual report of income classified by source (normally reported on FR 95 - see 61.10) should be included in ATB spreadsheets and forwarded to the Division on the designated January closing date. The information should be combined for the District.

60.94 – Real Estate Reporting Requirements-Annual and Special. This section provides instructions for the preparation and submission of accounting reports FR 612 and FR 892.

Book Value of Bank Premises or Other Real Estate:

Form FR 612 (61.60) is a summary of changes in the book value of Bank premises and other real estate and should be submitted to the FRB Financial Accounting Section of the Board's RBOPS Division by January 20 of each year for the year ending the previous December 31. The annual FR 612 is the primary source of data for completion of the Annual Report table, Acquisition Costs and Net Book Value of Premises of the Federal Reserve Banks and Branches (See 60.90). An FR 612 report should also be submitted whenever property is purchased or sold. Instructions covering the preparation of the various parts of these forms that are not self-explanatory are included below (See 30.40).

VAULTS

Vaults refer only to vaults for the storage of money, securities and other valuables. The amount reported should include the actual construction cost of the vault itself, and the cost of items such as the following: vault door linings, and fixed equipment inside the vault such as safes, partitions, chests, compartments, and shelves. Do not include ordinary office equipment and other free-standing equipment such as file cabinets and mechanical storage retrieval equipment which are located within the vault.

DEPRECIATION ALLOWANCE

"Special Depreciation" should be used to report credits to depreciation other than those made as a result of the normal monthly recording of depreciation. An example would be a charge-off made to recognize the impairment of an asset.

(Note: The FR 612, which is reported through RFARS, was modified in 2007 to include construction in progress balances. See illustration 61.60.)

Bank-owned Property Leased to Outside Tenants--Outside Space Rented for Bank Use:

Form FR 892 (61.61) is dual purpose because it is used to report either the lease of Bank-owned property to outside tenants or the rental of outside space for Bank use. Each office should submit an annual report, indicating lease or rental agreements in effect on December 31. A report should be submitted whether or not the office is leasing or renting space. If there are no leases in effect at the end of the calendar year, this should be indicated in the body of the report. Form FR 892 should reach the Division by

January 20th. In addition, a report should be submitted whenever a change occurs in a lease or rental agreement.

The reporting form is designed to accommodate information concerning several leases or rental agreements. In submitting the data, each lease or agreement should be shown on a separate line of the report. If an office is both leasing Bank-owned property and renting outside space, separate reports should be submitted covering each type of transaction, rather than combining them on the same report.

Following are specific instructions concerning the data to be reported under the various columns of this report.

Location--For outside space, show the street address, city and state. For Bank-owned space, indicate the floor location.

Terms of Lease--Indicate whether the lease is on a month-to-month, annual, or other basis.

Effective Date--Show the date upon which the lease agreement became effective.

Expiration Date--In the case of continuing leases, indicate the date the current lease expires and any optional renewal periods, if applicable. In all cases, when a lease is terminated, report the actual date of termination.

Rental Cost/Income--Show the amount of rental cost or income, in whole dollars, and indicate whether the amount is monthly or annually and whether the amount is per square foot or total cost. (Do not include amortization of leasehold improvements in the rent figure.)

Number of Square Feet--Report the number of usable square feet of space being rented.

Use of Space--For outside space rented for Bank use, indicate the use of space. For Bank-owned property leased to outside tenants, indicate the name of the tenant.

Comments--Any supplemental information that might be useful to the Board, such as additional amounts to be paid over and above rental charge, and special conditions of lease agreements. Such information need be furnished only for leases executed, terminated, or amended.

60.95 - Small and Disadvantaged Business (S&DB) Procurement Information. Until May 1999 when the Board issued S-letter 2593, which rescinded S-2492, each Federal Reserve Bank was required to submit an annual form FR 1425, a report of total contract dollars attributed to acquisitions from small and disadvantaged businesses and the proportion of contract dollars assigned to such businesses. The Reserve Banks' are still required to maintain records suitable to provide ad hoc reports to the Board.; however, the submission of an annual Form FR 1425 by February of each year is no longer required.

Summary Information should be captured as follows:

Total Contract Awards -- All contracts awarded and commitment dollars for the year, except for those awarded for personal services. The full liability of all purchase orders and contracts should be reported in the year in which they are executed, including the liability associated with all years of a multi-year contract. For any blanket or retainer type contracts that have an "open-ended" or "not-to-be-exceeded" dollar value, actual expenditures rather than commitment dollars should be reported.

Small Business Awards -- Contract awards, commitment dollars, and purchase orders to firms qualifying as a small business concern under the Small Business Act of 1953, as amended. Further, "small business" means a small business concern under Section 3 of the Small Business Act (15 U.S.C. Section 632) and the regulation promulgated thereto defining size standards for government procurement purposes, by SIC industry (13 C.F.R. Section 121.601 Et. S.E.Q.)

Disadvantaged Business Awards[3] -- Contract awards to firms that qualify as economically disadvantaged (minority) business concerns eligible for assistance under Section 8(a) of the Small Business Act. "Small Disadvantaged Business" is small as defined above, and in addition meets the criteria stated in section 8(A) of the Small Business Act; that is a business that is: 1) at least 51% owned, and 2) managed and operated on a daily basis, by one or more socially and economically disadvantaged individuals. Such individuals are defined as those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities. African Americans, Hispanic Americans, Native Americans, and Asian Pacific Americans are among those considered socially disadvantaged. Women-owned businesses should not be reported in this category unless they are a small disadvantaged business as defined above.

Supplemental Information should be captured as follows, if applicable:

Set Asides -- All contracts under $10,000 and any contracts over $10,000 for which proposals or bids were restricted to small and disadvantaged businesses. For proposals or bids to be restricted to small and disadvantaged businesses means that the list of vendors to which the proposal or bid is sent must be comprised of small and disadvantaged businesses only. If large businesses competitively bid on an item under or over $10,000 that is subsequently awarded to a small and disadvantaged business, the dollar value of this award should be reported as either a small business award or a disadvantaged business award.

60.96 – RBOPS Financial Accounting Reports System (RFARS). Commencing in 2001, Reserve Banks are required to submit certain Financial Accounting reports to the Board via web technology (see 61.62). The initial reports in the system include the following:

[3] The Reserve Banks may, in appropriate circumstances and with advice from its General Counsel, institute a disadvantaged business program, so long as that program does not include provisions that would be unlawful if included in a disadvantaged business program of a federal agency.

FR 415 – Currency Held by Federal Reserve Banks (monthly)
FR 95 – Income Report (quarterly)
FR 411 – Debits and Credits to Profit and Loss Account (quarterly)
FR 1217 – Charges Assessed and Waived for Deficiencies in Required Balances (quarterly)
FR 612 – Book Value of Bank Premises and Other Real Estate (annually, and as property is purchased/sold).

The URL for the website is:

[redacted]

Table 60.99 REPORTING REQUIREMENTS:

ALL DISTRICTS

Daily	**Monthly (3)**	**Quarterly (3)**	**Semi-Annually**	**Annually (3)**	**Special**
FR 34-Front*	FR 34-Back FR 415 (2)	FR 95 (2) FR 411 (2) FR 1217(2)	Large Notes Redeemed (FR5)*	FR 95 (1) FR 96 (1) FR 657** (1) FROP Wire*** ATB	

ALL OFFICES

Daily	**Monthly**	**Quarterly**	**Semi-Annually**	**Annually**	**Special**
FR 5*	Monthly Notes Redeemed (FR5)*			FR 34-Front FR 34-Back FR 612 (2) FR 892****	FR 612 - When property is purchased or sold (2) FR 892 - Upon changes to lease/rental agreements

All reports are to be filed in hard copy unless otherwise indicated.

* Submitted electronically
** Estimated and final.
*** Financial Results of Operations (EARL Wire)

**** Submit Report, whether or not space is leased or rented, to the Building Planning Section of the Division of Reserve Bank Operations and Payment Systems.

(1) Submitted via ATB. (Applies to the final FR 657 only.)
(2) Submitted via RFARS.
(3) If the reporting date falls on a weekend or holiday, the report is due the next business day.

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FR 415 (7/99)

CURRENCY HELD BY FEDERAL RESERVE BANKS

FEDERAL RESERVE BANK OF ______________________ (including branches)

For end of month ______________________
(MM,YYYY)

Currency Held		Amount (cents omitted)
Federal Reserve notes	Sum of items 210-050 and 210-075 on FR 34	$
Coin dollars	Breakdown of item 130-025 on FR 34	
Fractional coin		
Old currency series:		
National bank notes	Breakdown of total shown on FR 34 item 170-400	
Federal Reserve Bank notes		
Federal Reserve notes		
United States notes		
Silver certificates		
Gold certificates		
Total Currency Held		

Note: Items reported on this form must agree with form FR 34 for same period.

Prepared by ______________________

Telephone number (including area code) ______________________

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

INCOME REPORT

FEDERAL RESERVE BANK OF ______________________

For period ______________ (MM,DD,YYYY) through ______________ (MM,DD,YYYY)

Item No.	Source of Income	Amount (cents omitted)
1.	Loans	$
2.	Acceptances	
3.	U.S. Government obligations—System account	
4.	Other U.S. Government obligations	
5.	Other securities	
6.	Foreign currencies	
7.	Income from services	
8.	Penalties on deficiencies in required balances	
9.	Overnight overdraft charges	
10.	Daylight overdraft charges	
11.	Funds settlement fees	
12.	Examination fees	
13.	All other (specify below)	
14.	**Total income**	

Prepared by ______________________ Telephone number (including area code) ______________________

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

DEBITS AND CREDITS TO PROFIT AND LOSS ACCOUNT

FEDERAL RESERVE BANK OF ______________________ (including branches)

For the quarter ended ______________________
(MM,YYYY)

CREDITS TO PROFIT AND LOSS	Total for quarter
TOTAL	

DEBITS TO PROFIT AND LOSS	Total for quarter
TOTAL	
Net debit (–) or credit	

____
pared by

____
Telephone number (including area code)

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

CHARGES ASSESSED AND WAIVED FOR DEFICIENCIES IN REQUIRED BALANCES
(Regulation D—Section 204.7)

FEDERAL RESERVE BANK OF ______________________ (including branches)

For the quarter ended ______________________
(MM,YYYY)

Penalties	Number of Institutions That Were Deficient/ Assessment Reversals	Number of Deficiencies	Amount of Penalties
Assessed (incl. waiver reversals)			
Assessment Reversals—Deduct			
Net Assessments[1]			
Waived:			
Because of small size			
Infrequent deficiency			
Special			
Waiver reversals—Deduct			
Net Waived			

1. Should agree with Item 8 on FR 95 for the months covered by the Report.

Note: Data should be reported according to the quarter in which the penalty was actually assessed or waived. A description of each special waiver, stating the amount of the waiver, or alternatively a copy of the correspondence which would explain the waiver, should be attached to this report.

______________________ Prepared by

______________________ Telephone number (including area code)

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

FR 657 (7/99)

PROFIT AND LOSS STATEMENT

FEDERAL RESERVE BANK OF ______________________ (including branches)

For the year ________ (YYYY)

Item	Amount
Total income	$
Operating expenses	
Net periodic pension cost	
Cost of earnings credits	
Current net income	
Additions to current net income (itemize on reverse)	
Deductions from current net income (itemize on reverse)	
Net additions (+) or deductions (−)	
Cost or unreimbursed Treasury services	
Assessment by the Board:	
Board expenditures	
Federal Reserve currency costs	
Net income before payment to U.S. Treasury	
·idends paid	
d U.S. Treasury (interest on Federal Reserve notes)	
Transferred to surplus	
Surplus, January 1	
Surplus, December 31	

______________________ Prepared by

______________________ Telephone number (including area code)

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

Details of Additions to and Deductions from Current Net Earnings	Amount
Additions:	
Profit (net) on U.S. Government securities sold	$
Recoveries of losses on shipments of money and securities	
Profit on mutilated and on foreign currency and coin	
Profit (net) on foreign currency transactions	
Other additions to current net income (specify):	
Total additions	
Deductions:	
Loss (net) on U.S. Government securities sold	
Losses on shipments of money and securities	
Losses on cash and noncash items	
Losses on counterfeits	
Loss (net) on foreign currency transactions	
Other deductions from current net income (specify):	
Total deductions	

EXPENSE REPORT

FEDERAL RESERVE BANK OF ______________________ (including all offices)

For the year ________
(YYYY)

Object of Expense	Amount (cents omitted)
Personnel Expenses:	
Salaries—Officers	$
Salaries—Employees	
Other Personnel Expenses	
Retirement and Other Benefits	
Materials, Forms and Supplies Expenses	
Equipment Expenses:	
Equipment Purchases	
Equipment Rentals	
Equipment Depreciation	
Equipment Repairs and Maintenance	
Software	
Shipping Expenses:	
Postage	
Other Shipping Expenses	
ravel Expenses	
ommunications Expenses	
Building Expenses:	
Building Insurance	
Taxes on Real Estate	
Property Depreciation	
Utilities	
Rent	
Other Building Expenses	
Other:	
Fees	
Other	
Recoveries	
Contra Expense	
Shared Cost Distributed	
Shared Cost Received	
Installation Support Costs Distributed	
Installation Support Costs Received	
Total Expenses	
Reimbursements	
Net Expense	

Note: The Net Expense figure should agree with the amount shown on FR 657. The amounts by object should be consistent with amounts that will be reflected in the annual PACS Report.

______________________ ______________________
epared by Telephone number (including area code)

Accounting Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

[redacted]

Federal Re[redacted] Board

[redacted]

Annual Report

[redacted]se of Real Estate

[redacted]

Enter the dat[redacted]
i.e. 12/31/2001 should be entered if submitting an annual report for 2001.

Asset Account and Item	Beginning of Year	Additions	Deductions	End of Period
A. LAND:				
A1. Land	$0.00	$0.00	$0.00	$
A2. Land improvements	0.00	0.00	0.00	
A3. Total Cost				
B. BUILDING:				
B1. Building	0.00	0.00	0.00	
B2. Vaults	0.00	0.00	0.00	
B3. Total Cost				
C. BUILDING MACHINERY AND EQUIPMENT:				
C1. BM&E Total Cost	0.00	0.00	0.00	
D. TOTAL COST (Items A.3, B.3, and C.1)				
E. DEPRECIATION ALLOWANCES:	**Beginning of Year**	**Debits**	**Credits**	**End of Period**
E1. On Land Improvements				
Credit - Normal Depreciation	0.00	0.00	0.00	
Credit - "Special" Depreciation	0.00	0.00	0.00	
Debits	0.00	0.00	0.00	
E2. On Building				
Credit - Normal Depreciation	0.00	0.00	0.00	
Credit - "Special" Depreciation	0.00	0.00	0.00	
Debits	0.00	0.00	0.00	
E3. On Fixed Machinery and Equipment				
Credit - Normal Depreciation	0.00	0.00	0.00	
Credit - "Special" Depreciation	0.00	0.00	0.00	
Debits	0.00	0.00	0.00	
4. Total Depreciation				

[redacted]

61.60

[redacted]

F. NET BOOK VALUE OF ASSETS (Item D minus E)			

[redacted]

Other	Beginning of Year	Additions	Deductions	End of Period
G1. Construction in Progress	$ 0.00	$ 0.00	$ 0.00	$

[redacted]

Important: [redacted]

Calculate Submit Reset

[redacted]

61.60

892 (7/99)

BANK-OWNED PROPERTY LEASED TO OUTSIDE TENANTS—OUTSIDE SPACE RENTED FOR BANKS USE[1]

FEDERAL RESERVE BANK OR BRANCH ____________________

For the period ended ____________________
(MM,DD,YYYY)

Location	Terms of Lease	Effective Date	Expiration Date	Rental Cost/ Income[2]	Number of Square Feet	Use of Space
TOTAL						

Comments:

1. Indicate, by crossing out the appropriate words, which type of information is covered by this report.
2. Indicate, by crossing out the appropriate word, which type of information is reported in this column.

____
Prepared by

____
Telephone number (including area code)

Building Planning Section
Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

RBOPS FINANCIAL ACCOUNTING REPORTS SYSTEM

User ID: ____________

Logon | Reset

Maintained by RBOPS Information Systems, Board of Governors
Last Modified: January 22, 2001

[redacted]

61.62

CHAPTER 7
MAINTENANCE OF DEPOSIT ACCOUNTS

70.01 - General. The computation and maintenance of reserves is governed by Regulation D. This chapter contains the accounting principles to be followed in applying analysis adjustments to deposit accounts -- either reserve balances or clearing balances. It also covers the reporting of charges assessed and waived on reserve deficiencies.

Deposit analysis adjustments--also generally referred to as as-of adjustments--are memorandum items that are applied to the cumulative position of a depository institution to correct the impact of errors or to recover float incurred by the institution. The adjustments are undertaken administratively and are of three types. One category consists of those that stem from Reserve Bank involvement in the underlying transactions, the second concerns adjustments for errors made by the institutions, and the third arises from Federal Reserve float. Adjustments in the first category are based on the principle that depository institutions should not gain or lose in their reserve or clearing balance position as a result of accounting or administrative errors or delays in processing transactions by Federal Reserve offices[1]. Adjustments in the second category are undertaken out of a sense of equity as a service to depository institutions since the Reserve Bank, as bank of account, is often in the best position to correct the impact of transaction errors. The third type of adjustment arises from an institution's election of the float-payment alternative whereby a debit as-of adjustment is used to pay for float incurred by that institution. Whether a particular transaction qualifies for analysis adjustment depends on the underlying situation in light of these principles and the discussion in the following paragraphs.

70.10 - Examples of Deposit Analysis Adjustments. Analysis adjustments are issued to correct errors associated with a wide variety of transactions, for example, entries posted to the wrong reserve accounts, delays in posting entries, and erroneous entries originated by depository institutions. If an error is detected and corrected on the day that it occurs, no as-of adjustment is necessary. The following examples serve to illustrate the general nature of analysis adjustments and to indicate the action a Reserve Bank would ordinarily take in the particular circumstances.

---

[1] Under very rare circumstances, a reserve requirement-related as-of adjustment might also be warranted in conjunction with adjustments in the first category. See paragraph 70.90 Reserve Requirement-Related Deposit Analysis Adjustments.

Example A:
An incoming cash letter from Depository A is assigned the account number of Depository B and consequently credited to Depository B's account in error. Upon discovering the error, the Reserve Bank processes correcting entries and functions a decrease adjustment to Depository B's account and an increase adjustment to Depository A's account. Assuming a $5 million entry, which went unnoticed for two days, each adjustment would amount to $10 million.

Example B:
A one-day deferred cash letter of $300,000 received from Depository A is assigned a two-day deferment. When the error is discovered, an increase adjustment of $300,000 is granted to Depository A's account.

Example C:
The Reserve Bank charges Depository A's account for an outgoing cash letter that is scheduled to arrive at Depository A in time for processing on the current day. The following day Depository A tells the Reserve Bank that it did not receive the letter in time to meet its processing schedule. If investigation supports the depository institution's contention, an increase adjustment for one day is granted if the cash letter amount equals or exceeds $250,000.

Example D:
Depository A, in settlement of cash letters received from its correspondents, instructs the Reserve Bank to charge its deposit account and credit the accounts of Depositories B, C, and D. Depository A discovers a day later that the credit to Depository C should have gone to Depository E. Assuming a $300,000 entry, an increase adjustment of $300,000 is applied to Depository E's account and a decrease adjustment to Depository C's account in addition to the reversing entry on the second day.

Example E:
Depository A, which has elected the as-of adjustment float payment option, incurs $500,000 of interterritory float in week 1. In week 2, the Reserve Bank notifies Depository A of the amount of the float and in week 3 applies a debit as-of adjustment to the deposit account of Depository A.

Example F:
Upon notification of a cash shipment of $30,000, the Reserve Bank credits Depository A for $30,000. If the cash shipment is not received on a timely basis by the Reserve Bank, a debit as-of adjustment should be applied to Depository A's account.

70.20 - Equitable Application of Deposit Analysis Adjustments Related to Federal Reserve Transactions. To the extent possible, analysis adjustments necessary because of errors or delays in transactions processed by the Reserve Bank or for which the Reserve Bank is a party to the transaction, assuming timely notification, should be applied in a manner that does not adversely affect the institutions involved. Both the increase and decrease sides of an adjustment must be applied when two or more institutions are involved. The adjustments should not be set aside for several days awaiting instructions from an institution on the details of application, and the Reserve Bank should notify its customers promptly of sizable adjustment amounts that may influence the manner in which they manage their deposit accounts.

As a practical matter, some adjustments are not of sufficient size to affect a reserve or clearing balance position and in some cases the application of smaller amounts to an institution's position may actually require additional accounting by the institution with no apparent benefit. Reserve Bank staff should routinely apply as of adjustments for transactions that equal $25,000 or greater and the aggregate amount is $250,000 or more (e.g., if there is a $25,000 adjustment for eleven days, it would be $275,000 in the aggregate). The minimum dollar thresholds do not apply to other types of as-of adjustments or when requested by the depository institution on a case by case basis. The depository institution should notify the Reserve Bank within 45 calendar days from the date of the error. Calculation of the appropriate adjustment should be based on the time elapsed between the occurrence of the error and the notification of the Reserve Bank by the depository institution, not to exceed 45 days, plus the time elapsed in researching and processing the adjusting entry. Similar notification to other Reserve Banks of errors identified internally should occur within 45 days with a comparable limitation on the aggregate size of the adjustment.

Adjustments necessary because of errors or delays in work processed by the Reserve Bank generally should be applied to the maintenance period immediately following the period in which the correction is made and the institution notified, and the as-of adjustments is approved. Adjustments may be apportioned over multiple future reserve periods at the discretion of the Reserve Bank. When determining whether an adjustment should be applied in the next maintenance period or apportioned over the next and/or multiple future periods, the Reserve Bank should consider the institution's ability to offset the effect of the adjustment. In addition, the Reserve Bank may also consider the timing and size of the adjustment. Once a schedule of apportionment over several future periods has been established, the Reserve Bank should not deviate from the schedule to assist the institution in meeting unexpected deposit drains or other transactions affecting the reserve position.

Many depository institutions face low levels of required reserve or clearing balances that make it difficult to fully utilize as-of adjustments arising from Federal Reserve errors. To ensure that these depository institutions do not lose as a result of a Federal Reserve error by receiving as-of adjustments that cannot be reasonably offset, the Reserve Bank should offer the depository institution the option of explicit charges (see paragraph 70.75) or direct compensation (see paragraph 70.77).

As-of adjustments should not be made to periods prior to the period in which the error occurred. In some cases, however, adjustments for transactions involving prior reserve periods should be applied to the period affected by the transaction rather than to the next or future reserve periods. The test in these situations is whether such adjustments, if applied to the affected reserve periods, would reduce excess balances or eliminate deficiencies in account balances subject to charge. Prior period as-ofs should be made to eliminate any excess or deficiency directly attributable to the Federal Reserve error, with any remaining excess or deficiency applied in the next maintenance period Assume, for example, that Depository A was deficient by an aggregate $200,000 in maintenance period #2 and the Reserve Bank discovers on Thursday of period #3 that it failed to credit $50,000 on the second Friday of period #2 to Depository A's account. Assume further that $80,000 of the deficiency in period #2 may be offset in period #3. In this case the aggregate increase adjustment amounts to $300,000 ($50,000 times six days), and the Reserve Bank would therefore apply $ 200,000 to period #2 (to eliminate the reserve deficiency) and $ 100,000 to period #4, in addition to crediting Depository A's account for $50,000 on Thursday of period #3 to correct for the error in posting.

70.30 - Application of Deposit Analysis Adjustments Involving Another District. In the case of adjustments for errors or delays by a Reserve Bank in processing work affecting the account of an institution in another District, the Reserve Bank should provide the institution's Reserve Bank with the adjustment amount so that it may be applied to the institution's reserve or clearing balance position. However, as in the case of adjustments to the Reserve Bank's own respondents, some amounts are not of significant size to warrant the additional bookkeeping. In the absence of a request from an institution, the Reserve Bank may limit such adjustments to situations in which the amount of the original transaction is $25,000 per transaction and $250,000 in the aggregate. Requests for adjustments which cross District lines should be approved by an officer or designated manager of the Reserve Bank initiating the request, and any letter or telegraphic request should contain that officer's or manager's name and title.

70.35 - Deposit Analysis Adjustments Involving Non-Standard Holidays and Voluntary Closings. As-of adjustments are used in situations where a Reserve Bank is closed while a depository institution remains open (non-standard holiday) or when a depository institution is closed when the Reserve Bank is open (voluntary closing). The appropriate use of as-of adjustments in these cases is described below:

Non-Standard Holiday: As-of adjustments are used to prevent depository institutions' reserve or clearing balances from being affected by a delay in crediting when a Reserve Office is closed in observance of a non-standard holiday. For example, the New Orleans office used to close for Mardi Gras (non-standard holiday), although it now remains open. When non-standard holidays occur, the as-of adjustments should be applied to the maintenance period of the holiday or to the next maintenance period if the closure occurs on the last Tuesday or Wednesday of the maintenance period. Immediately after notifying the depository institutions involved, operating areas should notify the department responsible for formally issuing adjustments whenever the operating area decides to issue adjustments in excess of $100 million on any given day. Check float created for this reason should be adjusted through normal float-related as-ofs, and ACH float from this source should be adjusted through the use of pricing as-of adjustments.

Voluntary Closing: Depository institutions may request that check and ACH charges be deferred for business days in which they elect to be closed when the Reserve Banks remain open. If the Reserve Bank agrees, as-of adjustments are utilized to recover related float. Check and ACH float from voluntary closings should be adjusted through pricing as-of adjustments. These adjustments should be applied to the next maintenance period. (See 70.75).

70.40 - Deposit Analysis Adjustments to Correct for Errors of Record. Reserve Banks should no longer issue as-of adjustments for errors of record, which result from erroneous payments, with the exception of those associated with "improper transfers." Controls to prevent the misrouting of funds transfers and other types of errors of record are sufficient; therefore, as-of adjustments due to errors of record should be very infrequent.

70.50 - Deposit Analysis Adjustments to Correct for Errors in Reports of Deposits. A depository institution at times may make an inadvertent error when reporting data on its Report of Deposits (FR 2900). When the corrected data are transmitted, the revision might alter the institution's reserve balance requirement for the current maintenance period or an already completed maintenance period.

As-of adjustments are granted when the deposit revision alters the depository institution's reserve balance requirement so that the institution is not penalized for failing to meet the new required reserve balance or for holding excess reserves in the maintenance period(s) affected by the error. This policy also ensures that the depository institution meets all of its requirements over the longer run. As-of adjustments made to receive or provide compensation are applied to future maintenance periods and are accompanied by exactly offsetting as-of adjustments applied to the periods being revised. If the data revisions affect the reserve balance requirement for the current or future maintenance periods, the depository institution is expected to manage its reserve position in the relevant maintenance period. No as-of adjustments should be granted for these revisions.

For revisions that apply to maintenance periods that are already completed, the size of the matching as-of adjustments depends on a number of factors including: whether the original reserve position in the revised maintenance period was excess or deficient, whether the revision was up or down, the size of the revision relative to the original excess position and, in the case of a deficient original position, whether or not a penalty has been assessed. In some cases, the revision to required reserves will affect the depository's final position; in other cases it will not.

The Reserve Position Before Revision Was Positive or Zero

If the revising depository institution was not originally deficient in the affected maintenance period and required reserves are revised downward, then a future period credit as-of equal in magnitude to the revision to required reserves is applied along with an exactly matching prior period debit as-of. This provides full credit for the reduction to required reserves in a prior period; it leaves the original excess position for that period unchanged.

When required reserves are revised upward, then a future period debit as-of equal to the upward revision in required reserves net of any excess held in the affected maintenance period is applied. The netting procedure ensures that any excess reserves the depository held in the upward revised period are applied toward meeting the increase in required reserves. To the extent this is done, however, the excess position in the affected period must be revised down from its original level so that the same excess reserves would not be available in the event of a subsequent upward revision to the same maintenance period. The application of a prior period credit as-of having exactly the same size as the future period debit as-of eliminates the potential for any such multiple use of excess reserves.

Since an upward revision to the required reserves of a maintenance period originally in an excess reserve position reduces the depository's final position, additional adjustments may be required. Frequently, a reduced final position lowers the clearing balance held on which earnings credits may be paid, requiring adjustments to the depository's accumulated earnings credits. In some cases, a reduced final position may lead to a reduction in carryovers, which necessitates the recalculation of the following period's final position. If this recalculation leads to a deficiency subject to penalty (or increases an existing deficiency) in the following period, its effect must be offset with a credit as-of, matched by a future period debit adjustment.

The Reserve Position Before Revision Was Deficient

When a depository institution revises a maintenance period for which reserve balances fell short of the original reserve balance requirement, then the appropriate Reserve Bank response depends upon whether the deficiency charge was assessed or not.

- *<u>A Charge for the Original Deficiency Already Has Been Assessed When the Revision is Made</u>*
  In the case of a revision to a deficient maintenance period for which a charge has been assessed, matching future and prior period as-ofs exactly equal to the revision to the required reserve balance is applied. If the required reserve balance is revised <u>upward</u>, a future period debit as-of and a matching prior period credit as-of are applied; if the revision is <u>downward</u>, a future period credit as-of is applied, matched by a prior debit as-of. In both cases, the original deficiency is preserved.

- *<u>The Original Deficiency Has Not Been Assessed</u>*
  When a deficiency charge has been waived or is still pending and the required reserve balance is revised <u>downward</u> a future period credit as-of, net of the deficiency, is applied. A debit as-of for the same amount would be applied to the period being revised. If the downward revision is less than or equal to the deficiency, no as-ofs would be issued. If the charge is pending, the original amount subject to charge is reduced by the downward revision to the required reserve balance before being assessed. (If a deficiency that was originally carried forward is reduced, it is necessary to recalculate the following period's final position; any resulting increase is offset with a debit as-of for that period and a matching credit as-of applied to a future period.)
  An <u>upward</u> revision to the required reserve balance in the case of a pending or a waived charge results in a future period debit as-of equal to the entire deficient amount--the original deficiency plus the further deficiency.

The Reserve Bank should always process revisions to required reserves reflecting reporting errors regardless of whether they involve over or under reserving. The revisions to require reserves, and the calculation of resulting as-of adjustments, should be made to the period(s) of error up to a maximum of six months prior to the date of initial discovery of the error. There may also be circumstances when a waiver of charges is appropriate to deal with small errors or problems if the Reserve Bank feels such relief is appropriate in view of the institution's past record of reserve maintenance. The provisions of this paragraph are summarized in the chart on the next page.

SUMMARY				
Original Excess Position (ER)	Revision to Required Reserve Balance (RRB)	Penalty Action (if relevant)	As-of Applied to Period of Error[1]	Memo: Impact of Revision on the Final Excess Position
Positive or Zero	Up	--	CR = ΔRRB-ER	declines by ΔRRB (with lower limit of zero)
	Down	--	DR = ΔRRB	unchanged
Negative	Up	assessed	CR = ΔRRB	unchanged
	Down	assessed	DR = ΔRRB	unchanged
	Up	Waived or pending	CR = entire deficient amount	rises to zero
	Down	Waived or pending	DR = ΔRRB net of deficiency[2]	rises by ΔRRB (with upper limit of zero)

Note: DR = debit as-of
CR = credit as-of
1. An equal as-of but of the opposite sign is applied to a future maintenance period.
2. If the charge is pending, the original amount subject to charge is reduced by the downward revision before being assessed.

70.60 - Deposit Analysis Adjustments to Correct for Errors of Omission. Although some transactions may fail to reach the books of the Reserve Bank due to apparent oversight or error by a depository institution, as-of adjustments for errors of omission are inappropriate and should not be issued by Reserve Banks, with the exception of “unusual circumstances”(see 70.70).

70.70 - Deposit Analysis Adjustments Due to Unusual Events. It is recognized that certain events entirely out of the control of the Reserve Bank and its institutions can occur, such as widespread power failures, computer failures, and natural disasters. Adjustments may be appropriate to correct for the delays in work processed by the Reserve Bank in these circumstances. Such adjustments and waivers of charges are determined pursuant to guidelines developed by each Reserve Bank in response to the circumstances of the particular situation and after consultation with Board staff. These adjustments are still subject to normal rules regarding approvals, documentation, application, and coordination with other Reserve offices.

70.75 - Deposit Analysis Adjustments for Float Payment. As part of the implementation of pricing for float, depository institutions are allowed the option of paying for certain check and ACH float with a pricing as-of adjustment or an explicit billing charge to their account. A three-part procedure is to be followed for these institutions. For example, float incurred in week 1 will be determined during week 2, and the corresponding adjustment applied on Thursday in week 3. During week 2, the institution should be notified of the amount of the adjustment that will be applied.

In an exceptional case, where an as-of for float incurred in week 1 is too large for an institution to reasonably accommodate in week 3, part of the adjustment may be deferred to week 4, or week 5 if they are the first week of the next maintenance period. Such as-ofs may not be deferred beyond week 5. All float payment as-of adjustments should be applied regardless of size, including adjustments that are below the minimum transaction amount of $25,000 and below the minimum aggregate amount of $250,000 threshold.

Float payment as-of adjustments that are in dispute must be processed in weeks 3 or 4 pending resolution of the disputed charge. If the dispute is resolved in favor of the depository institution, a reversing as-of adjustment in the amount of the previous adjustment should be applied only on Thursday of the next or future maintenance period.

As-of adjustments to correct for errors in float pricing should always be applied to current or future rather than prior reserve periods. Retroactive application of float payment as-of adjustments is not allowed in any situation.

70.77 - Other Deposit Analysis Adjustments.

Reapplication of Deposit Analysis Adjustments - Once a schedule for application of as-of adjustments has been set, no deviations to the schedule should be allowed. In no case should a Reserve Bank grant requests by depository institutions to reapply previously agreed upon deposit analysis adjustments from one period to another.

Movement of Excess Balances - Reserve Banks should not accommodate requests from depository institutions to shift excess balances from one maintenance period to another through the issuance of deposit analysis adjustments.

Deficiency Charges - Regulation D provides for the use of as-of adjustments in lieu of monetary charges in certain situations. When this alternative is followed, the depository institution involved should be informed that the debit adjustment is a charge action. In addition, an offsetting credit as-of adjustment should be applied to the earlier deficit period to eliminate the deficiency.

IAS Same Day Settlement (SDS) - Many adjusting entries are sent via the IAS SDS module with as-of and float code information corresponding to the circumstances of the adjustment. As-of adjustments that should be classified with SDS float codes are those that result from SDS entries processed by the sending Reserve office when the receiving Reserve office is closed. These are also referred to as SDS holdover. This type of entry should be held overnight in the CHIP account of the sending Reserve office and automatically sent to the receiving Reserve office on the next business day with the associated as-of. The receiving office should report an identical amount in the "Nonparticipations" line of the Lagged Float Matrix for the same day (see the Introduction of the Lagged Float Reporting System manual).

Normal rules regarding approvals, documentation, application, and coordination with other Reserve offices apply.

Enforcement of Third-Party Deadline - As-of adjustments may be used to discourage funds transfer customers from violating the rules specified in the Funds Transfer Operating Circular regarding the third-party deadline. Such violations may include sending third party funds transfers during the settlement period. In these cases offsetting debit and credit as-ofs may be processed without the consent of the originating bank.

Direct Compensation in Lieu of Deposit Analysis Adjustments - In some situations a credit as-of adjustment may be due to a depository institution that cannot make use of the adjustment because of a low or zero reserve and/or clearing balance requirement. When this situation arises, the Reserve Bank may pay monetary compensation to the depository institution. This procedure is available in only two cases: 1) Reserve Bank errors when the total as-of adjustment exceeds 14 weeks of required balances for the institution and when monetary compensation is the only reasonable way to rectify a Reserve Bank error, and 2) situations where the Reserve Bank is required to pay direct compensation in accordance with section 210.32 of Regulation J in regard to Fedwire damages. The amount of the monetary compensation should be determined by applying the average federal funds rate in effect when the error occurred to the amount of the as-of adjustment. In the case of errors caused by another District, the Reserve Bank responsible for the error must reimburse the paying Reserve Bank for the cost of the direct compensation.

70.78 - Notification Procedures for Deposit Analysis Adjustments. The System's Open Market Desk, in its implementation of the monetary policy of the Federal Open Market Committee, requires accurate and timely information on the factors affecting reserves of depository institutions. The Monetary Projections Staff of the New York Reserve Bank is responsible for providing the Desk with daily projections of these factors. Deposit analysis adjustments affect these projections, and it is essential that information concerning these adjustments be received as early as possible.

Therefore, the Monetary Projections Staff of the Federal Reserve Bank of New York should be given telephone or e-mail [redacted] notification when the total amount of as-of adjustments to be processed on a given day and applied to the current maintenance period aggregate to a net amount of $100 million or more in any Federal Reserve District. When determining whether the net $100 million threshold has been reached, Reserve Banks should sum all float and nonfloat as-of adjustments processed on a given day that will be applied to the current or multiple future maintenance periods. Those as-of adjustments that apply solely to the next maintenance period need not be reported to the Monetary Projections staff since they will be reported on the Markstat M transmission. Do not include prior period adjustments or float pricing as-of adjustments. Reserve Banks should be prepared to report the nature of the as-of adjustment (float or non-float), the dollar amount, and, when known, the period to which the as-of adjustment will be applied (current or future). Reserve Banks may establish a separate reporting cut-off of $50 million per office.

Notification should be made as early in the day as possible. Revisions received by 9:00 a.m. Eastern time are the most helpful; however, information on as-of adjustments received before 9:30 a.m. should also be provided to the Monetary Projections Staff because the Trading Desk may enter the market more than one time. A Reserve Bank should notify the Monetary Projections Staff as soon as it is aware of as-of adjustments that will have a significant impact on reserves.

<u>70.79 - Control of Deposit Analysis Adjustments</u>. Reserve Banks should establish record systems for <u>all</u> as-of adjustments to insure that <u>all</u> float-related adjustments are correctly accounted for on Board reports and that <u>all</u> required offsetting adjustments are accomplished. The records should be in sufficient detail to facilitate an audit trail for the use of Bank auditors and Board Examination staff in verifying the accuracy and completeness of the data.

<u>70.80 – Requirements for the Reporting of Charges for Deficiencies in Required Balances</u>. Paragraph 60.70 provides instructions for the preparation and submission of the required Regulation D report FR 1217.

<u>70.90 - Reserve Requirement-Related Deposit Analysis Adjustments</u>. Analysis adjustments that correct for the impact of Federal Reserve errors on depository institution's required reserves are considered regulatory in nature and should only be issued if circumstances meet the following requirements prior to issuance:

> The situation must be caused by a major malfunction of Federal Reserve systems or procedures and the Federal Reserve must be the ultimate counterparty in the transaction.

A senior officer of the affected institution must request the as-of adjustment in writing and must submit documentation showing higher reservable liabilities without, or prior to, the Reserve Bank taking action.

A recommendation should be submitted by the Reserve Bank to the Director of the Division of Bank Operations and Payment Systems, or delegate, for review, in light of the impact on the money stock and on the implementation of monetary policy and; concurrence, generally in writing, that reserve requirement related as-ofs are warranted. A copy should be sent to the Subcommittee on Credit, Reserves and Risk management (SCRRM) for informational purposes.

If all of the above requirements are met, the as-of adjustment(s) should reflect the amount of the error and each affected depository institution's reserve requirement ratio. When multiple Districts are involved, SCRRM will advise the Director of the Division of Reserve Bank Operations and Payment Systems, or delegate, and Reserve Banks of the situation, in writing. After assessing the situation, the Director, or delegate, in conjunction with SCRRM, will confer on whether or not to issue reserve-requirement as-of adjustments. The Director will make the final decision and issue a written directive to the Reserve Banks.

These reserve requirement-related as-of adjustments should be computed by applying the depository institution's marginal reserve requirement against the aggregate amount of the as-of adjustment issued to offset the effect of the error on reserve/clearing positions.