






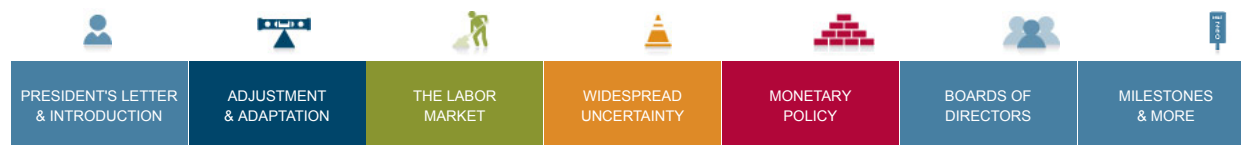


# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011

						
PRESIDENT'S LETTER & INTRODUCTION	ADJUSTMENT & ADAPTATION	THE LABOR MARKET	WIDESPREAD UNCERTAINTY	MONETARY POLICY	BOARDS OF DIRECTORS	MILESTONES & MORE

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Letter from the President



As I write my yearly letter to introduce the Federal Reserve Bank of Atlanta's annual report, I have just completed five years at the helm of the Bank.

They have been a challenging five years. We have been through, among other things, recession, bank failures, frozen credit markets, economic turmoil, and the impact of historically low interest rates. And the recovery continues to be a multiyear process that is proceeding at a modest and uneven pace. This annual report focuses on factors that shaped economic performance in 2011.

The report marks the first time the Federal Reserve Bank of Atlanta has produced a solely electronic version. We have developed an interactive, multimedia report, complete with dynamic infographics. We created these features to help us paint a picture of the 2011 economic year and the forces that shaped it. Major milestones for the Bank's overall work during the year are also included in the report.

Embedded in this letter and throughout the accompanying economic commentary are short video segments that enrich the text. I encourage you to watch the videos.

In the commentary, we describe four major forces that helped to shape the economy in 2011, a year marked by modest growth at an uneven pace and by similar experience with regard to unemployment. This unevenness also characterized inflation over the year, but by year's end, broad price pressures had subsided.

This annual report will look at these four forces individually and examine how they influenced the economy in 2011 and also positioned the economy for 2012. The first force felt throughout the year was a continuing process of economic adjustment and adaptation, including "deleveraging." Banks worked on their portfolios to reduce their exposure to real estate, households reduced their debt, and government entities adjusted their finances. As the year wore on, it became more apparent to me that adjusting, adapting, and deleveraging are particularly apt words for what was happening in the economy. For more on this force, watch the video. [Video](#)

The second force was certain dynamics in the labor market. The Federal Reserve Bank of Atlanta was particularly interested in the way that these labor dynamics played out in our region. I explain this in the video. [Video](#)

The third force was a pervasive atmosphere of uncertainty. The year saw a number of developments that worked to slow economic growth nationally and globally. Concerns regarding regulation, fiscal policy, taxes, and health care costs on the national front and concerns regarding the ongoing sovereign debt crisis in Europe created widespread uncertainty. Shocks related to natural disasters and severe weather such as the Japanese tsunami and nuclear plant meltdown exacerbated this uncertainty. In the face of uncertainties, business became more reluctant to borrow and invest, and consumers became more reluctant to spend. All of this created a drag on the economy. While hard to define, it is clear that uncertainty was a major force in 2011, as I explain in the video. [Video](#)

The last force was monetary policy. The Federal Open Market Committee (FOMC) held to the accommodative low-interest rate stance of the previous year. And the FOMC undertook some additional actions in 2011, including efforts to enhance communication around policy. More on this in the video. [Video](#)

In 2011, all these influences were at work in a year of slow progress towards full economic recovery. While uncertainty and factors in the labor market were largely negative, adjustment and adaptation along with monetary policy were forces working to bolster growth, especially in the longer run. Recoveries are never straight-line situations. There are ups and downs, twists and turns. The economic commentary throughout this annual report will shed some light on these dominant issues.

## RELATED LINKS

- [ATLANTA FED'S FINANCIAL STATEMENT \(LINKS OFFSITE\)](#)

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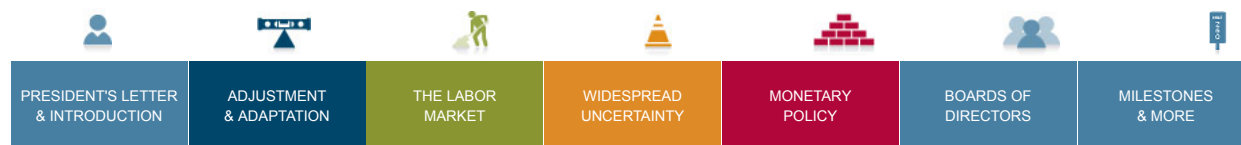
MONETARY POLICY: [VIEW VIDEO](#)

Finally, I want to thank all the members of our boards of directors and our advisory councils for their wise input and for their service to the Federal Reserve Bank of Atlanta.

A handwritten signature in black ink, appearing to read "Dennis P. Lockhart". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dennis P. Lockhart

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Four forces

The nation's economic performance in 2011 was disappointing. The Federal Reserve Bank of Atlanta's 2011 Annual Report aims to explain some of the reasons why economic performance was not better.

Entering the year, many people expected a more vigorous expansion than the 1.7 percent growth in gross domestic product (GDP) that the nation actually experienced for 2011. Annual GDP growth for 2010 was 3 percent, near the nation's postwar average, and indicators of production and household spending had strengthened late in the year. At the same time, the labor market was slightly better on balance, in line with expectations. These and other factors set the stage for an optimistic outlook regarding economic performance in 2011.

However, numerous forces conspired to slow the recovery. This commentary is not intended to be an exhaustive study of all the factors that influenced the nation's economy last year. Rather, it is an attempt to illuminate four basic forces that played a key role in shaping the economic year.

Three of these forces were significant impediments to stronger near-term economic performance:

- Businesses, households, and the public sector worked on repairing balance sheets, in ongoing efforts to adjust and adapt to an altered economic environment.
- Labor market dynamics dampened progress in reducing unemployment.
- Pervasive global uncertainty inhibited investing, hiring, and spending.

The fourth was a counterweight designed to strengthen the recovery:

- Monetary policy was intended to mitigate the negative effects of the other forces, especially uncertainty.

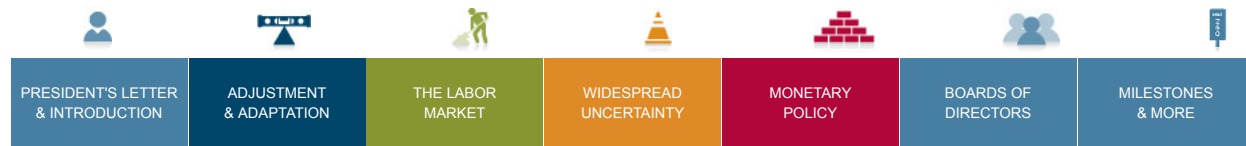
These forces are interrelated, and are not discrete influences on the U.S. economy. They both overlay and interact with one another. By focusing on adjustment and adaptation in several sectors, labor market dynamics, uncertainty, and monetary policy, we hope to provide insight into the performance of the nation's and the Southeast's economies in 2011.

## RELATED LINKS

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“Monetary policy was intended to mitigate the negative effects of the other forces, especially uncertainty.”

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



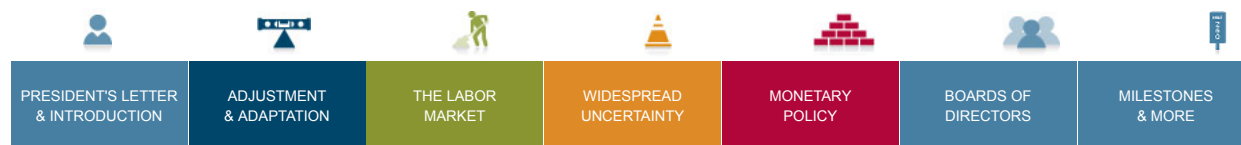
## Adjustment & adaptation

The length and depth of the recent recession and the severity of the financial crisis that preceded it made a broad rebalancing among various sectors of the macroeconomy such as housing and financial services a necessary clean-up phase.

Within the various sectors, a similar process of adjustment and adaptation was going on, much of it entailing deleveraging. Balance sheet repair occurred in four primary areas. Households focused on paying down credit card and other debt while boosting savings. Large businesses advanced in strengthening balance sheets and solidifying cash reserves. Financial institutions continued to improve their balance sheets while also adjusting to regulatory reforms and adapting their business models. Finally, governments at all levels grappled with revenue shortfalls and fiscal imbalances.

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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## A period of adjusting and adapting



The collective efforts of consumers, businesses, financial institutions, and governments to repair balance sheets were a major force shaping the economy's performance in 2011. The nation was experiencing something different from a typical cyclical recovery because of the length and depth of the recent recession and the severity of the financial crisis that preceded it. A broad rebalancing among various sectors of the macroeconomy such as housing and financial services was a necessary clean-up phase following the so-called "Great Recession."

Within these sectors, a similar process of adjustment and adaptation was going on, much of it entailing deleveraging. In 2009, at the end of the recession, the total domestic debt of nonfinancial components of the U.S. economy (households, nonfinancial businesses, and governments) reached 248 percent of gross domestic product (GDP). That figure was an increase of nearly 75 percentage points over the debt-to-GDP ratio a decade earlier.

Balance sheet repair occurred in four primary areas. Households focused on paying down credit card and other debt while boosting savings. Large businesses advanced significantly in strengthening balance sheets and solidifying cash reserves. Meanwhile, financial institutions continued to improve their balance sheets while also adjusting to regulatory reforms and trying to adapt their business models. Finally, governments at all levels grappled with revenue shortfalls and fiscal imbalances.

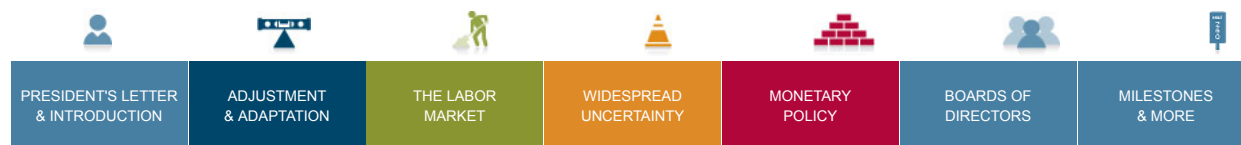
The deleveraging that was undertaken in these four areas was a necessary step toward regaining balance between assets and debts and heading toward recovery. But it also likely suppressed demand and inhibited investing and lending, which could partly explain why progress was so fitful in 2011.

## RELATED LINKS

- [ATLANTA FED PRESIDENT LOCKHART ON DELEVERAGING](#)
- [FLOW OF FUNDS ACCOUNTS OF THE UNITED STATES REPORTS ON DEBT AS A PERCENTAGE OF GDP](#)

“Governments at all levels grappled with revenue shortfalls and fiscal imbalances.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Household deleveraging steadily progressed



Household finances improved somewhat in 2011 as consumers continued to pay down debt. Federal Reserve measures of household financial obligations ratios (FOR) reached their lowest levels since the mid-1980s. *See the chart.*

Personal income barely grew until the end of the year, so the primary way consumers lowered their debt was through saving more and spending less than they had in previous years.

## RELATED LINKS

- [HOUSEHOLD DEBT SERVICE AND FINANCIAL OBLIGATIONS RATIOS](#)
- [THE BEA'S PERSONAL INCOME AND OUTLAYS](#)

“This save-more-spend-less process likely contributed to the slower rate of growth overall.”

### Sidebar: Region's households followed the nation's

The behavior of southeastern consumers largely followed the same pattern as the rest of the nation's consumers, as gauged by sales tax collections. As a broad measure of retail activity, sales tax collections in the southeastern states rose in 2011. Georgia and Tennessee reported particularly strong year-over-year gains in sales tax collections late in 2011. However, the pace of growth in most states in the region was slower in the second half of the year. *See the chart.*

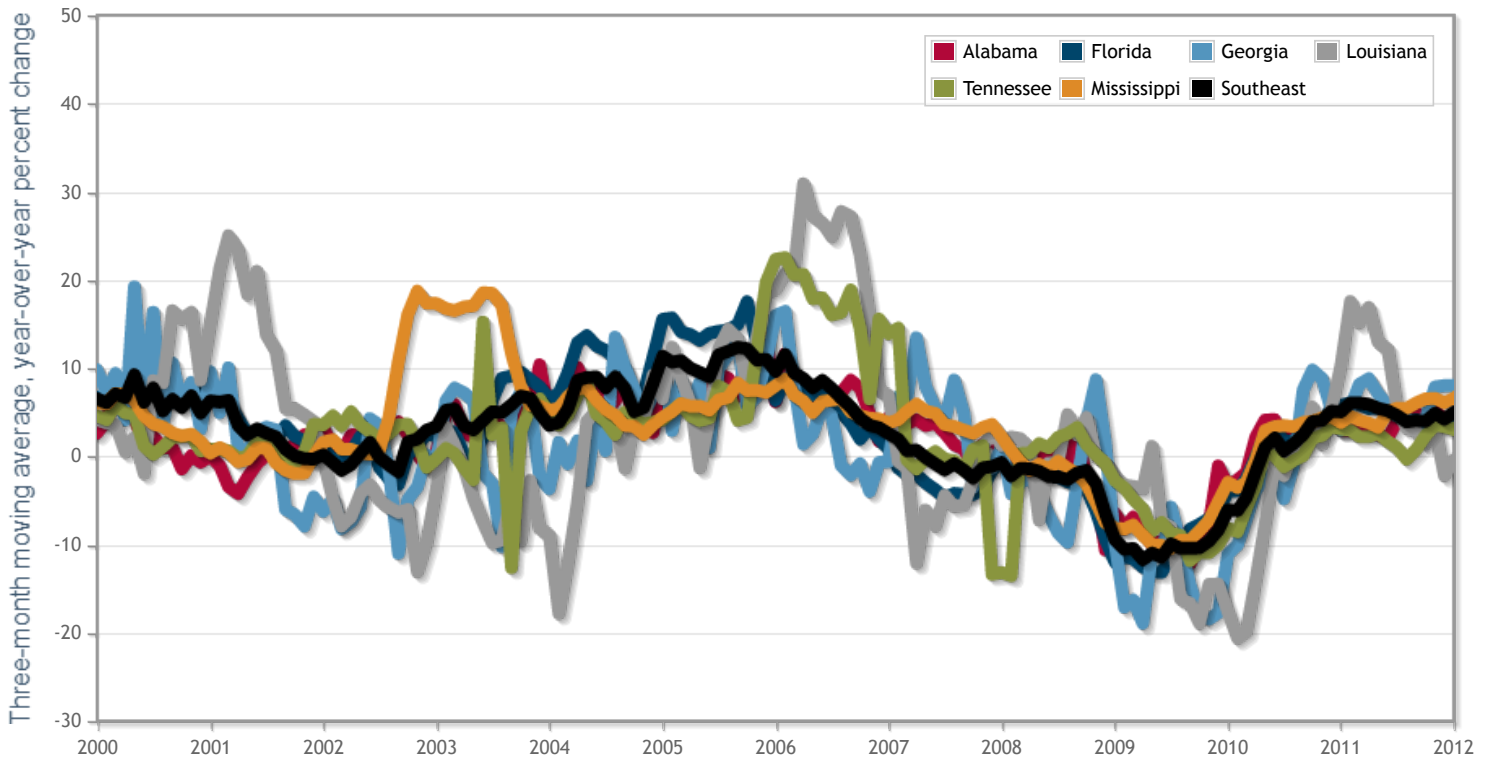


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- [Beige Book, Sixth District](#)
- [Atlanta Fed's REIN data digests for sales tax statistics](#)

Because consumer spending typically accounts for nearly 70 percent of the U.S. economy's total demand, this save-more-spend-less process likely contributed to the slower rate of growth overall. Consumer spending merely inched forward for the year, as real personal consumption expenditures rose just 2.2 percent from 2010, according to the U.S. Bureau of Economic Analysis.

Southeastern Sales Tax Revenues



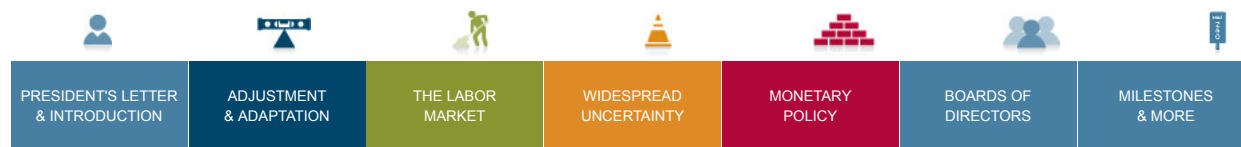
Note: Data are through December 2011.

Source: State departments of revenue

Click and drag your cursor over a date range to zoom in on a line. A double-click on the chart will reset the zoom. Click on a state or region name in the legend box to toggle corresponding chart lines off and on.



# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Business balance sheets showed a mixed picture



Large and small businesses were on different tracks in 2011. Balance sheets of larger companies were mostly liquid because they had already accomplished considerable deleveraging. And they were generating cash because of cost-cutting efforts and productivity enhancements. By the end of the year, nonfinancial corporations held a record \$672 billion in cash assets, according to the Federal Reserve Board.

One reason for this liquidity is that larger businesses worked hard to increase productivity and cut costs. As a result, even amid modest overall demand growth, large businesses were profitable and positioned to stay that way by continuing to focus investments. In the fourth quarter of 2011, corporate profits from current production reached an all-time high of nearly \$2 trillion. *See the chart.*

Business investment grew at a reasonably strong pace during much of 2011. However, based on anecdotal information from Atlanta Fed business contacts, that spending continued to be focused mostly on productivity enhancements rather than on expansion or hiring.

The experience of small firms throughout much of 2011 differed from that of the larger businesses. Smaller firms continued to struggle with sluggish sales. Demand for credit by small firms increased considerably in the fourth quarter of the year, which suggests that the year ended on a more promising note for small companies. However, according to the Federal Reserve's 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices, lending standards remained essentially unchanged.

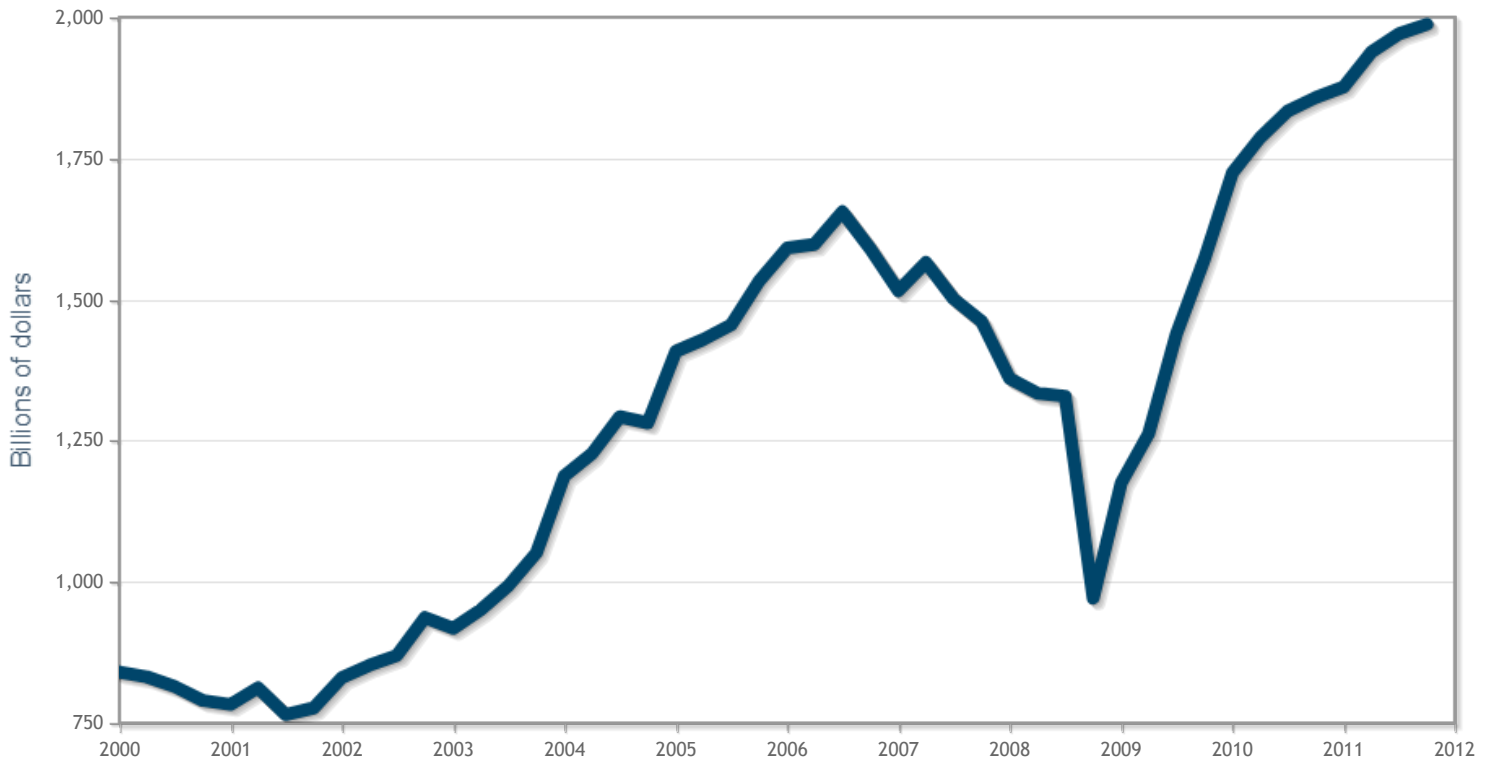
With regard to balance sheet strength, liquidity, and financial position, it was better to be bigger in 2011.

## RELATED LINKS

- [THE BEA'S CORPORATE PROFITS REPORT](#)
- [ATLANTA FED'S Q3 2011 SMALL BUSINESS SURVEY](#)
- [JANUARY 2012 SENIOR LOAN OFFICER OPINION SURVEY](#)

“Even amid modest overall demand growth, large businesses were profitable and positioned to stay that way.”

Corporate Profits with IVA and CCAj

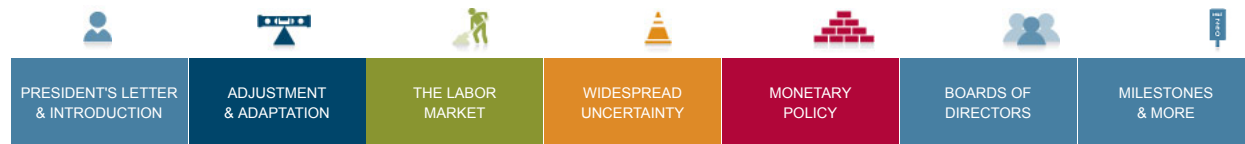


Notes: Data are seasonally adjusted, annual rate, and are through fourth-quarter December 2011. Data value inventory at current cost ("IVA"), and estimate economic depreciation at current cost ("CCAj").

Source: U.S. Bureau of Economic Analysis

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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Banks, financial system adjusted to postcrisis realities

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The financial system made significant progress in general in 2011 but has yet to recover completely. As the year ended, the housing sector was still weak and posed a significant hindrance to the health of the financial system. For the year as a whole, sales of new homes were at their lowest level since the federal government began keeping records in 1963. Homes in foreclosure continued to clog the market and exert downward pressure on house prices.

Policymakers have developed several programs to try to restore the health of the housing market since the mortgage crisis began. So far, these housing relief programs have had limited success. For example, in 2009, the Federal Housing Finance Agency (FHFA) introduced the Home Affordable Refinance Program (HARP). This program was intended to allow qualified borrowers with mortgages owned or backed by one of the government-sponsored enterprises to refinance, even if these borrowers would not qualify for a traditional refinance. The FHFA hoped that HARP would reach 5 million homeowners. However, by the end of 2011, only about 1 million mortgages had been refinanced through HARP. Housing experts suggest the relatively low participation rate can be partly attributed to lender worries about GSE putback risks. The Home Affordable Modification Program (HAMP) is a federal program created to help financially struggling borrowers lower their monthly payments rather than refinance their mortgages. HAMP also has had only moderate success. Policymakers continue to debate and discuss relief programs that could bolster the housing market and spur economic growth.

Some bright spots appeared last year despite the generally depressed state of the housing market. At the end of December, the national inventory of homes for sale stood at just over a six-month supply, down from a high of 11 months in the third quarter of 2010, according to the National Association of Realtors. Such a decline must occur before the housing market can improve. A supply of about six months is generally considered the market's equilibrium. *See the chart.*

- [BERNANKE'S SPEECH ON MACROPRUDENTIAL REGULATION](#) *FINANCIAL UPDATE*
- [THE LIVING WILL RULE](#) *FINANCIAL UPDATE*
- [NATIONAL BANKING TRENDS](#) *FINANCIAL UPDATE*
- ["THE U.S. HOUSING MARKET: CURRENT CONDITIONS AND POLICY CONSIDERATIONS"](#)
- [FHFA'S 2011 FORECLOSURE PREVENTION & REFINANCE REPORT, Q4 2011](#)
- [FED GOVERNOR ELIZABETH DUKE ON THE HOUSING MARKET](#)
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Atlanta Fed Senior Vice President Mike Johnson talks about banking conditions in the Southeast.

“Policymakers have developed several programs to try to restore the health of the housing market.”

### Sidebar: The Southeast housing market reflected lasting effects of boom-bust

The continued drag of housing on the economic recovery in 2011 was a national story. But the critical role of housing may have been even more pronounced in the Southeast—and especially so in the region's once-booming housing markets, including metropolitan Atlanta.



Fueled by dynamic in-migration, home construction in turn powered strong economic growth in Atlanta before the recession. From 2000 to 2006, no metro area in the country issued more residential building permits than Atlanta. During those years, builders took out more than 68,000 residential permits on average each year, compared to fewer than 9,000 in 2011. *See the chart.* Furthermore, Atlanta saw the nation's biggest decline in single-family home prices between November 2010 and November 2011, according to the S&P/Case-Shiller Index.

Atlanta's long-standing reliance on population growth and the housing industry served to restrain the area's economic recovery. At the end of 2011, metro Atlanta's unemployment rate was 9.3 percent, compared to 8.5 percent nationally.

Other once-booming housing markets in the Southeast, including Miami and Tampa, also suffered unemployment rates higher than the national average as 2011 ended. The year-end jobless rate in the Miami-Fort Lauderdale-Pompano Beach metropolitan area was 9.5 percent, and in Tampa-St. Petersburg-Clearwater, it was 10.1 percent.

#### Related Links

- [BLS's Economy at a Glance \(metro Atlanta\)](#)
- [BLS's Economy at a Glance \(metro Miami\)](#)
- [BLS's Economy at a Glance \(Tampa-St. Pete-Clearwater\)](#)
- [National Association of Realtors housing stats](#)
- [SouthPoint housing posts](#)

Banks' efforts to repair their balance sheets took place in a challenging environment. Consolidation in the industry continued throughout 2011. At year's end, the Federal Deposit Insurance Corporation (FDIC) was insuring some 7,400 institutions—about 300 fewer than it had insured a year earlier. Some banks failed outright. Others merged—the FDIC listed almost 200 bank mergers during the year, about a 15 percent increase from the number that occurred in 2010.

Banks were also adapting to the first full year of regulatory reform after Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. Key elements of this large and complex legislation were intended to enhance financial stability; reduce taxpayer exposure to losses from failing financial institutions, including preventing "too big to fail" occurrences; strengthen consumer protection; and strengthen investor protection.

The Federal Reserve and other federal financial regulators were in the early stages of formulating and implementing regulations under the act. Striking the right regulatory balance was and continues to be critical, said Michael Johnson, senior vice president and head of the Atlanta Fed's Supervision and Regulation Division. [See the video](#). The Fed, along with the other regulatory agencies, worked to ensure as much as possible the safety and soundness of the financial system without crippling the ability of financial institutions to make a profit.

As Federal Reserve Governor Daniel Tarullo explained in testimony before the Senate in December 2011, such efforts mean "implementing the [Dodd-Frank] statute faithfully, in a manner that maximizes financial stability and other social benefits at the least cost to credit availability and economic growth." To that end, Federal Reserve teams of supervisors, legal staff, economists, and other specialists worked to develop practical rules and to avoid unintended consequences of regulation. In particular, the Federal Reserve tried to minimize the regulatory burden on smaller financial institutions.

"It's a multiyear process," Johnson said of implementing a new regulatory regime. "It's still very much in the early stages."

Finally, smaller banks especially were trying to adjust their business models by reducing their reliance on lending secured by real estate. As small banks worked to diversify away from real estate lending, they faced a new challenge, as the demand for loans from businesses and consumers was not strong in 2011.

#### Sidebar: Southeast banks worked to lower real estate concentrations

During 2011, total assets at Southeast banks declined by 8 percent from the prior year, more than double the decline at banks outside the region. Meanwhile, southeastern banks were working to change the composition of their loan portfolios. Most notably, they sought to reduce exposure to real estate. Banks had some success with regard to commercial real estate (CRE). Between 2001 and 2007, CRE loans had risen from about 33 percent to 55 percent as a share of total loans at Southeast banks with less than \$10 billion in assets. By the end of 2011, CRE concentration for these smaller southeastern banks had declined to 49 percent of total loans.



But reducing concentrations in residential real estate proved to be a protracted process. Banks faced the reality that the backlog of homes for sale had to shrink before banking conditions could substantially improve. In addition, soft new loan volume made it hard to counterbalance existing real estate assets. Without strong demand, banks found it difficult to increase lending—particularly community banks that traditionally relied heavily on real estate lending.

On a brighter note, the latter half of 2011 saw southeastern banks' capital positions, nonperforming loans, and even earnings improve. Asset quality in the region was significantly better. Charge-offs fell late in 2011 to their lowest level since the worst of the financial crisis in 2008. [See the chart](#). These improvements allowed banks to reduce their provisions to cover loan losses, which in turn helped boost profits. Still, in all these areas, banks in the Southeast improved less than their peers did nationally.

The residential mortgage market in the Southeast also somewhat improved on a year-over-year basis in every major mortgage delinquency and foreclosure category. For example, total past due first mortgages fell from 17.2 percent in December 2010 to 16.3 percent in December 2011. Seriously delinquent loans dropped slightly, as did foreclosures. [See the chart](#).

#### Related Links

- [Atlanta Fed conference on Impediments to a Real Estate Recovery](#)

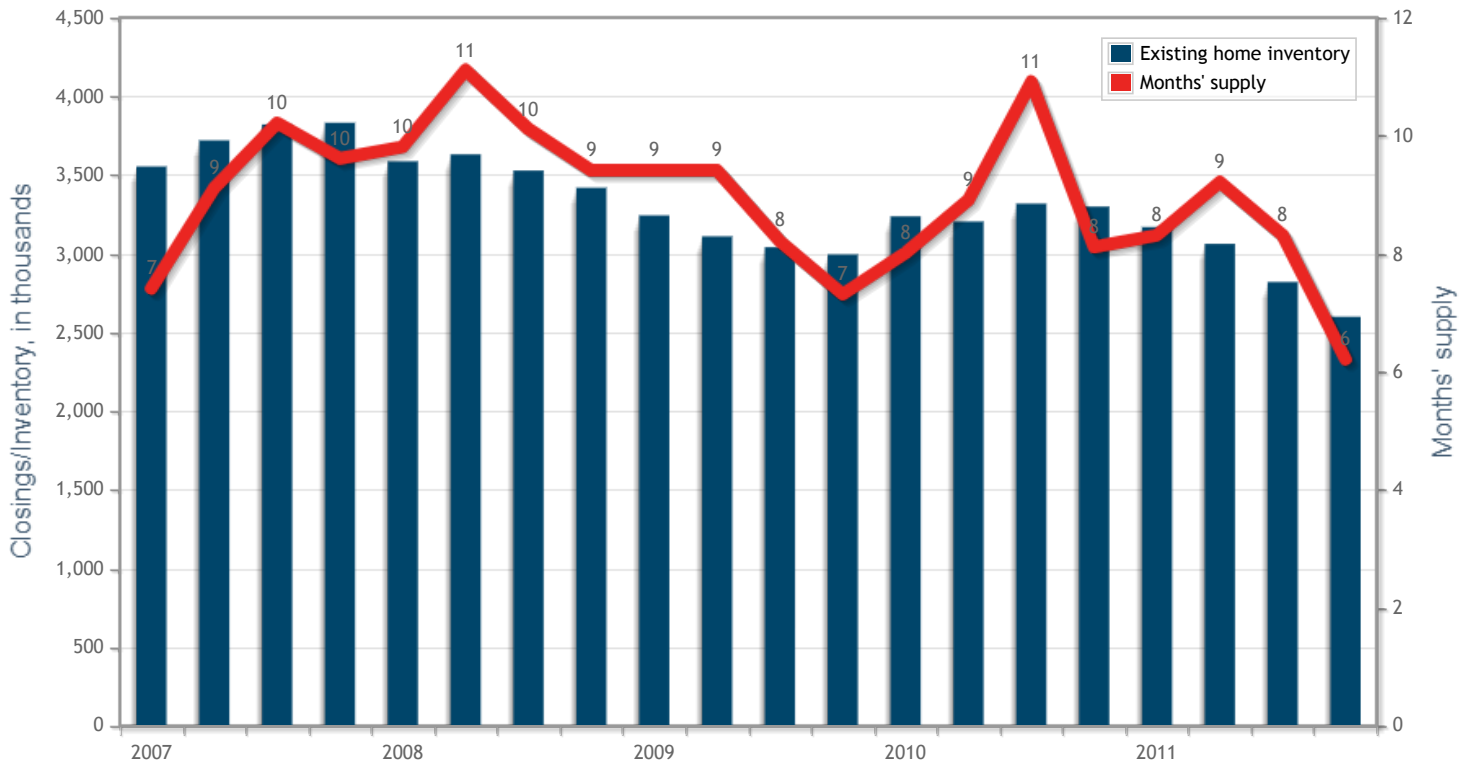
- [Podcast on commercial real estate credit](#)
- [on the state of the Sixth Federal Reserve District](#)*Financial Update*
- ["Southeast Mortgage Performance Continued to Improve in the Fourth Quarter"](#)

In the fourth quarter of the year, annualized loan growth for all commercial banks was 7.8 percent. However, the loan volume of smaller banks had shrunk by about 1.7 percent while larger banks had experienced annualized growth of 10.4 percent, according to data compiled from bank call reports filed with regulatory agencies.

Meanwhile, issuance of consumer asset-backed securities (ABS) was relatively unchanged from 2010 *See the chart*. New auto ABS continued to experience issuance close to precrisis levels, increasing from about \$58 billion in 2010 to about \$68 billion in 2011. Credit card and student loan securitizations remained subdued. The slow pace of credit card ABS issuance is consistent with the broader trend of consumers paring down their debts. ([See the section on household deleveraging.](#))

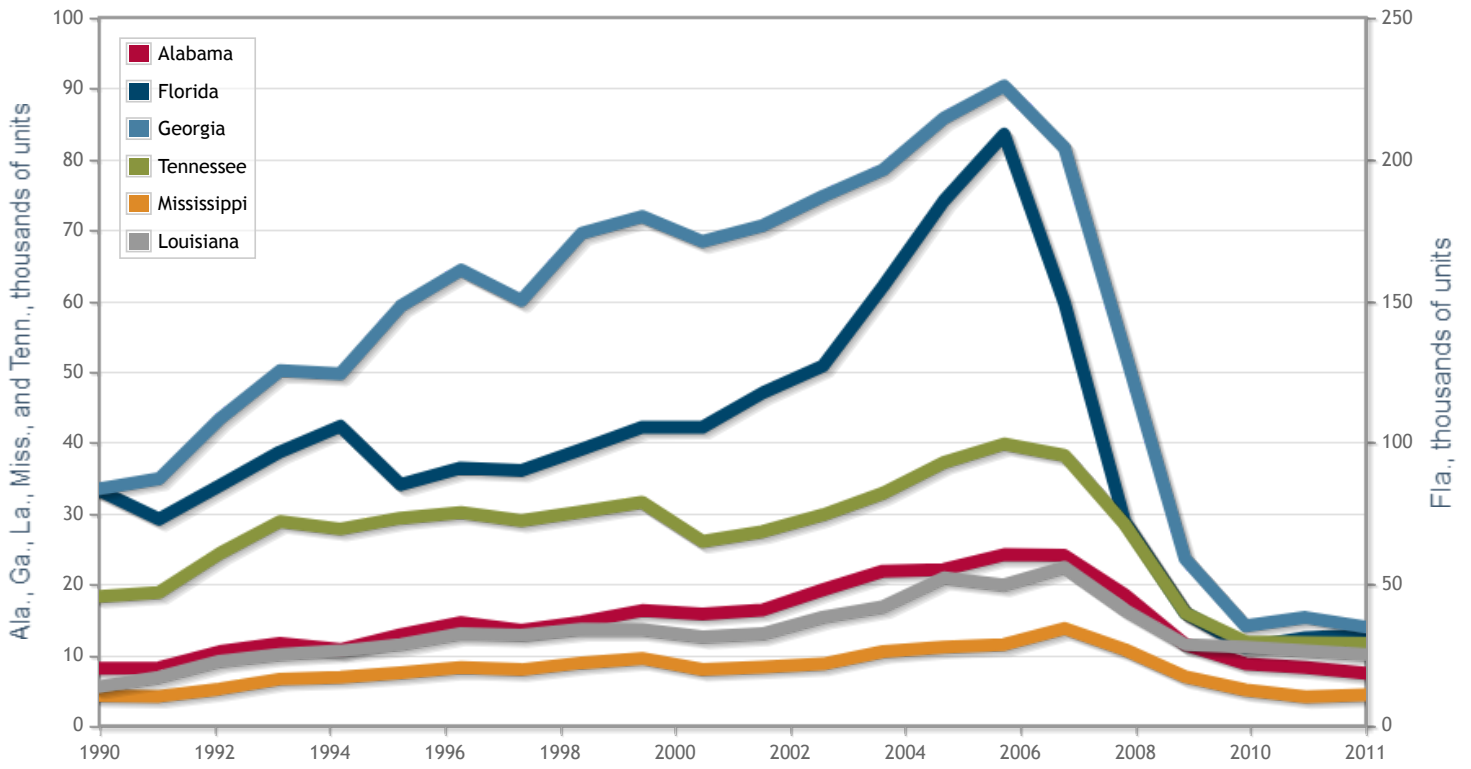
The financial system generally—and the banking sector particularly—made progress on balance sheet repair during 2011, but did not return to full strength.

Existing Home Market Closings and Inventory Trends (Annualized)



Source: National Association of Realtors

Annual Single-Family Home Permits in the Southeast

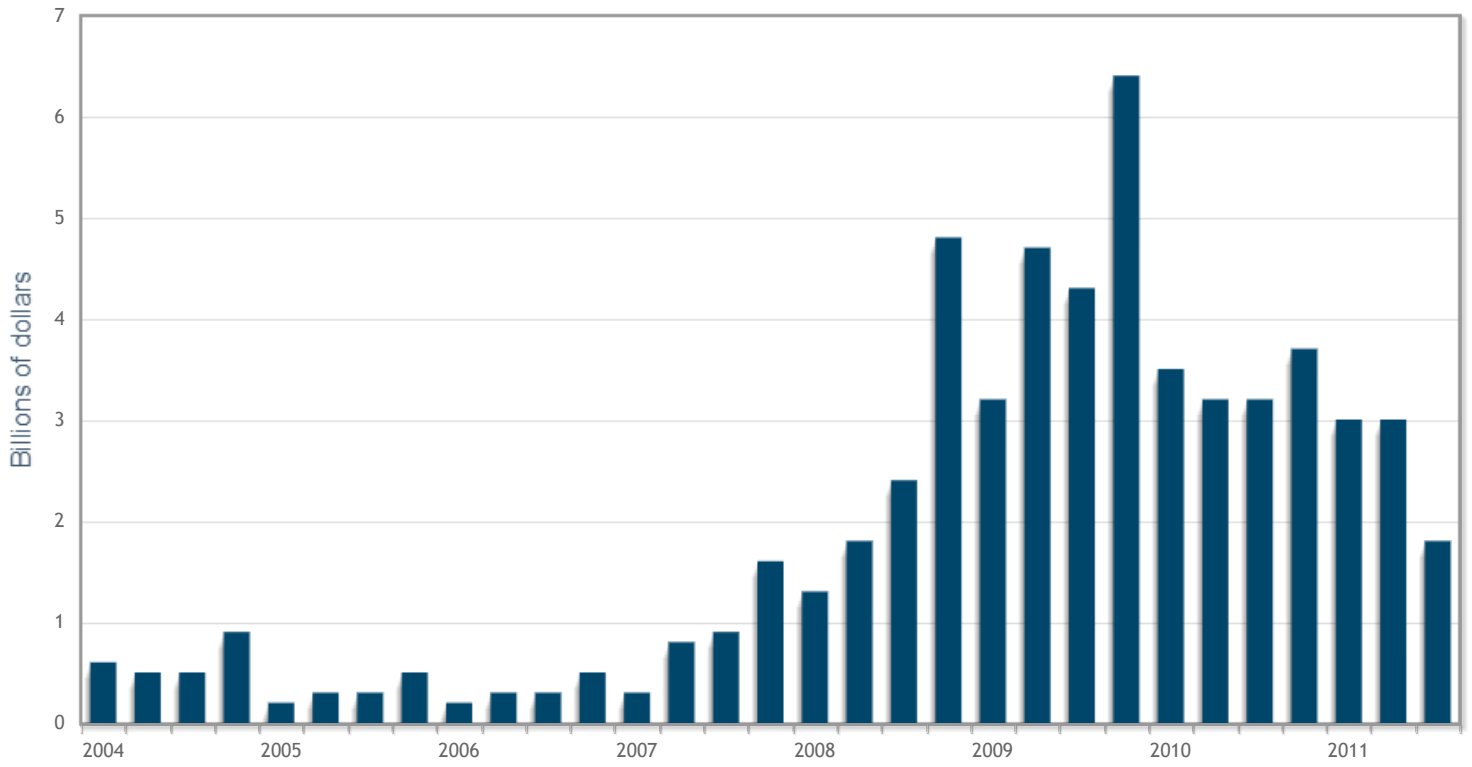


Note: Data are through 2011.

Source: U.S. Census Bureau

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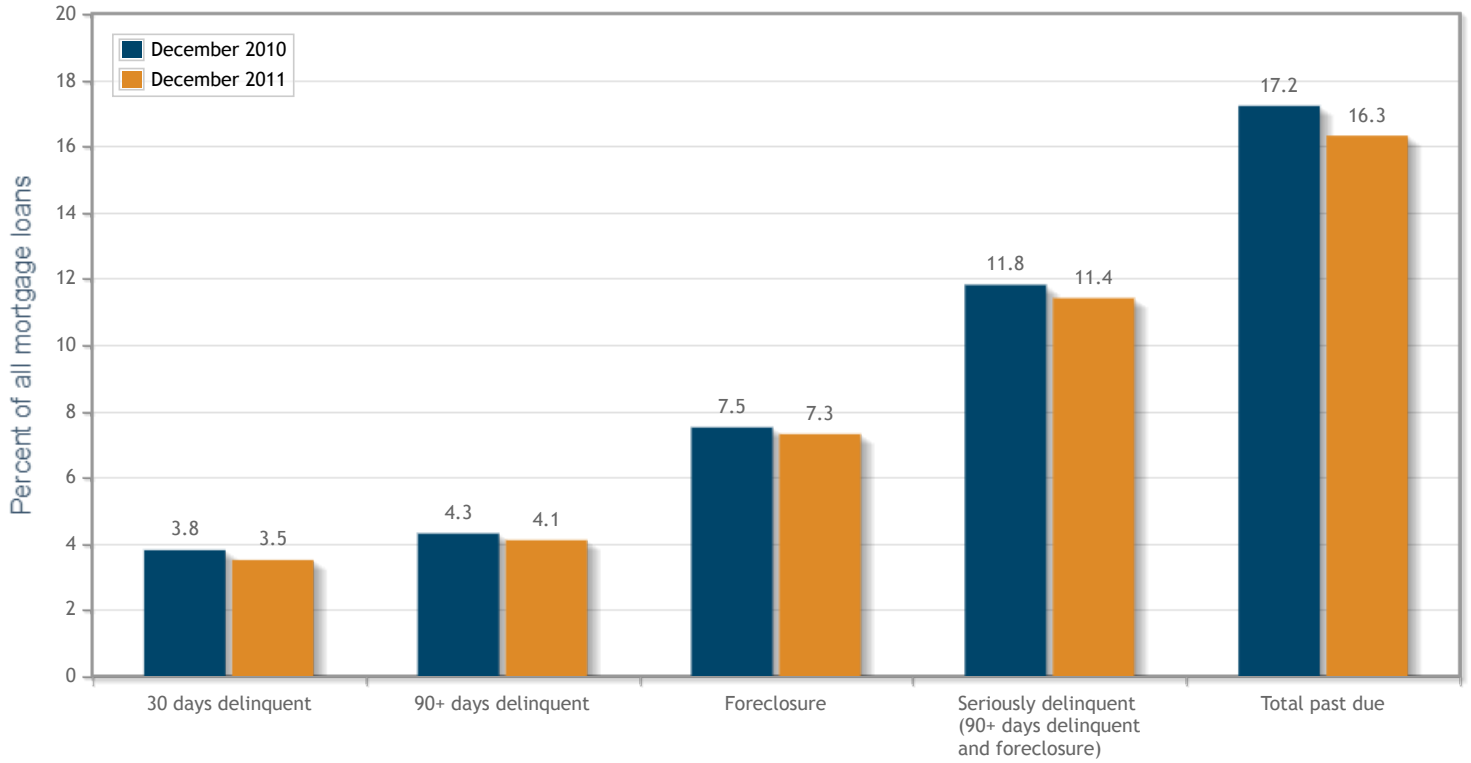
Southeast Net Charge-offs



Source: Bank call reports

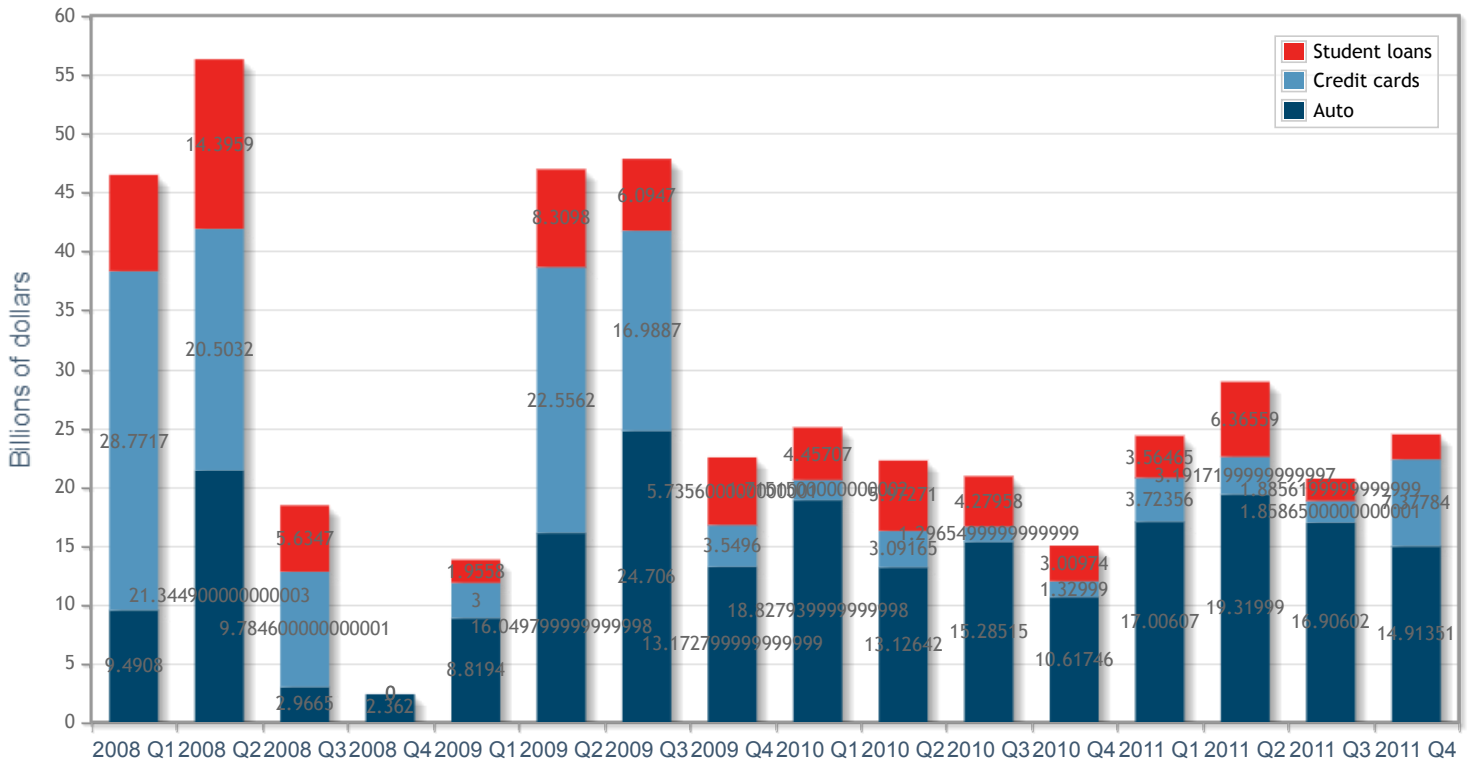


Mortgage Performance in the Southeast



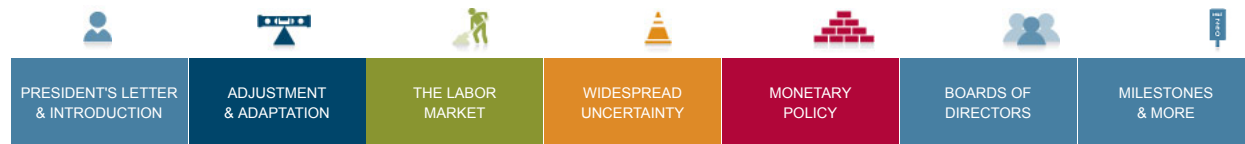
Source: LPS (Lender Processing Services Inc.) Applied Analytics

Consumer Asset-Backed Securities Issuance



Source: Securities Industry and Financial Markets Association

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## The public sector began to address imbalances



The trend in the ratio of public sector debt, most notably federal debt, to gross domestic product (GDP) remained a serious economic concern. The overall debt position of the economy, despite the deleveraging in other sectors, had barely declined since it peaked in 2009. The reason was that federal government debt continued to grow.

The amount of federal government debt has increased sharply in recent years—from about 50 percent of GDP before the recession to around 80 percent early in 2011. Some of that additional debt resulted from spending on programs designed to boost a faltering economy, including the \$787 billion American Recovery and Reinvestment Act of 2009.

Also, finances generally remained stressed across all levels of government throughout the year. During and immediately after the recession, high unemployment reduced personal income tax revenues and slow consumption growth affected sales tax collections. Meanwhile, falling home values reduced property tax receipts, the primary source of revenue for many local governments. And many states and cities did not begin to address serious longer-term challenges related to pension obligations.

### Sidebar: Governments, especially local, cut jobs

Southeastern state and local government payrolls demonstrated how progress was achieved by a combination of cost cutting followed by gradual revenue increases. After tax revenues declined in most jurisdictions from 2008 through 2010, state and local governments across the Southeast made painful cuts in services and payrolls. And teachers, firefighters, police officers, and other public employees in many southeastern states continued to experience furloughs and layoffs.

Overall government employment in the Southeast declined by 55,400 jobs in 2011, according to the U.S. Bureau of Labor Statistics (BLS). Over the past three years, government employment in the region declined by 70,400 jobs. Local governments accounted for 84 percent of those cuts.

On the revenue front, after three consecutive years of declines, southeastern states' aggregate tax collections increased.

#### Related Links

- [Atlanta Fed's REIN data digests, for state tax statistics](#)
- [BLS data on state and metro area employment, for hours and earnings statistics](#)

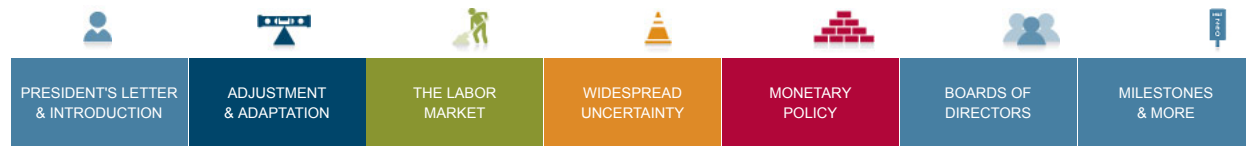
## RELATED LINKS

- [NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT REPORT ON STATE REVENUES](#)
- [U.S. DEPARTMENT OF THE TREASURY WEBSITE ON TOTAL PUBLIC DEBT OUTSTANDING](#)

“Finances generally remained stressed across all levels of government throughout the year.”

On a positive note, the revenue situation for states improved across the nation. The inflation-adjusted state tax collections increased an average of 5.4 percent during 2011, compared to a 2.9 percent average increase during 2010 and a 12.2 percent average decline in 2009, according to the Rockefeller Institute.

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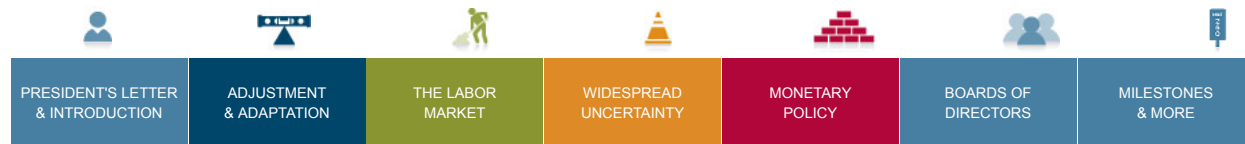


## Labor markets grew only fitfully

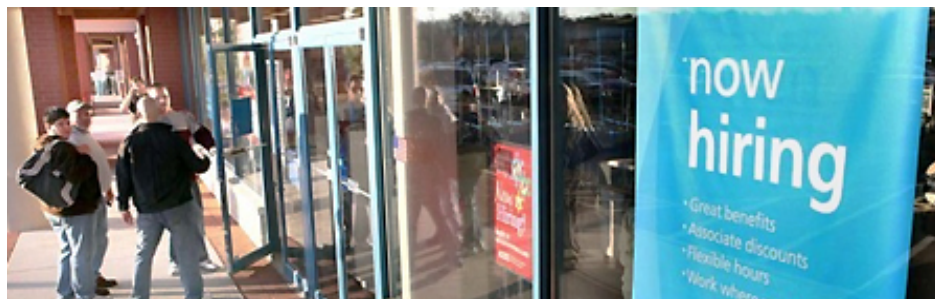
Several factors combined to constrain labor market conditions in 2011. Slow growth in the nation's gross domestic product was probably the most significant factor in slow growth of jobs. Atlanta Fed economists generally felt that skills mismatch in the labor force contributed somewhat to slow jobs growth but was not a primary cause. Overall, unemployment, weak demand generally, and even the deleveraging process combined to hinder improvements in the labor market.

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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Labor markets grew only fitfully



The unemployment rate remained high in 2011, and payrolls were still well below prerecession levels. *See the chart.* With unemployment persistently high, it was hard to argue that the country's economy performed well. Several dynamics appear to have shaped the labor market in 2011 and contributed to the slow progress in bringing down the rate of unemployment. But the dominant factor continued to be the relatively slow pace of the expansion of economic activity.

### Sidebar: Region's labor market lagged the nation's

Employment in the Southeast remained below prerecession levels. During 2011, the region's total nonfarm employment increased by 1.3 percent, compared to a national gain of 1.4 percent. At the end of the year, the Southeast's job count was just under 19 million, more than a million jobs below the level of December 2007. The region's unemployment rate was 9.3 percent. This rate was significantly less than the 10.5 percent the region experienced a year earlier but still considerably higher than the national jobless rate of 8.5 percent. *See the chart.*



For several years before the recession, the Southeast outpaced the nation in job growth, largely spurred by population gains. In-migration likewise boosted real estate development. In 2010 and 2011, however, the region's population growth slowed to match the pace of the rest of the country.

That slowdown helped explain why improvement in the Southeast's economy, and in turn its labor market, has lagged the nation's for the past couple of years.

#### Related Links

- [EconSouth](#), "Southeast Struggles to Recover"
- [EconSouth Now](#) podcast, "Surveying the National Economy"
- [REIN Data Digests](#), for individual state economic analyses
- [SouthPoint](#), "Employment data point to continued regional recovery"
- [SouthPoint](#), "Revised data paint brighter employment picture in the Southeast"
- [BLS's Economy at a Glance](#), for Southeast job data

## RELATED LINKS

- [THIS TIME IS DIFFERENT: EIGHT CENTURIES OF FINANCIAL FOLLY](#), BY REINHART AND ROGOFF
- [MACROBLOG ON STRUCTURAL UNEMPLOYMENT](#)
- [MACROBLOG ON JOB CREATION](#)
- "THE POLARIZATION OF JOB OPPORTUNITIES IN THE U.S. LABOR MARKET," BY DAVID AUTOR
- [NFIB'S SMALL BUSINESS ECONOMIC TRENDS](#)
- "THE TREND IS THE CYCLE: JOB POLARIZATION AND JOBLESS RECOVERIES," BY JAIMOVICH AND SIU
- [BLS'S FLORIDA ECONOMY AT A GLANCE \(LOST CONSTRUCTION JOBS\)](#)



Atlanta Fed Vice President and Senior Economist John Robertson discusses the role of skills

mismatches in slow employment growth and other issues in the labor market.

“Job destruction in all of the past three recessions were heavily concentrated in jobs that required completing fairly repetitive tasks.”

## Financial crises usually result in slow economic recoveries

For the most part, the same fundamental force—weak expansion of economic activity—continued to restrain job growth nationally and regionally as in 2010. Real gross domestic product (GDP), the broadest measure of economic performance, increased in 2011, but not by much. GDP expanded at a modest 1.7 percent pace. This kind of subpar growth was consistent with the research by economists Carmen Reinhart and Kenneth Rogoff, who have documented that recessions associated with

debt-related financial crises are typically followed by below-normal recoveries. These economists identified a pattern in which the process of deleveraging, or paying down debt, restrains the overall demand for goods and services. That deleveraging process can take several years to complete.

#### Sidebar: Fewer start-ups meant fewer new jobs

Young businesses, particularly those that grow quickly, are among the nation's most significant sources of jobs. About 40 percent of new jobs in any given year come from the fastest-growing 1 percent of businesses, according to a 2010 study by the Kauffman Foundation, which researches and promotes entrepreneurship. Three-quarters of those high-growth businesses are five years old or younger.



In the past, economic downturns had very little impact on the rate of business formation. Businesses started at a fairly steady rate in both good times and bad. However, the flow of new businesses slowed dramatically during the last recession. The pace picked up somewhat in 2011, but it remained relatively subdued. The reduction in the number of new businesses negatively affected overall job creation in the economy. *See the chart.*

The relatively weak economic expansion, elevated uncertainty, and depressed housing market greatly complicated both operating a small business and starting a business in 2011. For instance, before the recession, home equity loans were a major source of financing for start-up businesses. But the decline in house values over the last few years seriously diminished this pool of funding for new entrepreneurs.

#### Related Links

- [EconSouth, "Fed @ Issue"](#)
- [Federal Reserve Board FAQ: What's the Fed doing to help small businesses get credit?](#)
- [Federal Reserve Board conference, "Small Business and Entrepreneurship during an Economic Recovery"](#)
- [macroblog on job creation by small firms](#)

#### Skill shortages not a primary cause of high unemployment

Some analysts have argued that, in addition to the slow pace of growth in GDP, certain labor market impediments may also have contributed to the relatively slow employment recovery. Anecdotally, mismatches between the skills that job seekers possess and the skills that employers need were frequently cited as an example of such impediments.

The general consensus among Atlanta Fed economists was that skills mismatch accounted for some of the slowness but was not a primary cause of high unemployment. [See the video.](#) Shortages of workers with certain skills and in certain industries have always existed, and this problem did not appear to be more widespread in 2011 than it was before the recession. In 2011, 32 percent of businesses reporting in a National Federation of Independent Business survey indicated they had few or no qualified applicants for job openings. This figure is significantly lower than the 43 percent that responded this way in 2007.

#### Other longer-term factors may have played a role

A slow rebound in employment after a recession is not a new phenomenon. The recoveries from the past three recessions have all been described as jobless recoveries. This consistency suggests that there may be longer-term structural changes in the economy that influenced labor market performance after the end of the last recession.

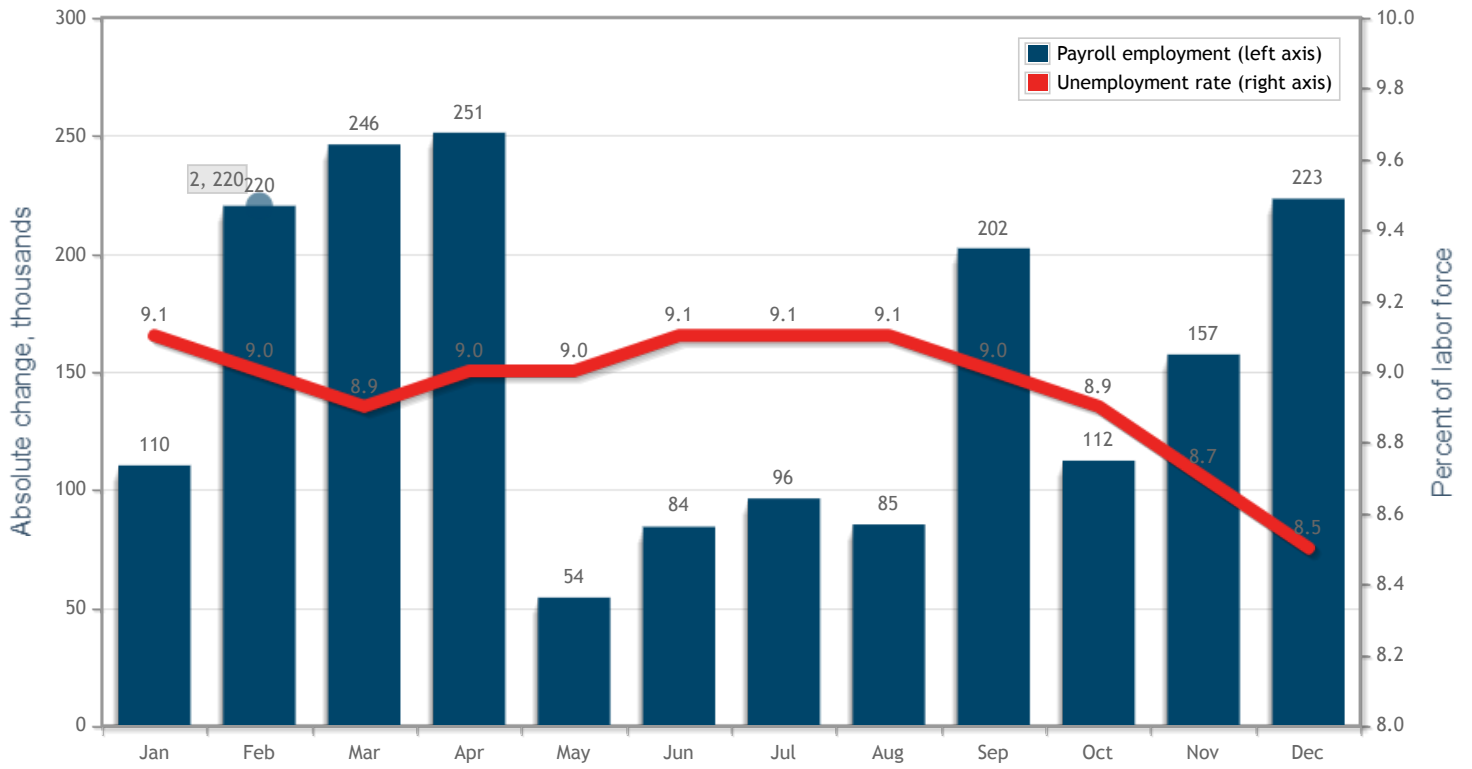
Specifically, job destruction in all of the past three recessions were heavily concentrated in jobs that required completing fairly repetitive tasks following a defined set of procedures. These included certain assembly-line tasks in manufacturing, as well as many clerical and retail-sales-related jobs. Likewise, during the postrecession expansions of the 1990s and the early 2000s, employment growth in routine-type jobs lagged growth in nonroutine occupations that were less easily automated.

The last recession was by far the most severe, but this pattern seems to have played out again against this more troubled backdrop. In 2011, total employment in occupations involving routine tasks was essentially flat, while employment in nonroutine occupations increased by almost 2 percent. Reports from Atlanta Fed business contacts suggested that firms in 2011 continued to invest in technology that boosted efficiency, which in turn lessened demand for workers to do some routine tasks.

#### Combined forces constrained labor markets

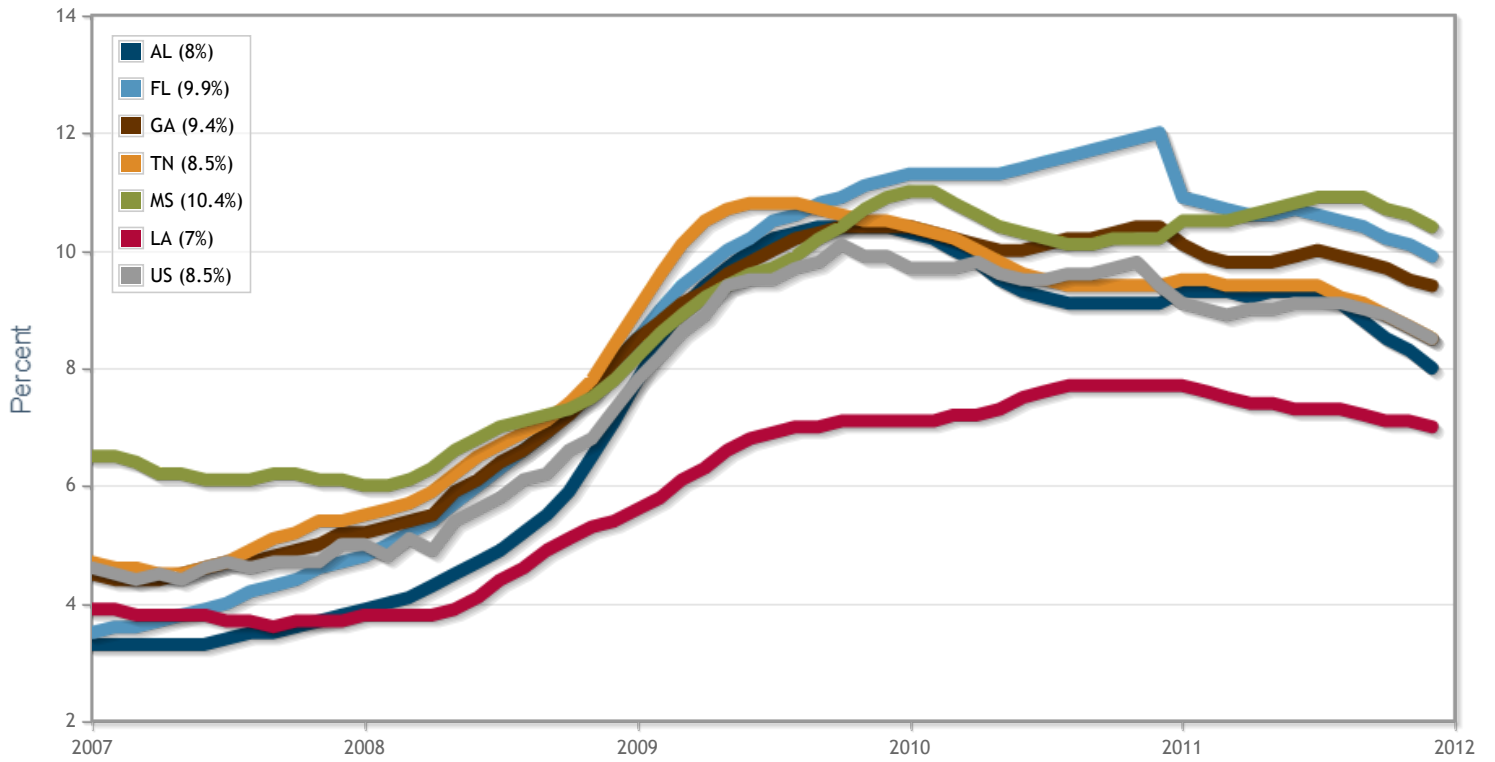
To sum up, improvement in labor market conditions in 2011 was apparently constrained by a combination of forces. Of these, slow growth in GDP remained a primary constraint holding back improvement in the labor market. Skill shortages were a factor, but not a dominant one, while broad shifts in the demand for certain types of jobs and tasks may also have played a role.

U.S. Payroll Employment and Unemployment Rate, 2011



Source: U.S. Bureau of Labor Statistics

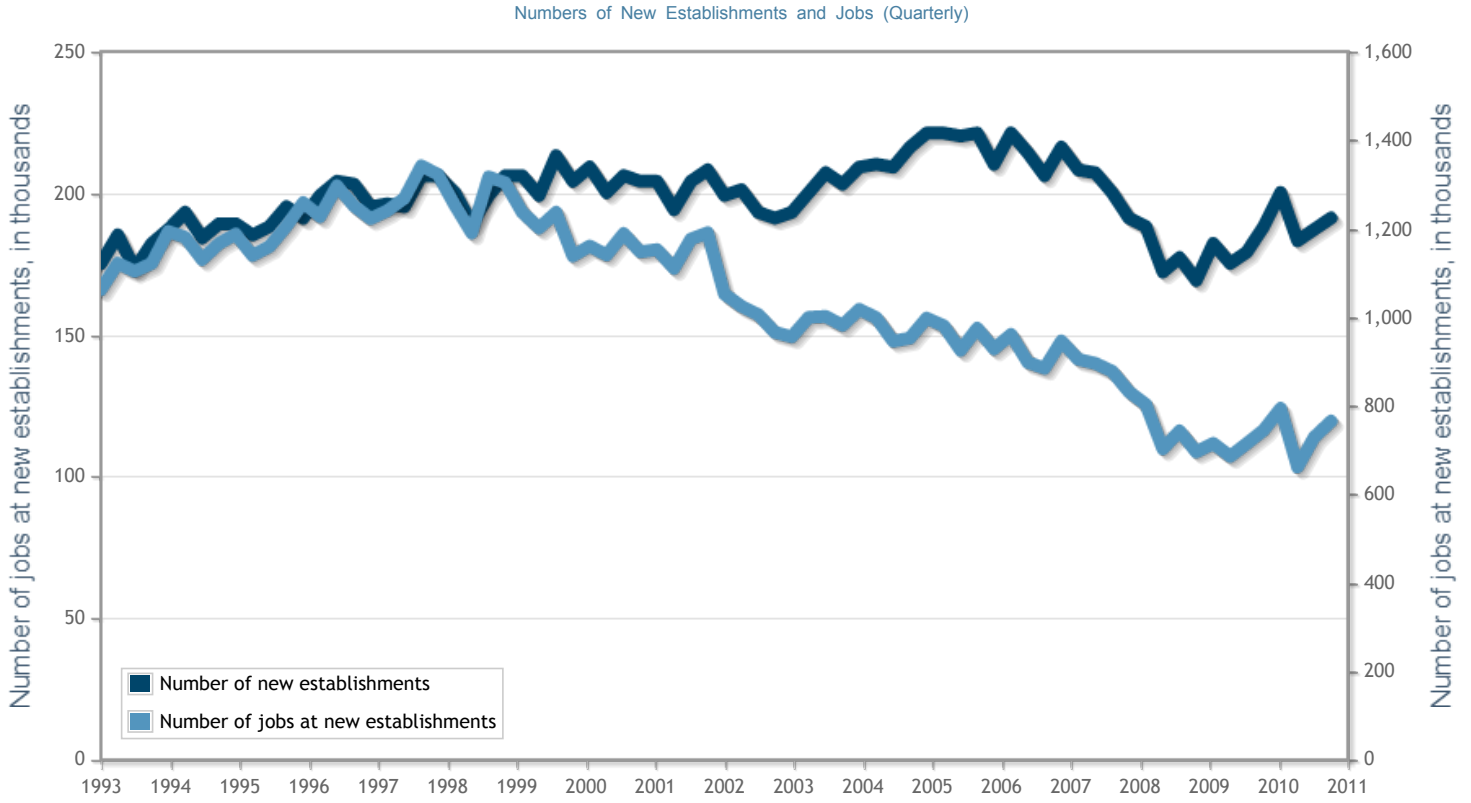
Southeastern Unemployment Rates



Source: U.S. Bureau of Labor Statistics

Click and drag your cursor over a date range to zoom in on a line. A double-click on the chart will reset the zoom. Click on a state or region name in the legend box to toggle corresponding chart lines off and on.



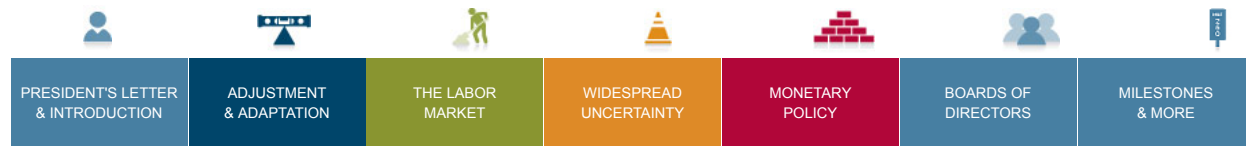


Note: Data are quarterly and are through third-quarter 2011.

Source: U.S. Bureau of Labor Statistics

Click and drag your cursor over a date range to zoom in on a line. A double-click on the chart will reset the zoom. Click on a state or region name in the legend box to toggle corresponding chart lines off and on.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011

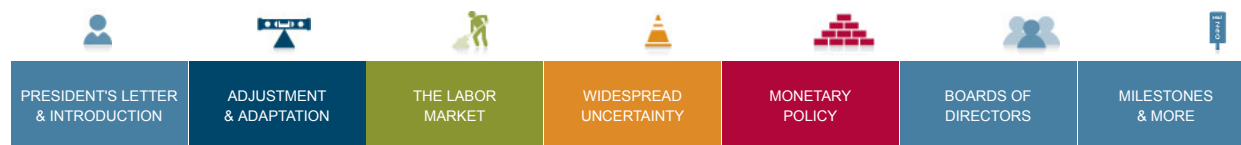


## Uncertainty shadowed the economy

Natural disasters, U.S. fiscal policy, European sovereign debt, and other factors contributed to widespread uncertainty throughout the year. Economic uncertainty undermined the expectations and performance of consumers and businesses. Consumer aggregate demand remained soft, and businesses were reluctant to spend, invest, and hire.

[Read More](#)

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Uncertainty shadowed the economy



Several factors contributed to economic uncertainty throughout 2011. These factors included the ongoing European sovereign debt crisis, political turmoil in the Middle East, and questions about the direction of U.S. fiscal policy. The difficult and unresolved debates in Washington over the debt ceiling and concerns about regulation, taxes, and health care costs contributed to policy-related uncertainty.

Several shocks, especially in the earlier months of the year, exacerbated the uncertainty. Severe weather and natural disasters such as the Japanese tsunami slowed economic growth substantially during the first half of the year.

The uncertainty that slowed economic growth was both a result and a cause of other factors constraining the recovery. Numerous surveys, including some from the Atlanta Fed, indicated that uncertainty—about economic performance, government policy and regulation, and geopolitical disruptions—caused many businesses to delay or forego investments and hiring.

### Definitely a factor, but hard to measure

Measuring the effects of widespread uncertainty on the economy in 2011 is difficult. For example, according to Atlanta Fed research economist John Robertson, it was unclear how much uncertainty as opposed to general economic weakness constrained hiring. Overall uncertainty was not as measurable an economic force as changes in business balance sheets or bank lending, for example. Nonetheless, it clearly affected the behavior of consumers and businesses, according to numerous anecdotal comments the Atlanta Fed gathered. A typical comment included this one from a small business owner in the real estate industry: "There is too much uncertainty in the marketplace, and we...are working closely with our owners, tenants, clients, and vendors to stay the course until consumers return to the market."

Economists at Stanford University and the University of Chicago created an index last year to measure a specific type of uncertainty related to policy. This index showed that 2011 had the highest level. Indeed, research by the index's creators—Scott R. Baker, Nicholas Bloom, and Steven J. Davis—has indicated a connection between businesses' concerns about regulation, tax issues, and the unresolved debt ceiling and restrained corporate investment. *See the chart.*

In the late summer, the potential for the federal government to default on its debts arose as talks on the debt ceiling reached a stalemate. Then, Standard & Poor's downgraded the U.S. government's credit rating. Lawmakers eventually reached a temporary agreement to raise the debt ceiling. But as the year ended, the debt talks had not achieved a true consensus. Rather, political disagreement surrounded the critical task of lowering the federal government's debt burden. (See the section on adjustment and adaptation in the [public sector](#).)

### Other factors contributed to uncertainty

Political unrest in the Middle East contributed to rising oil prices. Popular revolutions in certain countries, violent crackdowns on some citizens in the Middle East, and ongoing concerns about proliferation of nuclear weapons contributed to a rise in global oil prices. Throughout 2011, oil prices were roughly 25 to 30 percent higher than they were in the middle of 2010.

## RELATED LINKS

- [ATLANTA FED CONFERENCE, "SOVEREIGN DEBT AND DEFAULT AFTER THE FINANCIAL CRISIS"](#)
- [ATLANTA FED PRESIDENT LOCKHART ON "EXPECTATIONS AND THE ECONOMY"](#)
- [ECONSOUTH, "SHOCKS UNBALANCE THE GLOBAL ECONOMY"](#)
- [INTERNATIONAL MONETARY FUND, WORLD ECONOMIC OUTLOOK REPORTS](#)
- [NOTES FROM THE VAULT, "SOVEREIGN DEBT AND DEFAULT"](#)
- [MACROBLOG ON "UNCERTAINTY ABOUT UNCERTAINTY"](#)
- ["MEASURING ECONOMIC POLICY UNCERTAINTY," BY BAKER, BLOOM, AND DAVIS](#)



Cheryl Venable, Senior Vice President of the Fed's Retail Payments Office, speaks about innovation and change in the nation's payments system. ([See the sidebar on payments.](#))

“The uncertainty that slowed economic growth was both a result and a cause of other factors constraining the recovery.”

The lingering European debt crisis was arguably the most serious uncertainty influencing the economic recovery in 2011. U.S. financial institutions worked to protect themselves by reducing their overall exposure to European banks and sovereigns. But a weakened European economy reduced demand for U.S. exports. And the potential of sovereign debt default threatened the stability of financial markets, causing some turbulence when default appeared likely. The year ended without major dramatic developments, but the debt crisis in the euro zone undermined the confidence of consumers and businesspeople in the United States. Furthermore, many economists believed Europe could be entering a recession.

#### Sidebar: Southern states vulnerable to euro troubles

Southeastern exports were relatively insulated from troubles in Europe. According to the U.S. International Trade Administration, only a small share of the region's exports was shipped to the euro area in 2011. However, some states, including Alabama, had larger portions of that share. Nearly 20 percent of Alabama's merchandise exports were shipped to the euro area. About half of those exports, mainly automobiles, went to Germany. *See the chart* for southeastern states' exports to three world regions.



Germany appeared to be one of the more resilient European economies, along with the Netherlands, Belgium, and France—the other large euro area markets for southeastern exporters. The economically weakest countries in the euro area—Greece, Ireland, and Portugal—accounted for only a small fraction of the region's exports.

For Florida, the euro troubles brought another concern. Among the southeastern states, the Sunshine State's exporters appeared to be least exposed to the euro area. But firms in Florida's large tourism industry feared that fewer Europeans might visit. Europeans also comprised a significant market for Florida real estate. For example, in the Miami-Fort Lauderdale-Miami Beach market, Germans accounted for nearly a quarter of all nonresident foreign buyers in the 12 months ending in June 2011, according to the National Association of Realtors.

#### Related Links

- [SouthPoint on Trade connections between Europe and the Southeast](#)
- [SouthPoint on the southeast's exposure to Europe](#)

#### Shocks hit economy especially hard early in the year

Oil and commodity price shocks early in the year along with severe weather events helped explain why the nation's economy underperformed expectations in the first quarter. Moreover, the March earthquake and tsunami devastated parts of Japan and caused major loss of life. The Japanese tragedy disrupted industrial supply chains, particularly in the automotive industry. That impact was felt in the middle of the year. The International Monetary Fund wrote in its September 2011 World Economic Outlook that, according to some estimates, the number of cars manufactured worldwide may have declined by up to 30 percent in the two months after the Japanese earthquake and tsunami.

Several severe weather events in the first half of the year also affected the nation's economic performance. As early as June, the National Oceanic and Atmospheric Administration declared that 2011, with eight disasters costing more than \$1 billion each, was already among the most extreme weather years in history.

All these factors constrained economic growth in 2011.

#### Sidebar: Change marked the payments system

The Federal Reserve plays a key role in the nation's payments system. As a provider of payments services, the Fed must remain competitive and recover its costs, in accordance with its legal mandates. It must also remain flexible, as the ways that people and businesses pay for goods and services, and how those payments are processed, are rapidly evolving.



Three factors continued to push steady change in the payments world throughout 2011: technology, regulation, and globalization, said Cheryl Venable, Atlanta Fed senior vice president and retail payments product manager for the Federal Reserve's national Retail Payments Office (RPO). [See the video.](#)

#### Changes in technology

Just as currency replaced barter, and credit cards replaced some cash payments, new technologies continued to spawn new ways to pay for things. Rapid growth in electronic payments has been fueled by the growth of the Internet, the proliferation of powerful mobile computing devices such as smartphones, and more secure and robust means of electronically exchanging financial data. According to a Federal Reserve payments study released last year, the number of electronic payments made in 2009 was 84.5 billion, nearly double the number made in 2003.

#### Changes in regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) affected payments as well as banking. In particular, the "Durbin Amendment," a provision of the act that took effect in October 2011, capped the fees that debit card issuers can charge merchants whenever a consumer uses a debit card. The Durbin Amendment stirred debate about who would ultimately bear the costs—banks, merchants, or customers. Some large banks—smaller financial institutions were exempted from the cap—imposed monthly fees for debit card users in an attempt to recover costs. In some cases, banks quickly withdrew those fees when customers protested.

#### Changes due to globalization

Last year, the RPO participated in efforts to bring efficient payments services to more people in Latin America. For years, the sender of a cross-border wire transfer or check had to pay additional charges at various stops the payment made along its way. In addition, complexities in country rules, laws, and payment formats and standards slowed transformations. These complexities have made the cross-border payment process relatively inefficient and costly. At the regional Payments Week (Semana de Pagos) meeting in Paraguay, FedGlobal ACH helped the Western Hemisphere Payments Initiative work toward establishing a regional payments hub to link all of the payments systems in the Americas, thereby improving efficiency.

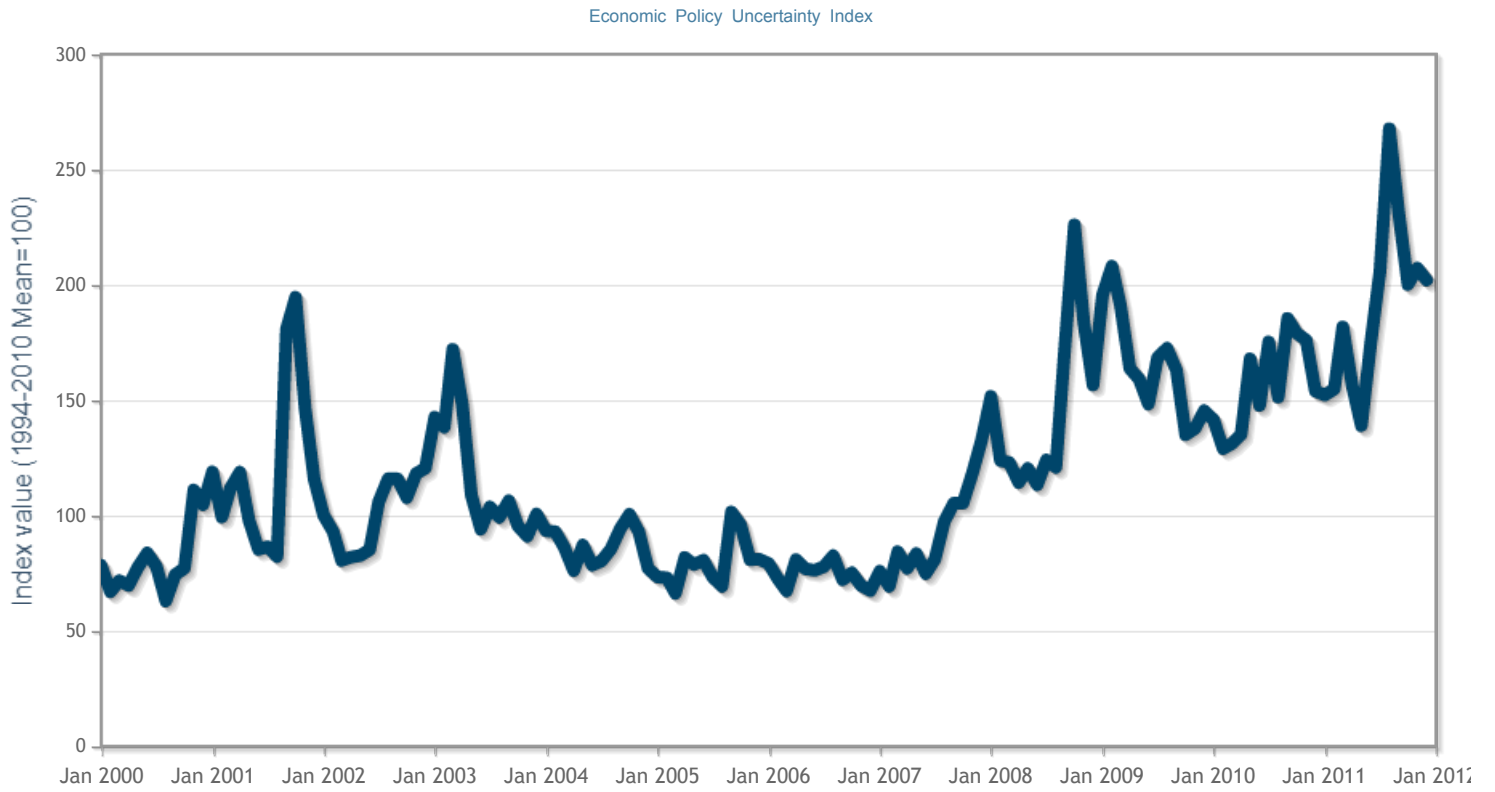
#### The Atlanta Fed as convener

The Federal Reserve Bank of Atlanta played an important role in bringing industry participants together in 2011 to address the uncertainty that arises from rapid innovation and changes in regulation. Throughout the year, the RPO assembled payments providers, regulators, law enforcement, and other industry players to explore ways to make the payments system as efficient, safe, and accessible as possible.

In addition to the RPO, the Fed's Atlanta-based Retail Payments Risk Forum served as a hub of research and collaboration on issues affecting the security of payments. For example, in November, the forum assembled regulators, legal professionals, and law enforcement representatives to explore the role of federal and state governments in the payments industry. [Conference papers](#) are available.

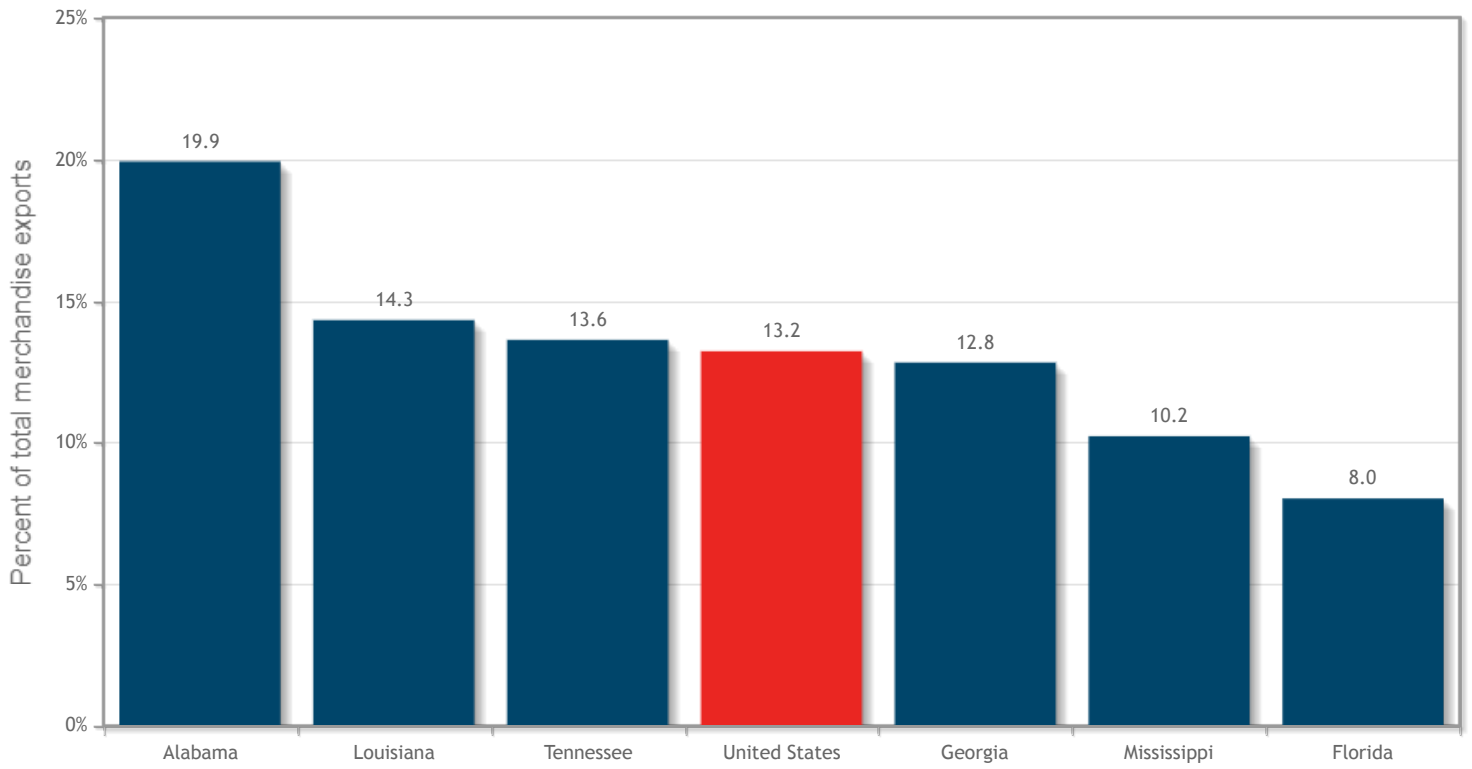
#### Related Links

- [2010 Federal Reserve Payments Study](#)
- [Atlanta Fed conference summary, "The Role of Government in Payments Risk and Fraud"](#)
- [Atlanta Fed First Vice President on change and risk in the U.S. Payments System](#)
- [Atlanta Fed's Retail Payments Risk Forum](#)



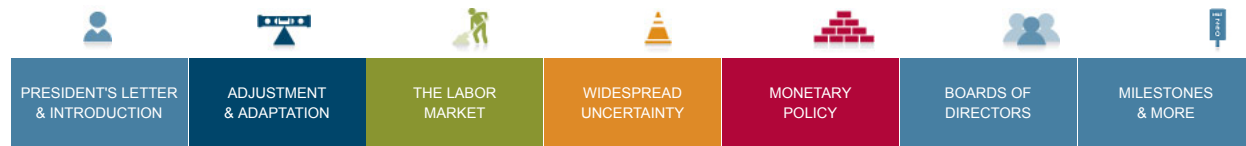
Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom, and Steven J. Davis, November 2011, all data at [policyuncertainty.com](http://policyuncertainty.com)

Southeast Exports to the Euro Area



Source: U.S. International Trade Administration

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



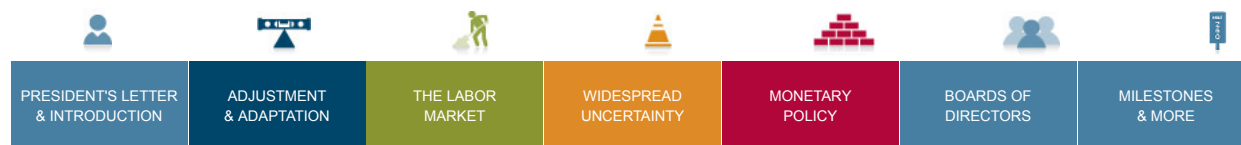
## Monetary policymakers sought to support a challenging economy

Monetary policy was a significant force influencing the economy in 2011. However, monetary policy differs from the other forces examined in this commentary. It was a force designed to mitigate negative effects of other forces. During the year, the Federal Reserve enacted monetary policy measures aimed at boosting economic activity, facilitating credit flows, and guarding against shocks to the nation's financial system.

[Read More](#)



# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Monetary policymakers sought to support a challenging economy



The fourth force influencing the U.S. economy in 2011 was monetary policy. This force is different from the other three discussed in this annual report. Specifically, it was applied in an effort to mitigate the negative effects of other forces that worked on the economy and support the multiyear recovery by keeping interest rates low.

Early in the year, the Federal Open Market Committee (FOMC) considered the potentially competing concerns of rising inflation and stubbornly high unemployment. However, the FOMC expected that inflation would fall to a level consistent with the Fed's then-informal target of 2 percent. The committee therefore maintained its accommodative policy to support growth and greater employment. In fact, inflation stabilized as the effects of the shocks that raised commodity prices earlier in the year faded during the latter half of the year. [See the video.](#)

### Sidebar: Inflation Project "opened up our notebooks"

Inflation means more than what's happening to the price of a loaf of bread or a gallon of gas. An Atlanta Fed initiative in 2011 set out to provide relevant, timely information that puts inflation into context. The project called for enhancing web pages for the Inflation Project, with more information and more features, including interactive information graphics.



The enhanced Inflation Project offers a video tutorial with Atlanta Fed senior economic policy specialist Laurel Graefe explains two of the new features: a monthly business inflation expectations survey and an inflation dashboard. [See the video.](#)

Early in the year, the Atlanta Fed Research Department began polling more than 300 people who set prices for large and small businesses based in the Southeast. This business inflation expectations survey became the nation's only broad measure of companies' inflation expectations and pricing plans.

The inflation dashboard allows users to view and interact with graphics to visualize recent statistics within the context of longer-term trends. Visitors to the site sort through six broad categories of data, including retail prices, labor costs, and producer prices. They can click through to find increasingly detailed information.

"We are in a sense opening up our notebooks to the public," Graefe said. "This is information we have been using to prepare President Lockhart for FOMC deliberations, and now the public can access it."

The Atlanta Fed initiated another project in 2011. The Fed Explained is a new feature designed to make the work of the Fed and information on key economic issues available to the general public. The new feature includes a video series, the first of which explains inflation.

### RELATED LINKS

- [FED CHAIR BERNANKE ON THE GREAT RECESSION AND THE CENTRAL BANK](#)
- [ECONSOUTH ON CURRENCY SWAPS](#)
- [FOMC CALENDARS, STATEMENTS, AND MINUTES](#)
- [FOMC ECONOMIC PROJECTIONS](#)
- [FOMC POLICY ON EXTERNAL COMMUNICATIONS OF COMMITTEE PARTICIPANTS](#)
- [FOMC STATEMENT ON "OPERATION TWIST"](#)



Atlanta Fed Executive Vice President Dave Altig discusses what "agency" means relating to government backers of mortgage loans.

## Related Links

- [The Inflation Project](#)

Federal Reserve policymakers faced a quandary early in the year. The Federal Open Market Committee (FOMC) had to respond to competing concerns, as rising inflation and stubbornly high unemployment made a rare joint appearance. On the one hand, maintaining an accommodative monetary policy stance could risk a further rise in inflation. On the other hand, tightening policy could restrain hiring and the already slow economic recovery.

The FOMC's decision early in the year—whether to immediately confront rising inflation or persistently high unemployment—was typical of the challenges presented by an unpredictable economy. While balancing appropriate responses to competing forces, Fed policymakers also had to consider different policy prescriptions appropriate to near- and longer-term needs. In the near term, these policymakers aimed to bolster the cyclical economic recovery through low interest rates and ample liquidity.

Policymakers had to strike a delicate balance

While balancing appropriate responses to competing forces, Fed policymakers also had to consider different policy prescriptions appropriate to near- and longer-term needs. In the near term, these policymakers aimed to bolster the cyclical economic recovery through low interest rates and ample liquidity.

Slow growth, low inflation led to more accommodation

During the year, the FOMC expanded the accommodative policy it had maintained since 2008. Many policymakers viewed low economic growth combined with modest inflation as justification for further accommodation.

The FOMC kept the federal funds rate at zero to 0.25 percent. To support mortgage markets, the FOMC chose to invest principal payments it received from holdings of agency securities into agency mortgage-backed securities. The FOMC also initiated a program to sell shorter-term agency securities and purchase an equal amount of longer-term agency securities. The maturity extension program—more popularly known as "Operation Twist"—was aimed at exerting downward pressure on longer-term interest rates.

European sovereign debt crisis led to further steps

The FOMC also moved to protect the U.S. financial system against potential damage from global financial turmoil, particularly the European sovereign debt crisis. It did this by extending currency swap arrangements with other central banks. These currency swaps made U.S. dollars available to foreign central banks so they could lend them to their commercial financial institutions, whose customers needed dollars rather than their domestic currencies.

Ensuring dollar liquidity around the world lessened the chances of repeating the global dollar shortages that crippled credit markets and exacerbated the 2008 financial crisis. In general, swap lines, by providing liquidity to the financial system in times of stress, help shield the U.S. economy from the effects of financial instability, regardless of its source.

Communication became another policy tool

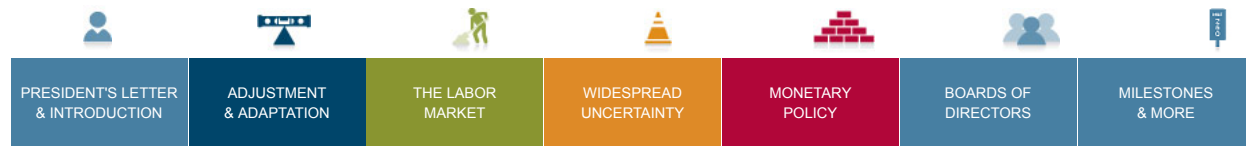
Last year, the FOMC decided to provide more specific information about its expectations for the future path of the federal funds rate and expanded its commitment to transparency. Clear communication became not only an important adjunct to policy, but it also was in some ways a policy tool in itself. The FOMC based its steps toward more transparency on considerable evidence indicating that central bank transparency increases the effectiveness of monetary policy and enables households and businesses to make better-informed decisions. The idea behind clarifying expectations during 2011 was to stimulate borrowing, investment, and hiring—"to get people off the sidelines." So early in the year, the FOMC announced that Federal Reserve Chairman Ben Bernanke would hold quarterly news conferences to discuss monetary policy decisions and the economy.

Then in August, the FOMC changed the language it used to signal policy direction to the public. Rather than indicating that interest rates were likely to remain exceptionally low for "an extended period," the committee announced that the benchmark federal funds rate would likely remain at or near its current low level through at least the middle of 2013. (Subsequently, the FOMC extended this projection to late 2014.) In addition, the FOMC accelerated the release of each member's economic projections. (Those projections were initially made public in 2010 along with meeting minutes.)

The FOMC aimed to instill in the marketplace a greater sense of certainty about the direction of monetary policy by clearly stating its intentions and methods. For central banks with policy rates near the zero lower bound—as has been the case for the Fed since late 2008—influencing the public's expectations about future policy actions became a critical tool, Bernanke said in an October 2011 speech.

"The commitment to a policy framework that is transparent about objectives and forecasts was helpful, in many instances, in managing [public] expectations and thus in making monetary policy both more predictable and more effective during the past few years than it might otherwise have been," Bernanke said.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Sixth Federal Reserve District Directors

Federal Reserve Banks each have a board of nine directors. Directors provide economic information, have broad oversight responsibility for their bank's operations, and, with the Board of Governors approval, appoint the bank's president and first vice president.

Six directors—three class A, representing the banking industry, and three class B—are elected by banks that are members of the Federal Reserve System. Three class C directors (including the chair and deputy chair) are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and consumers in the district; they cannot be officers, directors, or employees of a bank; class C directors cannot be bank stockholders.

Fed branch office boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Atlanta Board of Directors



Mouse over director for more information. Left to right:

Humphries, Tomé, Anderson, Otis, Schupp, Suquet, Wells, Barkin, Glover. Not shown: Byrd

### Sixth Federal Reserve District Directors

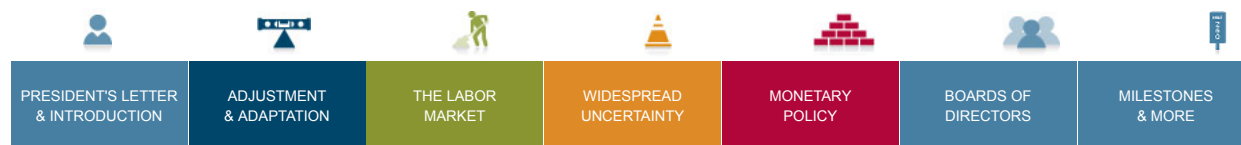
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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Birmingham Board of Directors



Mouse over director for more information. Left to right:

Mauldin, Moore, Nicholson, Stanton, Reilly. Not shown: Langloh, Lyons

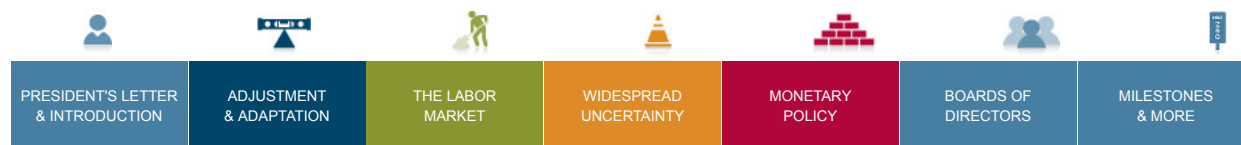
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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Jacksonville Board of Directors



Mouse over director for more information. Left to right:

Fennell, Jones, Dailey, Horton, Weatherman. Not shown: Jenkins, Stovall

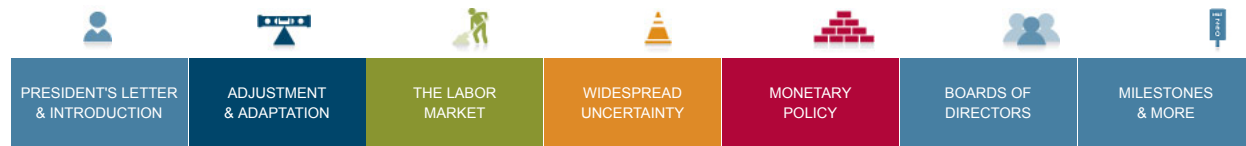
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# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Miami Board of Directors



Mouse over director for more information. Left to right:

Abess, Estes, Padrón, Shea, Jackson. Not shown: Banks, Tice

### Sixth Federal Reserve District Directors

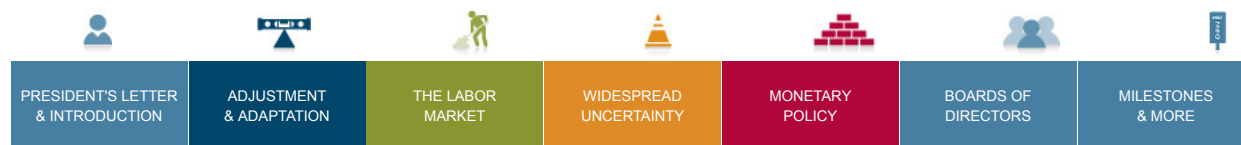
Federal Reserve Banks each have a board of nine directors. Directors provide economic information, have broad oversight responsibility for their bank's operations, and, with the Board of Governors approval, appoint the bank's president and first vice president.

Six directors—three class A, representing the banking industry, and three class B—are elected by banks that are members of the Federal Reserve System. Three class C directors (including the chair and deputy chair) are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and consumers in the district; they cannot be officers, directors, or employees of a bank; class C directors cannot be bank stockholders.

Fed branch office boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.



# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Nashville Board of Directors



Mouse over director for more information. Left to right:

Hogan, Ford, Calligan, Carroll, Krueger, Banner. Not shown: Harrington

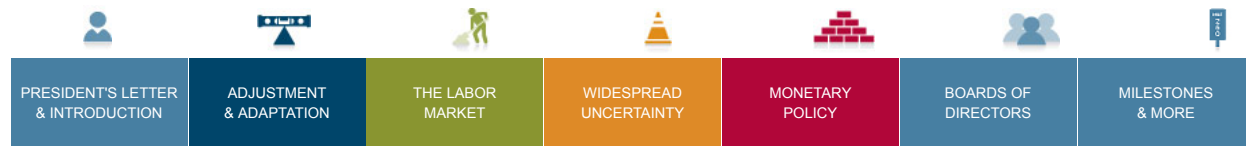
### Sixth Federal Reserve District Directors

Federal Reserve Banks each have a board of nine directors. Directors provide economic information, have broad oversight responsibility for their bank's operations, and, with the Board of Governors approval, appoint the bank's president and first vice president.

Six directors—three class A, representing the banking industry, and three class B—are elected by banks that are members of the Federal Reserve System. Three class C directors (including the chair and deputy chair) are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and consumers in the district; they cannot be officers, directors, or employees of a bank; class C directors cannot be bank stockholders.

Fed branch office boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## New Orleans Board of Directors



Mouse over director for more information. Left to right:

Robinson, Host, Stuller, Boh, Sterling, Milling. Not shown: Conley





### Sixth Federal Reserve District Directors

Federal Reserve Banks each have a board of nine directors. Directors provide economic information, have broad oversight responsibility for their bank's operations, and, with the Board of Governors approval, appoint the bank's president and first vice president.

Six directors—three class A, representing the banking industry, and three class B—are elected by banks that are members of the Federal Reserve System. Three class C directors (including the chair and deputy chair) are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and consumers in the district; they cannot be officers, directors, or employees of a bank; class C directors cannot be bank stockholders.

Fed branch office boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011

						
PRESIDENT'S LETTER & INTRODUCTION	ADJUSTMENT & ADAPTATION	THE LABOR MARKET	WIDESPREAD UNCERTAINTY	MONETARY POLICY	BOARDS OF DIRECTORS	MILESTONES & MORE

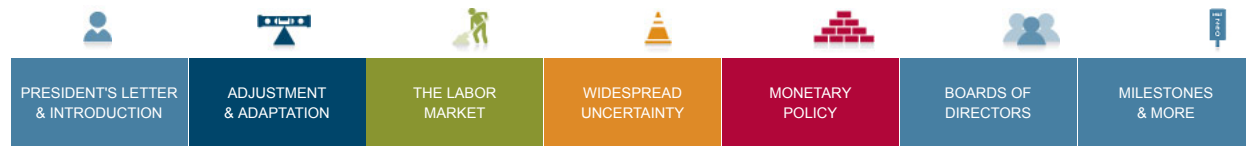
## Management Committee



Mouse over director for more information. Left to right:

Berthume, Gooding, Lockhart, Jones, Venable, Anderson, Debeer, Johnson, Altig, Davenport. Not shown: Barron, Brown, Oliver

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Other Officers

Scott H. Dake  
Senior Vice President

Brian D. Egan  
Senior Vice President

James M. McKee  
Senior Vice President

Robert J. Musso  
Senior Vice President and Regional Executive  
New Orleans

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Senior Vice President

Julius Weyman  
Senior Vice President

W. Brian Bowling  
Vice President

John S. Branigin  
Vice President

Michael F. Bryan  
Vice President

Joan H. Buchanan  
Vice President, OMWI

Annella D. Campbell-Drake  
Vice President

Suzanna J. Costello  
Vice President

Thomas J. Cunningham  
Vice President and Regional Executive  
Atlanta

Juan del Busto  
Vice President and Regional Executive  
Miami

William J. Devine  
Vice President

Richard M. Fraher

Bobbie McCrackin  
Vice President

Christopher Oakley  
Vice President and Regional Executive  
Jacksonville

Cynthia L. Rasche  
Vice President

John C. Robertson  
Vice President

Juan C. Sanchez  
Vice President

Robert M. Schenck  
Vice President

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Vice President

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Vice President

Stephen W. Wise  
Vice President

Christopher N. Alexander  
Assistant Vice President

S. Dwight Blackwood  
Assistant Vice President and  
Assistant General Counsel

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Assistant Vice President

Michael J. Chriszt  
Assistant Vice President

Karen W. Clayton  
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Assistant Vice President and Corporate Secretary

Amelia L. Johnson  
Assistant Vice President

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Assistant Vice President

John A. Kolb Jr.  
Assistant Vice President

Stephen A. Levy  
Assistant Vice President

Duncan B. Lyons  
Assistant Vice President

Margaret Darlene Martin  
Assistant Vice President

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Assistant Vice President

Lantanya N. Mauriello  
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Huston McKinney  
Assistant Vice President

Elizabeth McQuerry  
Assistant Vice President

D. Pierce Nelson  
Assistant Vice President and  
Public Information Officer

J. Elaine Phifer  
Assistant Vice President

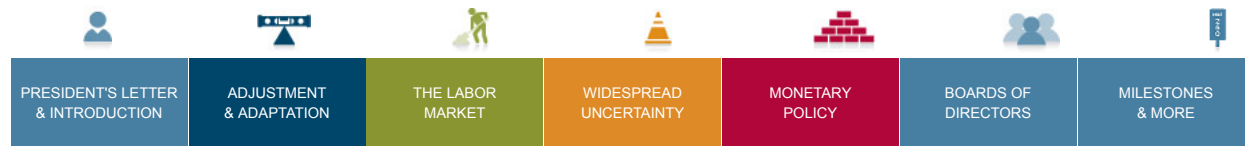
Doris Quiros  
Assistant Vice President and  
Assistant General Auditor

Jeffrey F. Schiele  
Assistant Vice President

Adrienne L. Slack  
Assistant Vice President and  
Branch Operations Officer  
New Orleans

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Amy S. Goodman Vice President	Gregory S. Fuller Assistant Vice President	Timothy R. Smith Assistant Vice President
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Lesley A. McClure Vice President and Regional Executive Birmingham		Torion L. Wright Assistant Vice President

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



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Urban Land Institute

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State of California

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EPN Business Manager  
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J. REILLY DOLAN

JANE LARRIMER

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Division of Financial Practices  
Federal Trade Commission

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Executive Vice President  
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NACHA—The Electronic Payments Association

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Assistant Chief for Strategy and Policy  
Fraud Section, Criminal Division  
Department of Justice

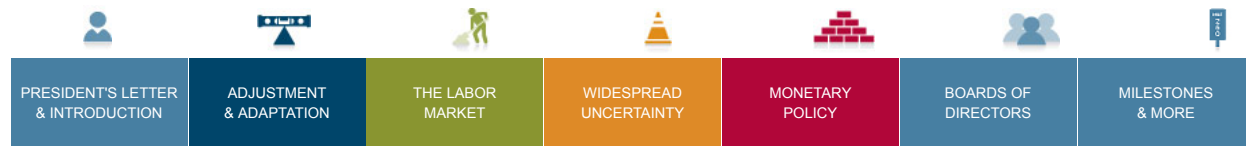
**RICH OLIVER**  
Executive Vice President and  
Retail Payments Product Manager  
The Federal Reserve Bank of Atlanta

**SHARON PETREY**  
Corporate Director Treasury  
Coca-Cola Enterprises Inc.

Senior Vice President and Manager  
Payment Strategist Group  
BB&T Corporation

**SAM VALLANDINGHAM**  
Chief Information Officer/Vice President  
The First State Bank

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Milestones

SCROLL DOWN TO VIEW EACH SECTION

### Research, monetary policy

- Fed policy actions in 2011 included implementing a second round of quantitative easing (QE2), launching "Operation Twist," announcing that it was keeping the fed funds rate at 0 percent to 0.25 percent through mid-2013, maintaining the size of its balance sheet.
- The Atlanta Fed built and launched the Inflation Dashboard and the Business Inflation Expectations survey. Inflation was a significant research focus in 2011.
- The Regional Economic Information Network continued to expand grassroots information gathering. In particular, regional executives established relationships with leaders of the top 50 employers in their zones and began regular roundtable meetings with bankers.
- The Federal Reserve Board selected the Atlanta and Cleveland Feds to lead the State and Local Government Financial Monitoring Team (Muni-FMT) for the Financial Stability Oversight Council. The Muni-FMT identifies trends in state and local fiscal conditions, borrowing, and pensions that could destabilize the financial system.
- The Atlanta Census Research Data Center (U.S. Census Bureau entity), one of only 10 in the country, opened at the Atlanta Fed.
- The Atlanta Fed held eight major policy/research conferences exploring timely topics including entrepreneurship during recovery, employment and education, innovation, the new financial landscape, and green development and finance.



### Supervision and regulation

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act) took effect in July 2011. An early, significant effect of the act for the Atlanta Fed was its added supervisory duties for 46 thrift holding companies, the largest of which is St. Petersburg, Florida-based Raymond James, with \$15 billion in assets.
- The Supervision and Regulation Division continued restructuring its department. It

instituted forward-looking examinations and general macroprudential regulation and added staff in areas of need.

- The **Office of Minority and Women Inclusion** was established at the Atlanta Fed and staffed, as required by the Dodd-Frank Act.

## Retail Payments Office / Payments

- The payments industry continued its migration toward the electronic. The 2010 Federal Reserve Payments Study, released in 2011 for data through 2009, found that more than three-quarters of all U.S. noncash payments in 2009 were electronic. By contrast, the 2007 payments study revealed that roughly two-thirds of noncash payments were electronic.
- Industry innovation continued to explode—for example, big banks formed a joint venture to compete with PayPal. As a result of dynamic innovation, the Retail Payments Office (RPO) continued to track and gauge the effects of rapid change.
- To keep abreast of industry changes, the RPO undertook major initiatives to upgrade efficiency and relevance.
- The Nashville cash operation moved to a third-party depot arrangement. The Nashville Branch cash operations closed at the end of July. A small staff focused on gathering economic intelligence and providing economic education outreach remains.
- The Atlanta-based RPO achieved cost recovery for both check and FedACH services, as required by the Monetary Control Act.

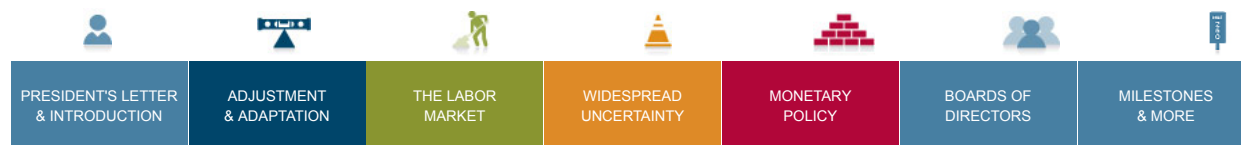
## Public outreach

- Atlanta Fed President and Chief Executive Officer Dennis Lockhart gave about two dozen speeches in 2011. Major themes of the speeches included downward revisions in the economic outlook, unemployment, vulnerability to shocks, rebalancing (fiscal adjustments, deleveraging, public pension reform), shoring up the financial system, inflation, and general economic uncertainty.
- Podcasts and videocasts covered such general economic topics as community development and real estate, and many others.
- Other events presented by the Atlanta Fed included Public Affairs Forums featuring distinguished speakers on the economics of sports and retirement planning.
- The Atlanta Fed launched its YouTube channel. The channel has more than 70 videos or video segments that range from Financial Markets Conference speeches and interviews to videos with President Lockhart, and from Public Affairs Forum interviews to Classroom Economist videos.
- The Financial Education group conducted 126 teacher workshops for teachers from 768 high schools. The group also made 123 presentations to local, state, and national teacher conferences, reaching 4,359 teachers who in turn reach 327,000 students.

## Corporate citizenship

- The renovated Check 21 work area at the main office in Atlanta earned LEED designation, a prestigious green building and design certification.
  - The Atlanta Fed celebrated 10 years at its 1000 Peachtree St. headquarters.
  - The employee volunteer program celebrated its 15th anniversary.
  - The employee-founded and funded nonprofit, Charity Parity, celebrated its 65th anniversary.
  - Charitable contributions to nonprofit organizations hit the \$4 million mark.
-

# FOUR FORCES THAT SHAPED THE ECONOMY IN 2011



## Credits

### About the Atlanta Fed

The Federal Reserve Bank of Atlanta is one of 12 regional Reserve Banks in the United States that, with the Board of Governors in Washington, DC, make up the Federal Reserve System—the nation's central bank. Since its establishment by an act of Congress in 1913, the Federal Reserve System's primary role has been to foster a sound financial system and a healthy economy.

To advance this goal, the Atlanta Fed helps formulate monetary policy, supervises banks and bank and financial holding companies, and provides payment services to depository institutions and the federal government. Through its six offices in Atlanta, Birmingham, Jacksonville, Miami, Nashville, and New Orleans, the Federal Reserve Bank of Atlanta serves the Sixth Federal Reserve District, which comprises Alabama, Florida, and Georgia, and parts of Louisiana, Mississippi, and Tennessee.

The 2011 Federal Reserve Bank of Atlanta Annual Report was created and produced by the Public Affairs Department.

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Vice President and Public Affairs Officer

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Assistant Vice President and Public Information Officer

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Miami, Florida 33178-2425

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Nashville, Tennessee 37203-4407

New Orleans Branch  
525 St. Charles Avenue  
New Orleans, Louisiana 70130-3480

***The Federal Reserve  
Bank of Atlanta***

*Financial Statements as of and for the Years Ended  
December 31, 2011 and 2010 and  
Independent Auditors' Report*

# THE FEDERAL RESERVE BANK OF ATLANTA

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March 20, 2012

1000 Peachtree Street N.E.  
Atlanta, Georgia 30309-4470  
404.498.8500  
www.frbatlanta.org

To the Board of Directors of the Federal Reserve Bank of Atlanta:

The management of the Federal Reserve Bank of Atlanta (FRB Atlanta) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2011 and 2010, and the Statements of Income and Comprehensive Income, and Statements of Changes in Capital for the years then ended (the financial statements). The financial statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the FAM and include all disclosures necessary for such fair presentation.

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

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

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

Federal Reserve Bank of Atlanta

Dennis P. Lockhart, President and Chief Executive Officer

Marie C. Gooding, First Vice President and Chief Operating Officer

Anne M. DeBeer, Senior Vice President and Chief Financial Officer



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Condition of the Federal Reserve Bank of Atlanta ("FRB Atlanta") as of December 31, 2011 and 2010, and the related Statements of Income and Comprehensive Income, and of Changes in Capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of the FRB Atlanta as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRB Atlanta's management is responsible for these Financial Statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these Financial Statements and an opinion on the FRB Atlanta's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The FRB Atlanta's internal control over financial reporting is a process designed by, or under the supervision of, the FRB Atlanta's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRB Atlanta's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System. The FRB Atlanta's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the FRB Atlanta; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with the accounting

principles established by the Board of Governors of the Federal Reserve System, and that receipts and expenditures of the FRB Atlanta are being made only in accordance with authorizations of management and directors of the FRB Atlanta; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRB Atlanta's assets that could have a material effect on the Financial Statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 4 to the Financial Statements, the FRB Atlanta has prepared these Financial Statements in conformity with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such Financial Statements of the differences between the accounting principles established by the Board of Governors of the Federal Reserve System and accounting principles generally accepted in the United States of America are also described in Note 4.

In our opinion, such Financial Statements present fairly, in all material respects, the financial position of the FRB Atlanta as of December 31, 2011 and 2010, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, the FRB Atlanta maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Deloitte + Touche LLP*

March 20, 2012

## FEDERAL RESERVE BANK OF ATLANTA

### Abbreviations:

ACH	Automated clearinghouse
AMLF	Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility
ASU	Accounting Standards Update
BEP	Benefit Equalization Retirement Plan
Bureau	Bureau of Consumer Financial Protection
FAM	<i>Financial Accounting Manual for Federal Reserve Banks</i>
FASB	Financial Accounting Standards Board
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
FOMC	Federal Open Market Committee
FRBC	Federal Reserve Bank of Chicago
FRBNY	Federal Reserve Bank of New York
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
IMF	International Monetary Fund
MBS	Mortgage-backed securities
OEB	Office of Employee Benefits of the Federal Reserve System
OFR	Office of Financial Research
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
STRIP	Separate Trading of Registered Interest and Principal of Securities
TAF	Term Auction Facility
TBA	To be announced
TDF	Term Deposit Facility
TIPS	Treasury Inflation-Protected Securities
TOP	Term Securities Lending Facility Options Program
TSLF	Term Securities Lending Facility

**FEDERAL RESERVE BANK OF ATLANTA**  
**STATEMENTS OF CONDITION**  
As of December 31, 2011 and December 31, 2010  
(in millions)

	2011	2010
<u>ASSETS</u>		
Gold certificates	\$ 1,394	\$ 1,385
Special drawing rights certificates	654	654
Coin	205	188
Loans to depository institutions	-	14
System Open Market Account:		
Treasury securities, net	130,120	100,963
Government-sponsored enterprise debt securities, net	8,016	14,475
Federal agency and government-sponsored enterprise mortgage-backed securities, net	63,062	95,072
Foreign currency denominated assets, net	1,487	1,606
Central bank liquidity swaps	5,720	5
Accrued interest receivable	1,465	1,346
Bank premises and equipment, net	240	248
Items in process of collection	31	149
Other assets	81	78
Total assets	\$ 212,475	\$ 216,183
<u>LIABILITIES AND CAPITAL</u>		
Federal Reserve notes outstanding, net	\$ 116,694	\$ 121,807
System Open Market Account:		
Securities sold under agreements to repurchase	7,427	5,650
Other liabilities	102	-
Deposits:		
Depository institutions	40,223	37,040
Other deposits	5	4
Interest payable to depository institutions	5	4
Accrued benefit costs	160	141
Deferred credit items	57	98
Accrued interest on Federal Reserve notes	171	248
Interdistrict settlement account	44,538	48,131
Other liabilities	17	20
Total liabilities	209,399	213,143
Capital paid-in	1,538	1,520
Surplus (including accumulated other comprehensive loss of \$26 and \$14 at December 31, 2011 and 2010, respectively)	1,538	1,520
Total capital	3,076	3,040
Total liabilities and capital	\$ 212,475	\$ 216,183

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

**FEDERAL RESERVE BANK OF ATLANTA**  
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
For the years ended December 31, 2011 and December 31, 2010  
(in millions)

	2011	2010
<u>INTEREST INCOME</u>		
System Open Market Account:		
Treasury securities, net	\$ 3,349	\$ 2,690
Government-sponsored enterprise debt securities, net	247	359
Federal agency and government-sponsored enterprise mortgage-backed securities, net	3,083	4,579
Foreign currency denominated assets, net	14	14
Central bank liquidity swaps	2	1
Total interest income	6,695	7,643
<u>INTEREST EXPENSE</u>		
System Open Market Account:		
Securities sold under agreements to repurchase	4	9
Deposits:		
Depository institutions	109	99
Total interest expense	113	108
Net interest income	6,582	7,535
<u>NON-INTEREST INCOME</u>		
System Open Market Account:		
Treasury securities gains, net	168	-
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	1	83
Foreign currency gains, net	9	34
Income from services	327	420
Reimbursable services to government agencies	16	16
Other	6	9
Total non-interest income	527	562
<u>OPERATING EXPENSES</u>		
Salaries and benefits	193	195
Occupancy	21	23
Equipment	15	14
Compensation paid for service costs incurred	158	193
Assessments:		
Board of Governors operating expenses and currency costs	122	117
Bureau of Consumer Financial Protection	14	2
Office of Financial Research	2	1
Other	86	112
Total operating expenses	611	657
Net income prior to distribution	6,498	7,440
Change in actuarial (losses) gains and prior service costs related to benefit plans	(12)	5
Comprehensive income prior to distribution	\$ 6,486	\$ 7,445
Distribution of comprehensive income:		
Dividends paid to member banks	\$ 90	\$ 94
Transferred to (from) surplus and change in accumulated other comprehensive loss	18	(61)
Payments to Treasury as interest on Federal Reserve notes	6,378	7,412
Total distribution	\$ 6,486	\$ 7,445

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

**FEDERAL RESERVE BANK OF ATLANTA**  
**STATEMENTS OF CHANGES IN CAPITAL**  
For the years ended December 31, 2011 and December 31, 2010  
(in millions, except share data)

	Surplus				Total capital
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	
Balance at January 1, 2010 (31,621,302 shares)	\$ 1,581	\$ 1,600	\$ (19)	\$ 1,581	\$ 3,162
Net change in capital stock redeemed (1,221,975 shares)	(61)	-	-	-	(61)
Transferred from surplus and change in accumulated other comprehensive loss	-	(66)	5	(61)	(61)
Balance at December 31, 2010 (30,399,327 shares)	\$ 1,520	\$ 1,534	\$ (14)	\$ 1,520	\$ 3,040
Net change in capital stock issued (362,196 shares)	18	-	-	-	18
Transferred to surplus and change in accumulated other comprehensive loss	-	30	(12)	18	18
Balance at December 31, 2011 (30,761,523 shares)	\$ 1,538	\$ 1,564	\$ (26)	\$ 1,538	\$ 3,076

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

**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

**1. STRUCTURE**

The Federal Reserve Bank of Atlanta (Bank) is part of the Federal Reserve System (System) and is one of the 12 Federal Reserve Banks (Reserve Banks) created by Congress under the Federal Reserve Act of 1913 (Federal Reserve Act), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the Sixth Federal Reserve District, which includes Georgia, Florida, Alabama, and portions of Louisiana, Tennessee, and Mississippi.

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

In addition to the 12 Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee (FOMC). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York (FRBNY), and, on a rotating basis, four other Reserve Bank presidents.

**2. OPERATIONS AND SERVICES**

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including large-dollar transfers of funds, automated clearinghouse (ACH) operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, savings and loan holding companies, and U.S. offices of foreign banking organizations pursuant to authority delegated by the Board of Governors. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which was signed into law and became effective on July 21, 2010, changed the scope of some services performed by the Reserve Banks. Among other things, the Dodd-Frank Act established a Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory authority over some institutions previously supervised by the Reserve Banks under delegated authority from the Board of Governors in connection with those institutions' compliance with consumer protection statutes; limited the Reserve Banks' authority to provide loans in unusual and exigent circumstances to lending programs or facilities with broad-based eligibility or to designated financial market utilities; and vested the Board of Governors with all supervisory and rule-writing authority for savings and loan holding companies.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and issues authorizations and directives to the FRBNY to execute transactions. The

**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, federal agency and GSE mortgage-backed securities (MBS), the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The FRBNY holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA). The FRBNY is authorized to lend the Treasury securities and federal agency and GSE debt securities that are held in the SOMA.

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes the FRBNY to conduct operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities. Specifically, the FOMC authorizes and directs the FRBNY to hold balances of, and to execute spot and forward foreign exchange and securities contracts for, 14 foreign currencies and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY is authorized and directed by the FOMC to maintain reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico in the maximum amounts of \$2 billion and \$3 billion, respectively, and to warehouse foreign currencies for the Treasury and the Exchange Stabilization Fund.

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

**3. FINANCIAL STABILITY ACTIVITIES**

The Reserve Banks have implemented the following programs that support the liquidity of financial institutions and foster improved conditions in financial markets.

*Large-Scale Asset Purchase Programs and Reinvestment of Principal Payments*

On March 18, 2009, the FOMC authorized and directed the FRBNY to purchase \$300 billion of longer-term Treasury securities to help improve conditions in private credit markets. The FRBNY began the purchases of these Treasury securities in March 2009 and completed them in October 2009. On August 10, 2010, the FOMC announced that the Federal Reserve would maintain the level of domestic securities holdings in the SOMA portfolio by reinvesting principal payments from GSE debt securities and federal agency and GSE MBS in longer-term Treasury securities. On November 3, 2010, the FOMC announced its intention to expand the SOMA portfolio holdings of longer-term Treasury securities by an additional \$600 billion and completed these purchases in June 2011. On June 22, 2011, the FOMC announced that the Federal Reserve would maintain its existing policy of reinvesting principal payments from all domestic securities in Treasury securities. On September 21, 2011, the FOMC announced that the Federal Reserve intends to purchase, by the end of June 2012, \$400 billion par value of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less, of which \$133 billion has been purchased and \$134 billion sold as of December 31, 2011. In addition, the FOMC announced that it will maintain its existing policy of rolling over maturing Treasury securities at auction and, rather than reinvesting principal payments from GSE debt securities and federal agency and GSE MBS in Treasury securities, such payments will be reinvested in federal agency and GSE MBS.

The FOMC authorized and directed the FRBNY to purchase GSE debt securities and federal agency and GSE MBS, with a goal to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally. The FRBNY was authorized to purchase up to \$175 billion in fixed-rate,



**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

non-callable GSE debt securities and \$1.25 trillion in fixed-rate federal agency and GSE MBS. Purchases of GSE debt securities began in November 2008, and purchases of federal agency and GSE MBS began in January 2009. The FRBNY completed the purchases of GSE debt securities and federal agency and GSE MBS in March 2010. The settlement of all federal agency and GSE MBS transactions was completed by August 2010. As discussed above, on September 21, 2011, the FOMC announced that the Federal Reserve will begin to reinvest principal payments from its holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS.

***Central Bank Liquidity Swaps***

The FOMC authorized and directed the FRBNY to establish central bank liquidity swap arrangements, which could be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

In May 2010, U.S. dollar liquidity swap arrangements were re-authorized with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank through January 2011. Subsequently, these arrangements were extended through February 1, 2013. There is no specified limit to the amount that may be drawn by the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank under these swap arrangements; the Bank of Canada may draw up to \$30 billion under the swap arrangement with the FRBNY. In addition to the central bank liquidity swap arrangements, the FOMC has authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico, as discussed in Note 2.

Foreign currency liquidity swap arrangements were authorized with 4 foreign central banks and provided the Reserve Banks with the capacity to offer foreign currency liquidity to U.S. depository institutions. The authorization for these swap arrangements expired on February 1, 2010. In November 2011, as a contingency measure, the FOMC agreed to establish temporary bilateral liquidity swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank so that liquidity can be provided in any of their currencies if necessary. The swap lines are authorized until February 1, 2013.

***Lending to Depository Institutions***

The Term Auction Facility (TAF) promoted the efficient dissemination of liquidity by providing term funds to depository institutions. The last TAF auction was conducted on March 8, 2010, and the related loans matured on April 8, 2010.

***Lending to Primary Dealers***

The Term Securities Lending Facility (TSLF) promoted liquidity in the financing markets for Treasury securities. Under the TSLF, the FRBNY could lend up to an aggregate amount of \$200 billion of Treasury securities held in the SOMA to primary dealers on a secured basis for a term of 28 days. The authorization for the TSLF expired on February 1, 2010.

The Term Securities Lending Facility Options Program (TOP) offered primary dealers the opportunity to purchase an option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The program was suspended effective with the maturity of the June 2009 TOP options, and authorization for the program expired on February 1, 2010.

***Other Lending Facilities***

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) provided funding to depository institutions and bank holding companies to finance the purchase of eligible high-quality asset-backed commercial paper from money market mutual funds. The Federal Reserve Bank of Boston administered the AMLF and was authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. The authorization for the AMLF expired on February 1, 2010.

**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

**4. SIGNIFICANT ACCOUNTING POLICIES**

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

Limited differences exist between the accounting principles and practices in the FAM and accounting principles generally accepted in the United States of America (GAAP), due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank and given the System's unique responsibility to conduct monetary policy. The primary differences are the presentation of all SOMA securities holdings at amortized cost and the recording of SOMA securities on a settlement-date basis. Amortized cost, rather than the fair value presentation, more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to open market operations and do not motivate decisions related to policy or open market activities. Accounting for these securities on a settlement-date basis, rather than the trade-date basis required by GAAP, better reflects the timing of the transaction's effect on the quantity of reserves in the banking system. The cost bases of Treasury securities, GSE debt securities, and foreign government debt instruments are adjusted for amortization of premiums or accretion of discounts on a straight-line basis, rather than using the interest method required by GAAP.

In addition, the Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital, and the accompanying notes to the financial statements. There are no other significant differences, other than those described above, between the policies outlined in the FAM and GAAP.

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

**a. Consolidation**

The Dodd-Frank Act established the Bureau as an independent bureau within the System, and section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. Section 152 of the Dodd-Frank Act established the Office of Financial Research (OFR) within the Treasury. The Board of Governors funds the Bureau and OFR through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationships to the Bureau and the OFR and determined that neither should be consolidated in the Bank's financial statements.

**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

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

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

SDR certificates are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDR certificates serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. SDRs are recorded by the Bank at original cost. There were no SDR transactions during the years ended December 31, 2011 and 2010.

**c. *Coin***

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

**d. *Loans***

Loans to depository institutions are reported at their outstanding principal balances, and interest income is recognized on an accrual basis.

Loans are impaired when current information and events indicate that it is probable that the Bank will not receive the principal and interest that are due in accordance with the contractual terms of the loan agreement. Impaired loans are evaluated to determine whether an allowance for loan loss is required. The Bank has developed procedures for assessing the adequacy of any allowance for loan losses using all available information to identify incurred losses. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values. Generally, the Bank would discontinue recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest would be received in accordance with the terms of the loan agreement. If the Bank discontinues recording interest on an impaired loan, cash payments are first applied to principal until the loan balance is reduced to zero; subsequent payments are applied as recoveries of amounts previously deemed uncollectible, if any, and then as interest income.

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

The FRBNY may engage in purchases of securities with primary dealers under agreements to resell (repurchase transactions). These repurchase transactions are settled through a triparty arrangement. In a

**FEDERAL RESERVE BANK OF ATLANTA  
NOTES TO FINANCIAL STATEMENTS**

triparty arrangement, two commercial custodial banks manage the collateral clearing, settlement, pricing, and pledging, and provide cash and securities custodial services for and on behalf of the Bank and counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repurchase transactions primarily includes Treasury securities (including TIPS and STRIP Treasury securities); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac); and pass-through MBS of Fannie Mae, Freddie Mac, and Government National Mortgage Association. The repurchase transactions are accounted for as financing transactions with the associated interest income recognized over the life of the transaction.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase transactions) with primary dealers and, beginning August 2010, with selected money market funds. The list of eligible counterparties was subsequently expanded to include GSEs, effective in May 2011, and bank and savings institutions, effective in July 2011. These reverse repurchase transactions may be executed through a triparty arrangement as an open market operation, similar to repurchase transactions. Reverse repurchase transactions may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, GSE debt securities, and federal agency and GSE MBS that are held in the SOMA. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts as "System Open Market Account: Securities sold under agreements to repurchase" and the related accrued interest payable is reported as a component of "Other liabilities" in the Statements of Condition.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers to facilitate the effective functioning of the domestic securities markets. The amortized cost basis of securities lent continues to be reported as "Treasury securities, net" or "Government-sponsored enterprise debt securities, net," as appropriate, in the Statements of Condition. Overnight securities lending transactions are fully collateralized by Treasury securities that have fair values in excess of the securities lent. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Non-interest income: Other" in the Statements of Income and Comprehensive Income.

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

***f. Treasury Securities; Government-Sponsored Enterprise Debt Securities; Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities; Foreign Currency Denominated Assets; and Warehousing Agreements***

Interest income on Treasury securities, GSE debt securities, and foreign currency denominated assets comprising the SOMA is accrued on a straight-line basis. Interest income on federal agency and GSE MBS is accrued using the interest method and includes amortization of premiums, accretion of discounts, and gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, GSE debt securities, and federal agency and GSE MBS are reported net of premiums and discounts in the Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts in the Statements of Income and Comprehensive Income.

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In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell “to be announced” (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. In 2010, the FRBNY also executed a limited number of TBA MBS coupon swap transactions, which involve a simultaneous sale of a TBA MBS and purchase of another TBA MBS of a different coupon rate. During the year-ended December 31, 2010, the FRBNY’s participation in the dollar roll and coupon swap markets furthered the MBS purchase program goals of providing support to the mortgage and housing markets and of fostering improved conditions in financial markets more generally. During the year-ended December 31, 2011, the FRBNY executed dollar rolls primarily to facilitate settlement. The FRBNY accounts for outstanding commitments under dollar roll and coupon swaps as purchases or sales on a settlement-date basis. Net gains resulting from dollar roll and coupon swap transactions are reported as “Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net” in the Statements of Income and Comprehensive Income.

Foreign currency denominated assets, which can include foreign currency deposits, securities purchased under agreements to resell, and government debt instruments, are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on foreign currency denominated assets are reported as “Non-interest income: System Open Market Account: Foreign currency gains, net” in the Statements of Income and Comprehensive Income.

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

Warehousing is an arrangement under which the FOMC has approved the exchange, at the request of the Treasury, of U.S. dollars for foreign currencies held by the Treasury over a limited period. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury for financing purchases of foreign currencies and related international operations. Warehousing agreements are designated as held-for-trading purposes and are valued daily at current market exchange rates. Activity related to these agreements is allocated to each Reserve Bank based on the ratio of each Reserve Bank’s capital and surplus to the Reserve Banks’ aggregate capital and surplus at the preceding December 31.

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

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

Central bank liquidity swaps activity, including the related income and expense, is allocated to each Reserve Bank based on the ratio of each Reserve Bank’s capital and surplus to the Reserve Banks’ aggregate capital and surplus at the preceding December 31. The foreign currency amounts associated with these central bank liquidity swap arrangements are revalued daily at current foreign currency market exchange rates.

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

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

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

The foreign central bank compensates the FRBNY based on the foreign currency amounts it holds for the FRBNY. The Bank's allocated portion of the amount of compensation received during the term of the swap transaction is reported as "Interest income: System Open Market Account: Central bank liquidity swaps" in the Statements of Income and Comprehensive Income.

***Foreign currency liquidity swaps***

The structure of foreign currency liquidity swap transactions involves the transfer by the FRBNY, at the prevailing market exchange rate, of a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency amount received would be reported as a liability by the Bank.

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

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

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

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

**i. *Interdistrict Settlement Account***

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

**j. *Federal Reserve Notes***

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

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

“Federal Reserve notes outstanding, net” in the Statements of Condition represents the Bank’s Federal Reserve notes outstanding, reduced by the Bank’s currency holdings of \$29,109 million and \$20,851 million at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, all Federal Reserve notes issued to the Reserve Banks were fully collateralized. At December 31, 2011, all gold certificates, all special drawing right certificates, and \$1,018 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2011, no investments denominated in foreign currencies were pledged as collateral.

**k. Deposits**

*Depository Institutions*

Depository institutions’ deposits represent the reserve and service-related balances, such as required clearing balances, in the accounts that depository institutions hold at the Bank. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the federal funds rate. Interest payable is reported as “Interest payable to depository institutions” in the Statements of Condition.

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest payable is reported as “Interest payable to depository institutions” in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2011 and 2010.

*Other*

Other deposits include foreign central bank and foreign government deposits held at the FRBNY that are allocated to the Bank.

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

“Items in process of collection” primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. “Deferred credit items” is the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can vary significantly.

**m. Capital Paid-in**

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

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By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To meet the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Statements of Income and Comprehensive Income.

**n. *Surplus***

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in. On a daily basis, surplus is adjusted to equate the balance to capital paid-in. Accumulated other comprehensive income is reported as a component of “Surplus” in the Statements of Condition and the Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12 and 13.

**o. *Interest on Federal Reserve Notes***

The Board of Governors requires the Reserve Banks to transfer excess earnings to the Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. This amount is reported as “Payments to Treasury as interest on Federal Reserve notes” in the Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as “Accrued interest on Federal Reserve notes” in the Statements of Condition.

If earnings during the year are not sufficient to provide for the costs of operations, payment of dividends, and equating surplus and capital paid-in, payments to the Treasury are suspended. A deferred asset is recorded that represents the amount of net earnings a Reserve Bank will need to realize before remittances to the Treasury resume. This deferred asset is periodically reviewed for impairment.

**p. *Income and Costs Related to Treasury Services***

When directed by the Secretary of the Treasury, the Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States Government. By statute, the Treasury has appropriations to pay for these services. During the years ended December 31, 2011 and 2010, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

**q. *Compensation Received for Service Costs Provided and Compensation Paid for Service Costs Incurred***

The Bank has overall responsibility for managing the Reserve Banks’ provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services in its Statements of Income and Comprehensive Income. The FRBNY manages the Reserve Banks’ provision of Fedwire funds and securities services and recognizes total System revenue for these services in its Consolidated Statements of Income and Comprehensive Income. Similarly, the Federal Reserve Bank of Chicago (FRBC) has overall responsibility for managing the Reserve Banks’ provision of electronic access services to depository institutions and, as a result, recognizes total System revenue for these services in its Statements of Income and Comprehensive Income. The Bank, the FRBNY, and the FRBC compensate the applicable Reserve Banks for the costs incurred to provide these services. Compensation received by the Bank for providing Fedwire funds, securities and electronic access services is reported as “Non-interest income: Other” in the Statements of Income and Comprehensive Income. Compensation paid by the Bank for check and ACH services is reported as “Operating expenses: Compensation paid for service costs incurred” in the Statements of Income and Comprehensive Income.

**r. *Assessments***

The Board of Governors assesses the Reserve Banks to fund its operations, the operations of the Bureau and, for a two-year period following the July 21, 2010 effective date of the Dodd-Frank Act, the OFR. These assessments are allocated to each Reserve Bank based on each Reserve Bank’s capital and surplus



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balances as of December 31 of the prior year for the Board of Governors' operations and as of the most recent quarter for the Bureau and OFR operations. The Board of Governors also assesses each Reserve Bank for the expenses incurred by the Treasury to produce and retire Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

During the period prior to the Bureau transfer date of July 21, 2011, there was no limit on the funding provided to the Bureau and assessed to the Reserve Banks; the Board of Governors was required to provide the amount estimated by the Secretary of the Treasury needed to carry out the authorities granted to the Bureau under the Dodd-Frank Act and other federal law. The Dodd-Frank Act requires that, after the transfer date, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governors' 2009 annual report, which totaled \$4.98 billion. The fixed percentage of total 2009 operating expenses of the System is 10 percent (\$498.0 million) for 2011, 11 percent (\$547.8 million) for 2012, and 12 percent (\$597.6 million) for 2013. After 2013, the amount will be adjusted in accordance with the provisions of the Dodd-Frank Act. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Statements of Income and Comprehensive Income.

The Board of Governors assesses the Reserve Banks to fund the operations of the OFR for the two-year period following enactment of the Dodd-Frank Act; thereafter, the OFR will be funded by fees assessed on bank holding companies and nonbank financial companies that meet the criteria specified in the Dodd-Frank Act.

**s. Taxes**

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were \$3 million for each of the years ended December 31, 2011 and 2010, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Income and Comprehensive Income.

**t. Restructuring Charges**

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

Note 14 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations. The costs associated with the impairment of certain Bank assets are discussed in Note 9. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the FRBNY. Costs and liabilities associated with enhanced postretirement benefits are discussed in Note 12.

**u. Recently Issued Accounting Standards**

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires additional disclosures about the allowance for credit losses and the credit quality of loan portfolios. The additional disclosures include a rollforward of the allowance for credit losses on a disaggregated basis and more information, by type of receivable, on credit quality indicators, including the amount of certain past-due receivables and troubled debt restructurings and

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significant purchases and sales. The adoption of this update is effective for the Bank for the year ended December 31, 2011, and did not have a material effect on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies accounting for troubled debt restructurings, specifically clarifying creditor concessions and financial difficulties experienced by borrowers. This update is effective for the Bank for the year ended December 31, 2012, and is not expected to have a material effect on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which reconsidered the effective control for repurchase agreements. This update prescribes when the Bank may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. This determination is based, in part, on whether the Bank has maintained effective control over the transferred financial assets. This update is effective for the Bank for the year ended December 31, 2012, and is not expected to have a material effect on the Bank's financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which requires a reporting entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. The update is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items by presenting the components reported in other comprehensive income. The Bank has adopted the update in this ASU effective for the year ended December 31, 2011, and the required presentation is reflected in the Bank's financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This update will require a reporting entity to present enhanced disclosures for financial instruments and derivative instruments that are offset or subject to master netting agreements or similar such agreements. This update is effective for the Bank for the year ended December 31, 2013, and is not expected to have a material effect on the Bank's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update indefinitely defers the requirements of ASU 2011-05 related to presentation of reclassification adjustments.

**5. LOANS**

Loans outstanding at December 31, 2011 and 2010 were as follows (in millions):

	2011	2010
Loans to depository institutions	\$ -	\$ 14

***Loans to Depository Institutions***

The Bank offers primary, secondary, and seasonal loans to eligible borrowers, and each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every 14 days by the Bank's board of directors, subject to review and determination by the Board of Governors. Primary and

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secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

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

*Allowance for Loan Loss*

At December 31, 2011 and 2010, the Bank did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2011 and 2010.

**6. TREASURY SECURITIES; GOVERNMENT-SPONSORED ENTERPRISE DEBT SECURITIES; FEDERAL AGENCY AND GOVERNMENT-SPONSORED ENTERPRISE MORTGAGE-BACKED SECURITIES; SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL; SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE; AND SECURITIES LENDING**

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA.

The Bank's allocated share of SOMA balances was approximately 7.434 percent and 9.463 percent at December 31, 2011 and 2010, respectively.

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

	2011				
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Fair value
Bills	\$ 1,370	\$ -	\$ -	\$ 1,370	\$ 1,370
Notes	95,630	1,993	(92)	97,531	103,294
Bonds	26,665	4,560	(6)	31,219	37,817
Total Treasury securities	<u>\$ 123,665</u>	<u>\$ 6,553</u>	<u>\$ (98)</u>	<u>\$ 130,120</u>	<u>\$ 142,481</u>
GSE debt securities	<u>\$ 7,731</u>	<u>\$ 286</u>	<u>\$ (1)</u>	<u>\$ 8,016</u>	<u>\$ 8,493</u>
Federal agency and GSE MBS	<u>\$ 62,275</u>	<u>\$ 864</u>	<u>\$ (77)</u>	<u>\$ 63,062</u>	<u>\$ 66,573</u>
	2010				
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Fair value
Bills	\$ 1,743	\$ -	\$ -	\$ 1,743	\$ 1,743
Notes	73,174	1,330	(72)	74,432	76,147
Bonds	21,744	3,098	(54)	24,788	27,419
Total Treasury securities	<u>\$ 96,661</u>	<u>\$ 4,428</u>	<u>\$ (126)</u>	<u>\$ 100,963</u>	<u>\$ 105,309</u>
GSE debt securities	<u>\$ 13,954</u>	<u>\$ 523</u>	<u>\$ (2)</u>	<u>\$ 14,475</u>	<u>\$ 14,836</u>
Federal agency and GSE MBS	<u>\$ 93,884</u>	<u>\$ 1,335</u>	<u>\$ (147)</u>	<u>\$ 95,072</u>	<u>\$ 97,088</u>

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

	2011		2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Bills	\$ 18,423	\$ 18,423	\$ 18,422	\$ 18,422
Notes	1,311,917	1,389,429	786,575	804,703
Bonds	419,937	508,694	261,955	289,757
Total Treasury securities	<u>\$ 1,750,277</u>	<u>\$ 1,916,546</u>	<u>\$ 1,066,952</u>	<u>\$ 1,112,882</u>
GSE debt securities	<u>\$ 107,828</u>	<u>\$ 114,238</u>	<u>\$ 152,972</u>	<u>\$ 156,780</u>
Federal agency and GSE MBS	<u>\$ 848,258</u>	<u>\$ 895,495</u>	<u>\$ 1,004,695</u>	<u>\$ 1,026,003</u>

The fair value amounts in the above tables are presented solely for informational purposes. Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. The fair value of federal agency and GSE MBS was determined using a model-based approach that considers observable inputs for similar securities; fair value for all other SOMA security holdings was determined by reference to quoted prices for identical securities.

The fair value of the fixed-rate Treasury securities, GSE debt securities, and federal agency and GSE MBS in the SOMA's holdings is subject to market risk, arising from movements in market variables, such as interest rates and securities prices. The fair value of federal agency and GSE MBS is also affected by the expected rate of prepayments of mortgage loans underlying the securities.

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The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at December 31 (in millions):

Distribution of MBS holdings by coupon rate	2011		2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Allocated to the Bank:				
3.0%	\$ 98	\$ 99	\$ -	\$ -
3.5%	1,443	1,462	32	33
4.0%	12,005	12,620	15,867	15,936
4.5%	30,218	32,054	47,093	48,146
5.0%	13,567	14,323	21,899	22,478
5.5%	4,966	5,209	8,812	9,072
6.0%	680	715	1,222	1,266
6.5%	85	91	147	157
<b>Total</b>	<b>\$ 63,062</b>	<b>\$ 66,573</b>	<b>\$ 95,072</b>	<b>\$ 97,088</b>
Total SOMA:				
3.0%	\$ 1,313	\$ 1,336	\$ -	\$ -
3.5%	19,415	19,660	341	352
4.0%	161,481	169,763	167,675	168,403
4.5%	406,465	431,171	497,672	508,798
5.0%	182,497	192,664	231,420	237,545
5.5%	66,795	70,064	93,119	95,873
6.0%	9,152	9,616	12,910	13,376
6.5%	1,140	1,221	1,558	1,656
<b>Total</b>	<b>\$ 848,258</b>	<b>\$ 895,495</b>	<b>\$ 1,004,695</b>	<b>\$ 1,026,003</b>

There were no transactions related to securities purchased under agreements to resell during the years ended December 31, 2011 and 2010. Financial information related to securities sold under agreements to repurchase for the years ended December 31 was as follows (in millions):

	2011	2010
Allocated to the Bank:		
Contract amount outstanding, end of year	\$ 7,427	\$ 5,650
Average daily amount outstanding, during the year	5,705	5,964
Maximum balance outstanding, during the year	9,257	9,366
Securities pledged (par value), end of year	6,400	4,130
Securities pledged (market value), end of year	7,427	5,650
Total SOMA:		
Contract amount outstanding, end of year	\$ 99,900	\$ 59,703
Average daily amount outstanding, during the year	72,227	58,476
Maximum balance outstanding, during the year	124,512	77,732
Securities pledged (par value), end of year	86,089	43,642
Securities pledged (market value), end of year	99,900	59,703

The contract amounts for securities sold under agreements to repurchase approximate fair value. FRBNY executes transactions for the purchase of securities under agreements to resell primarily to temporarily add reserve balances to the banking system. Conversely, transactions to sell securities under agreements to repurchase are executed to temporarily drain reserve balances from the banking system and as part of a service offering to foreign official and international account holders.

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The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2011, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
Treasury securities (par value)	\$ 1,208	\$ 2,015	\$ 6,684	\$ 48,300	\$ 48,316	\$ 17,142	\$ 123,665
GSE debt securities (par value)	186	373	1,464	4,505	1,028	175	7,731
Federal agency and GSE MBS (par value) <sup>1</sup>	-	-	-	1	2	62,272	62,275
Securities sold under agreements to repurchase (contract amount)	7,427	-	-	-	-	-	7,427

<sup>1</sup> The par amount shown for Federal agency and GSE MBS is the remaining principal balance of the underlying mortgages.

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities at December 31, 2011, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, is approximately 2.4 years.

The amortized cost and par value of Treasury securities and GSE debt securities that were loaned from the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank			
	Amortized cost		Par value	
	2011	2010	2011	2010
Treasury securities	\$ 1,124	\$ 2,141	\$ 1,039	\$ 2,089
GSE debt securities	95	160	90	152

	Total SOMA			
	Amortized cost		Par value	
	2011	2010	2011	2010
Treasury securities	\$ 15,121	\$ 22,627	\$ 13,978	\$ 22,081
GSE debt securities	1,276	1,686	1,216	1,610

The FRBNY enters into commitments to buy Treasury and GSE debt securities and records the related securities on a settlement-date basis. As of December 31, 2011, the total purchase price of the Treasury securities under outstanding commitments was \$3,200 million. The total purchase price of outstanding commitments allocated to the Bank was \$238 million. These commitments had contractual settlement dates extending through January 3, 2012. As of December 31, 2011, the fair value of Treasury securities under outstanding purchase commitments was \$3,208 million, of which \$238 million was allocated to the Bank.

The FRBNY enters into commitments to buy and sell federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2011, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was \$41,503 million, of which \$513 million was related to dollar roll transactions. The total purchase price of outstanding purchase commitments allocated to the Bank was \$3,085 million, of which \$38 million was related to dollar roll transactions. As of December 31, 2011, the total sales price of the federal agency and GSE MBS under outstanding sales commitments was

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\$4,430 million, all of which was related to dollar roll transactions. The total sales price of outstanding sales commitments allocated to the Bank was \$329 million, all of which was related to dollar roll transactions. These commitments, which had contractual settlement dates extending through February 2012, are for the purchase and sale of TBA MBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. As of December 31, 2011, the fair value of federal agency and GSE MBS purchases and sales, net under outstanding commitments was \$41,873 million and \$4,473 million, respectively, of which \$3,113 million and \$333 million, respectively, was allocated to the Bank. These commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash collateral for commitments as part of the risk management practices used to mitigate the counterparty credit risk.

Other liabilities, which are related to federal agency and GSE MBS purchases and sales, includes the FRBNY's obligation to return cash margin posted by counterparties as collateral under commitments to purchase and sell federal agency and GSE MBS. In addition, other liabilities includes obligations that arise from the failure of a seller to deliver securities to the FRBNY on the settlement date. Although the FRBNY has ownership of and records its investments in the MBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered. The amount of other liabilities allocated to the Bank and held in the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2011	2010	2011	2010
Cash margin	\$ 95	\$ -	\$ 1,271	\$ -
Obligations from MBS transaction fails	7	-	97	-
Total	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 1,368</u>	<u>\$ -</u>

During the years ended December 31, 2011 and 2010, the Reserve Banks recorded net gains from federal agency and GSE MBS transactions of \$10 million and \$782 million, respectively, of which \$1 million and \$83 million, respectively, were allocated to the Bank. These net gains are reported as "Non-interest income: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

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Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the year ended December 31, 2011, is summarized as follows (in millions):

	Allocated to the Bank					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2010	\$ 1,743	\$ 74,432	\$ 24,788	\$ 100,963	\$ 14,475	\$ 95,072
Purchases <sup>1</sup>	19,171	61,195	13,034	93,400	-	3,133
Sales <sup>1</sup>	-	(10,239)	-	(10,239)	-	-
Realized gains, net <sup>2</sup>	-	168	-	168	-	-
Principal payments and maturities	(19,172)	(5,330)	-	(24,502)	(3,567)	(15,643)
Amortization of premiums and discounts	1	(350)	(395)	(744)	(137)	(256)
Inflation adjustment on inflation-indexed securities	-	102	86	188	-	-
Annual reallocation adjustment <sup>3</sup>	(373)	(22,447)	(6,294)	(29,114)	(2,755)	(19,244)
Balance December 31, 2011	<u>\$ 1,370</u>	<u>\$ 97,531</u>	<u>\$ 31,219</u>	<u>\$ 130,120</u>	<u>\$ 8,016</u>	<u>\$ 63,062</u>

Supplemental information - par value of transactions:

Purchases	\$ 19,172	\$ 59,834	\$ 10,322	\$ 89,328	\$ -	\$ 3,045
Proceeds from sales	-	(10,024)	-	(10,024)	-	-

	Total SOMA					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2010	\$ 18,422	\$ 786,575	\$ 261,955	\$ 1,066,952	\$ 152,972	\$ 1,004,695
Purchases <sup>1</sup>	239,487	731,252	161,876	1,132,615	-	42,145
Sales <sup>1</sup>	-	(137,734)	-	(137,734)	-	-
Realized gains, net <sup>2</sup>	-	2,258	-	2,258	-	-
Principal payments and maturities	(239,494)	(67,273)	-	(306,767)	(43,466)	(195,413)
Amortization of premiums and discounts	8	(4,445)	(4,985)	(9,422)	(1,678)	(3,169)
Inflation adjustment on inflation-indexed securities	-	1,284	1,091	2,375	-	-
Balance December 31, 2011	<u>\$ 18,423</u>	<u>\$ 1,311,917</u>	<u>\$ 419,937</u>	<u>\$ 1,750,277</u>	<u>\$ 107,828</u>	<u>\$ 848,258</u>

Supplemental information - par value of transactions:

Purchases	\$ 239,494	\$ 713,878	\$ 127,802	\$ 1,081,174	\$ -	\$ 40,955
Proceeds from sales	-	(134,829)	-	(134,829)	-	-

<sup>1</sup> Purchases and sales are reported on a settlement-date basis and include payments and receipts related to principal, premiums, discounts, and inflation compensation included in the basis of inflation-indexed securities. The amount reported as sales also includes realized gains, net.

<sup>2</sup> Adjustments for realized gains, net is required because these amounts do not affect the reported amount of the related securities. Excludes gains and losses that result from net settled MBS TBA transactions.

<sup>3</sup> Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 4f.

**7. FOREIGN CURRENCY DENOMINATED ASSETS**

The FRBNY holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments of Germany, France, and Japan. These foreign



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government debt instruments are guaranteed as to principal and interest by the issuing foreign governments. In addition, the FRBNY enters into transactions to purchase Euro-denominated government debt securities under agreements to resell for which the accepted collateral is the debt instruments issued by the governments of Belgium, France, Germany, Italy, the Netherlands, and Spain.

The Bank's allocated share of foreign currency denominated assets was approximately 5.731 percent and 6.166 percent at December 31, 2011 and 2010, respectively.

The Bank's allocated share of foreign currency denominated assets, including accrued interest, valued at amortized cost and foreign currency market exchange rates at December 31 was as follows (in millions):

	<u>2011</u>	<u>2010</u>
Euro:		
Foreign currency deposits	\$ 537	\$ 435
Securities purchased under agreements to resell	-	152
German government debt instruments	108	114
French government debt instruments	151	170
Japanese yen:		
Foreign currency deposits	228	239
Japanese government debt instruments	463	496
Total allocated to the Bank	<u>\$ 1,487</u>	<u>\$ 1,606</u>

At December 31, 2011 and 2010, the fair value of foreign currency denominated assets, including accrued interest, allocated to the Bank was \$1,497 million and \$1,616 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to Treasury securities, GSE debt securities, and federal agency and GSE MBS discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as the central bank, to meet its financial obligations and responsibilities. The fair value is presented solely for informational purposes.

Total Reserve Bank foreign currency denominated assets were \$25,950 million and \$26,049 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the fair value of the total Reserve Bank foreign currency denominated assets, including accrued interest, was \$26,116 million and \$26,213 million, respectively.

The remaining maturity distribution of foreign currency denominated assets that were allocated to the Bank at December 31, 2011, was as follows (in millions):

	<u>Within 15 days</u>	<u>16 days to 90 days</u>	<u>91 days to 1 year</u>	<u>Over 1 year to 5 years</u>	<u>Total</u>
Euro	\$ 307	\$ 168	\$ 121	\$ 200	\$ 796
Japanese yen	239	38	180	234	691
Total	<u>\$ 546</u>	<u>\$ 206</u>	<u>\$ 301</u>	<u>\$ 434</u>	<u>\$ 1,487</u>

At December 31, 2011 and 2010, the authorized warehousing facility was \$5 billion, with no balance outstanding.

There were no transactions related to the authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico during the years ended December 31, 2011 and 2010.

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There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2011.

The FRBNY enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2011, there were \$216 million of outstanding commitments to purchase Euro-denominated government debt instruments, of which \$12 million was allocated to the Bank. These securities settled on January 4, 2012, and replaced Euro-denominated government debt instruments held in the SOMA that matured on that date. As of December 31, 2011, the fair value of Euro-denominated government debt instruments under outstanding commitments was \$216 million, of which \$12 million was allocated to the Bank.

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

**8. CENTRAL BANK LIQUIDITY SWAPS**

*U.S. Dollar Liquidity Swaps*

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 5.731 percent and 6.166 percent at December 31, 2011 and 2010, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2011 and 2010, was \$99,823 million and \$75 million, respectively, of which \$5,720 million and \$5 million, respectively, was allocated to the Bank.

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

	2011			2010	
	Within 15 days	16 days to 90 days	Total	Within 15 days	Total
Euro	\$ 1,969	\$ 2,927	\$ 4,896	\$ 5	\$ 5
Japanese yen	518	284	802	-	-
Swiss franc	18	4	22	-	-
Total	\$ 2,505	\$ 3,215	\$ 5,720	\$ 5	\$ 5

*Foreign Currency Liquidity Swaps*

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2011 and 2010.

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**9. BANK PREMISES, EQUIPMENT, AND SOFTWARE**

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

	2011	2010
Bank premises and equipment:		
Land and land improvements	\$ 38	\$ 39
Buildings	233	231
Building machinery and equipment	39	39
Construction in progress	2	2
Furniture and equipment	85	90
Subtotal	397	401
Accumulated depreciation	(157)	(153)
Bank premises and equipment, net	\$ 240	\$ 248
Depreciation expense, for the years ended December 31	\$ 14	\$ 15

The Bank leases space to outside tenants with remaining lease terms ranging from one to ten years. Rental income from such leases was \$3 million and \$4 million for the years ended December 31, 2011 and 2010, respectively, and is reported as a component of “Non-interest income: Other” in the Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2011, are as follows (in thousands):

2012	\$ 1,392
2013	849
2014	802
2015	720
2016	474
Thereafter	609
Total	\$ 4,846

The Bank had capitalized software assets, net of amortization, of \$8 million and \$5 million at December 31, 2011 and 2010, respectively. Amortization expense was \$2 million and \$1 million for the years ended December 31, 2011 and 2010, respectively. Capitalized software assets are reported as a component of “Other assets” in the Statements of Condition and the related amortization is reported as a component of “Operating expenses: Other” in the Statements of Income and Comprehensive Income.

Assets impaired as a result of the Bank’s restructuring plan, as discussed in Note 14, include cash processing equipment. Asset impairment losses of \$1 million for the year ended December 31, 2011 were determined using fair values based on quoted fair values or other valuation techniques and are reported as a component of “Operating expenses: Equipment” in the Statements of Income and Comprehensive Income. The Bank had no impairment losses in 2010.

**10. COMMITMENTS AND CONTINGENCIES**

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

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At December 31, 2011, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from one to approximately four years. These leases provide for increased rental payments based upon increases in real estate taxes and operating costs.

Rental expense under operating leases for certain operating facilities, warehouses, and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was \$1 million for each of the years ended December 31, 2011 and 2010.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2011, are as follows (in thousands):

2012	\$	263
2013		254
2014		198
2015		92
Future minimum rental payments	\$	807

At December 31, 2011, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under the Insurance Agreement of the Reserve Banks, each of the Reserve Banks has agreed to bear, on a per incident basis, a share of certain losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2011 and 2010.

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

**11. RETIREMENT AND THRIFT PLANS**

***Retirement Plans***

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). Under the Dodd-Frank Act, newly hired Bureau employees are eligible to participate in the System Plan and transferees from other governmental organizations can elect to participate in the System Plan. In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP).

The System Plan provides retirement benefits to employees of the Reserve Banks, Board of Governors, OEB, and certain employees of the Bureau. The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. During the year ended December 31, 2011, certain costs associated with the System Plan were reimbursed by the Bureau. During the year ended December 31, 2010, costs associated with the System Plan were not reimbursed by other participating employers.

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The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2011 and 2010, and for the years then ended, were not material.

***Thrift Plan***

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank's Thrift Plan contributions totaled \$8 million for each of the years ended December 31, 2011 and 2010, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

**12. POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS**

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

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

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation (in millions):

	2011	2010
Accumulated postretirement benefit obligation at January 1	\$ 124.2	\$ 122.9
Service cost benefits earned during the period	4.4	4.5
Interest cost on accumulated benefit obligation	6.5	7.1
Net actuarial loss (gain)	11.7	(5.2)
Special termination benefits loss	0.2	0.1
Contributions by plan participants	2.0	1.7
Benefits paid	(7.3)	(7.3)
Medicare Part D subsidies	0.4	0.4
Accumulated postretirement benefit obligation at December 31	\$ 142.1	\$ 124.2

At December 31, 2011 and 2010, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 4.50 percent and 5.25 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due.

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Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	<u>2011</u>	<u>2010</u>
Fair value of plan assets at January 1	\$ -	\$ -
Contributions by the employer	4.9	5.2
Contributions by plan participants	2.0	1.7
Benefits paid	(7.3)	(7.3)
Medicare Part D subsidies	0.4	0.4
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Unfunded obligation and accrued postretirement benefit cost	<u>\$ 142.1</u>	<u>\$ 124.2</u>

Amounts included in accumulated other comprehensive loss are shown below:

Prior service cost	\$ 0.8	\$ 0.7
Net actuarial loss	<u>(26.4)</u>	<u>(14.7)</u>
Total accumulated other comprehensive loss	<u>\$ (25.6)</u>	<u>\$ (14.0)</u>

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

For measurement purposes, the assumed health-care cost trend rates at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Health-care cost trend rate assumed for next year	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health-care cost trend rates have a significant effect on the amounts reported for health-care plans. A 1 percentage point change in assumed health-care cost trend rates would have the following effects for the year ended December 31, 2011 (in millions):

	<u>1 percentage point increase</u>	<u>1 percentage point decrease</u>
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	\$ 2.0	\$ (1.6)
Effect on accumulated postretirement benefit obligation	20.9	(17.1)

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

	<u>2011</u>	<u>2010</u>
Service cost-benefits earned during the period	\$ 4.4	\$ 4.5
Interest cost on accumulated benefit obligation	6.5	7.1
Amortization of prior service cost	0.1	(1.1)
Amortization of net actuarial loss	-	1.2
Total periodic expense	<u>11.0</u>	<u>11.7</u>
Special termination benefits loss	0.2	0.1
Net periodic postretirement benefit expense	<u>\$ 11.2</u>	<u>\$ 11.8</u>

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2012 are shown below:

Prior service cost	\$ -
Net actuarial loss	<u>1.5</u>
Total	<u>\$ 1.5</u>

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2011 and 2010, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 5.25 percent and 5.75 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

The recognition of special termination benefit losses is primarily the result of enhanced retirement benefits provided to employees during the restructuring described in Note 14.

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

Federal Medicare Part D subsidy receipts were \$320 thousand and \$345 thousand in the years ended December 31, 2011 and 2010, respectively. Expected receipts in 2012, related to benefits paid in the years ended December 31, 2011 and 2010, are \$213 thousand.

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

	<u>Without subsidy</u>	<u>With subsidy</u>
2012	\$ 6.6	\$ 6.2
2013	7.0	6.5
2014	7.4	6.8
2015	7.7	7.1
2016	8.1	7.4
2017 - 2021	<u>47.1</u>	<u>42.4</u>
Total	<u>\$ 83.9</u>	<u>\$ 76.4</u>

*Postemployment Benefits*

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of medical and dental insurance, survivor income, disability benefits, and self-insured workers' compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2011 and 2010 were \$10 million and \$11 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. A net periodic postemployment benefit credit of \$222 thousand and a net periodic postemployment benefit expense of \$102 thousand were included in 2011 and 2010 operating expenses, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.



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**13. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME**

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive loss (in millions):

	Amount related to postretirement benefits other than retirement plans
Balance at January 1, 2010	\$ (19.3)
Change in funded status of benefit plans:	
Amortization of prior service cost	(1.1)
Change in prior service costs related to benefit plans	(1.1)
Net actuarial gain arising during the year	5.2
Amortization of net actuarial loss	1.2
Change in actuarial gain related to benefit plans	6.4
Change in funded status of benefit plans - other comprehensive loss	5.3
Balance at December 31, 2010	<u>\$ (14.0)</u>
Change in funded status of benefit plans:	
Amortization of prior service cost	0.1
Change in prior service costs related to benefit plans	0.1
Net actuarial loss arising during the year	(11.7)
Change in actuarial losses related to benefit plans	(11.7)
Change in funded status of benefit plans - other comprehensive loss	(11.6)
Balance at December 31, 2011	<u>\$ (25.6)</u>

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 12.

**14. BUSINESS RESTRUCTURING CHARGES**

The Bank had no business restructuring charges in 2011.

In 2010, the Reserve Banks announced the consolidation of some of their currency processing operations. As a result of this initiative, currency processing operations performed in Nashville were consolidated into Atlanta.

Before 2010, the Reserve Banks announced the acceleration of their check restructuring initiatives to align the check processing infrastructure and operations with declining check processing volumes. The new infrastructure consolidated operations into two regional Reserve Bank processing sites; one in Cleveland, for paper check processing, and one in Atlanta, for electronic check processing. Additional announcements prior to 2009 included restructuring plans associated with the consolidation of Check Adjustments to FRB Cleveland.

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Following is a summary of financial information related to the restructuring plans (in millions):

	2010 restructuring plans	2009 and prior restructuring plans	Total
<i>Information related to restructuring plans as of December 31, 2011:</i>			
Total expected costs related to restructuring activity	\$ 1.1	\$ 5.7	\$ 6.8
Expected completion date	2011	2010	
<i>Reconciliation of liability balances:</i>			
Balance at January 1, 2010	\$ -	\$ 4.6	\$ 4.6
Employee separation costs	1.3	-	1.3
Adjustments	-	(0.2)	(0.2)
Payments	-	(2.0)	(2.0)
Balance at December 31, 2010	\$ 1.3	\$ 2.4	\$ 3.7
Adjustments	(0.2)	(0.2)	(0.4)
Payments	(1.0)	(0.6)	(1.6)
Balance at December 31, 2011	\$ 0.1	\$ 1.6	\$ 1.7

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

Adjustments to the accrued liability are primarily due to changes in the estimated restructuring costs and are shown as a component of the appropriate expense category in the Statements of Income and Comprehensive Income.

Restructuring costs associated with the impairment of certain Bank assets, including equipment, are discussed in Note 9. Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in Note 11. Costs associated with enhanced postretirement benefits are disclosed in Note 12.

**15. SUBSEQUENT EVENTS**

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2011. Subsequent events were evaluated through March 20, 2012, which is the date that the Bank issued the financial statements.