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## Letter from the President



**Charles L. Evans**

President and Chief Executive Officer

Welcome to our 2014 annual report. We are pleased to present it to you this year in an easy-to-use web-based format. As always, we are focused on promoting a stable economy and an efficient payment system, and this report will outline [accomplishments](#) last year in some of those areas. I hope you find it informative.

Our staff members make our accomplishments possible, and I am sincerely grateful to them for that. I would also like to acknowledge our board of directors for their counsel and support, especially those board members who completed their service at the end of last year. One from our [Detroit Board](#) is Michael Bannister, former chairman and chief executive officer of Ford Motor Credit Company. [Chicago Board](#) member and Northern Trust Chairman and CEO Rick Waddell also concluded his service. However, Rick is not leaving us completely, as he has joined the [Federal Advisory Council](#) as the Seventh District representative.

Finally, I can't look back on 2014 without mentioning it was our [centennial](#) year here at the Chicago Fed. In December, employees and their families gathered at the Bank for an open house to celebrate the 100th anniversary of our first day of operation. We started with 41 employees at the Rector Building located at Clark and Monroe streets in downtown Chicago, and today we have 1,500 employees and a variety of new responsibilities that the founders of the Fed probably never imagined. It is work that we are proud to carry out, and I am confident we will continue to move forward with success in the future.

I hope you find this new format engaging and the content in the report interesting. As always, I wish you well in 2015 as we continue our efforts to promote a strong and productive national economy.

A handwritten signature of Charles L. Evans in black ink on a light blue background.

Charles L. Evans

President and Chief Executive Officer

April 30, 2015



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## Public Policy



### Public Policy

Chicago Fed President Charles Evans spoke at numerous public events to explain his thoughts about the health of the economy and national monetary policy.

Economists supported Evans in his monetary policymaking activities, preparing forecasts and special analyses to help prepare him for meetings of the Federal Open Market Committee.

Fundamental research was carried out on policy-relevant topics regarding business cycles, international developments, labor markets and financial markets.

Economists conducted research on many different parts of the Midwest economy and created a major analytic and tracking tool for the regional economy that uses a set of diffusion indexes based on survey responses.

Bank staff members deepened their understanding of the Seventh District's low- and moderate-income communities, profiling numerous regional manufacturing cities and combining in-depth qualitative studies with demographic and economic analyses.

## Financial Stability





**Financial Stability**

Staff in the Supervision and Regulation Department continued to lead the Federal Reserve System’s Wholesale Credit Risk Center (WCRC). The WCRC creates and maintains the Federal Reserve System models for commercial real estate and corporate credit and promotes analytics-driven supervision around wholesale lending for the Federal Reserve System.

Staff in the Supervision and Regulation Department met supervisory mandates and advanced efforts to strengthen the supervisory processes, analysis and controls across all portfolios of supervised institutions. In addition, staff devoted to community banking and consumer compliance portfolios conducted numerous outreach activities with community bankers throughout the year to identify ways to reduce regulatory burden. These discussions resulted in changes to processes where possible.

Teams within the Supervision and Regulation Department continued to provide project leadership, subject matter expertise, and exam support for stress tests and other cross-system supervisory efforts aimed at enhancing the stability of large banks, including the Comprehensive Capital Analysis and Review, Dodd-Frank Act Stress Tests, Comprehensive Liquidity Analysis and Review and Recovery and Resolution Planning.

Research staff made substantial contributions to the System’s understanding of systemic stability issues related to the insurance industry. Staff contributed leadership and subject matter expertise to the on-going work of designing stress tests for insurers designated as Systemically Important Financial Institutions (SIFI).

Statistics Department staff members implemented new reporting series in support of capital planning and stress testing, systemic risk and liquidity monitoring.

**Operations**



**Operations**

In local payment operations, Seventh District Cash operations maintained its strong control environment and exceeded performance targets.

The Customer Relations and Support Office (CRSO) continued its long history of making significant contributions to Federal Reserve Financial Services’ cost-recovery requirements. Total System revenue of roughly \$427 million was 2.7 percent favorable to target. This was due in part to successful sales and marketing strategies to retain and grow customer usage of Fed financial services.

The construction of the General Deliveries/Services building provided additional support to the vendor-delivery screening process.

Work continued on updating the cash processing space. Upgraded operational areas will enable the bank to continue providing high-quality, well-controlled, secure and reliable cash services.

# Our Staff



## Our Staff

Numerous activities took place throughout the year to celebrate the 100th anniversary of the first day of operation of the Federal Reserve Bank of Chicago.

Bank leaders continued focusing on attracting, engaging and retaining a skilled and diverse workforce through a variety of talent-management and employee-engagement initiatives.

The District sustained its longstanding commitment to ensuring equal opportunity in employment and promoting a culture of diversity and inclusion. [A publication outlining efforts in this area.](#)

# Operations Volumes

	Dollar Amount		Number of Items	
Cash Operations	2014	2013	2014	2013
Currency Counted	49.0 Billion	50.1 Billion	3.1 Billion	3.0 Billion
Unfit Currency Destroyed	12.5 Billion	12.6 Billion	432.7 Billion	408.5 Million
Coin Bags Paid and Received	1.5 Billion	1.5 Billion	3.2 Million	3.1 Million
Number of Notes Paid and Received	114.3 Billion	119.1 Billion	7.0 Billion	7.0 Billion

	Dollar Amount		Number of Items	
Loans to Depository Institutions	2014	2013	2014	2013



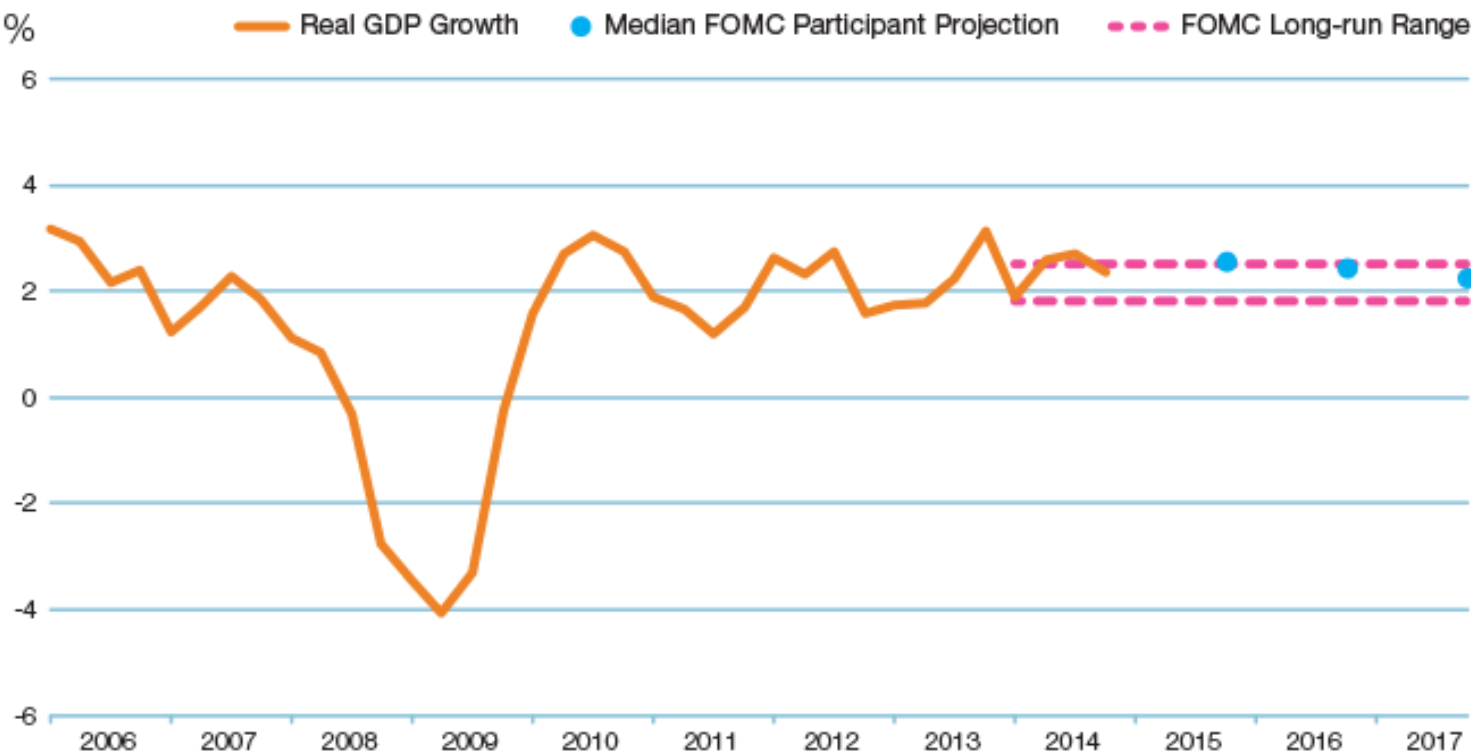




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## Economic Growth

Year-over-Year Real Gross Domestic Product Growth



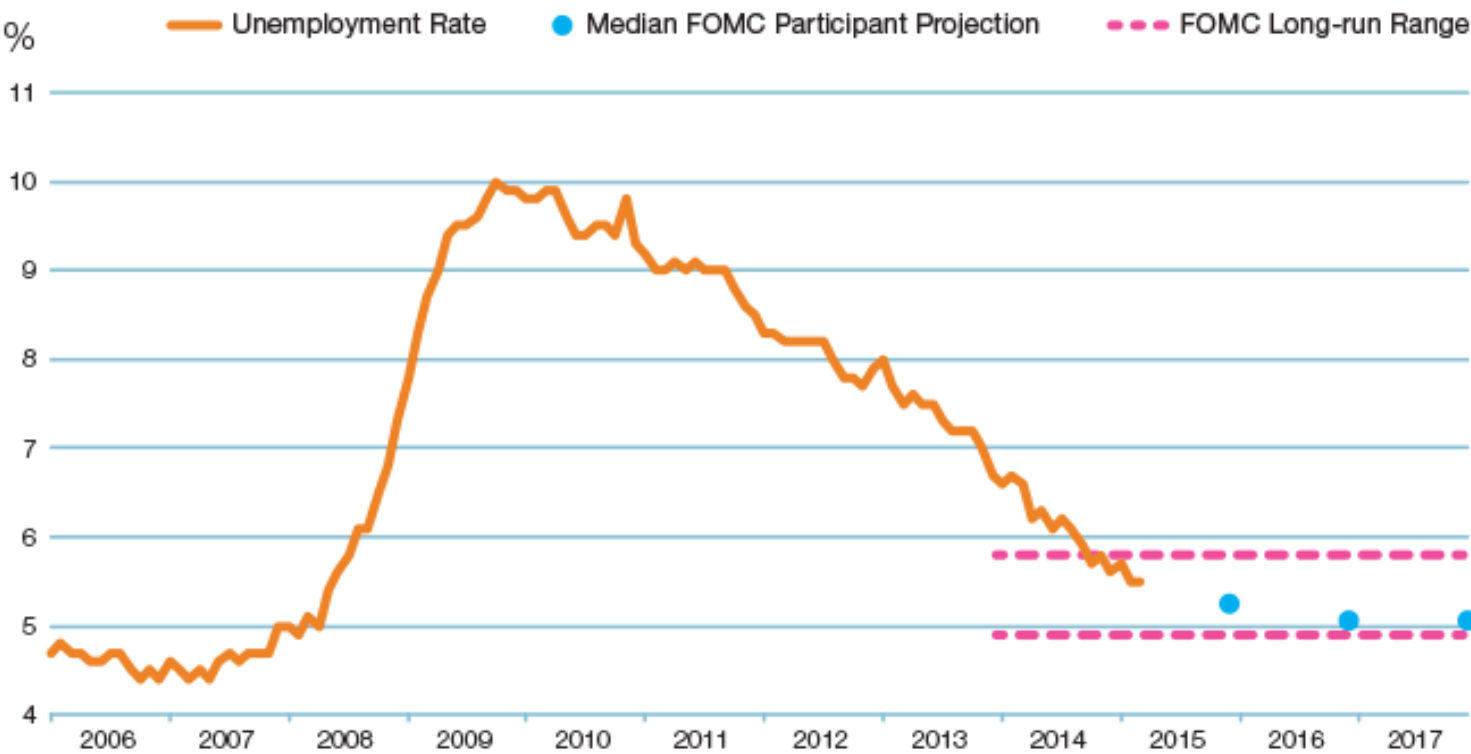
Data current as of April 15, 2015. Sources: Data from the [Bureau of Economic Analysis](#) and the [Board of Governors of the Federal Reserve System](#), accessed via Haver Analytics.

**Economic Growth**

The year began with a decline in real gross domestic product (GDP) that proved to be transitory. Growth was then very strong in the second and third quarters and moderated in the fourth quarter. In sum, from the fourth quarter of 2013 to the fourth quarter of 2014, real GDP increased 2.4 percent. Looking ahead, the Federal Open Market Committee's (FOMC) [projections](#) from March 2015 anticipate that over the next two years economic growth will remain slightly above most participants' views of the long-run trend rate of growth in GDP.

## Labor Markets

Percent of Labor Force Unemployed



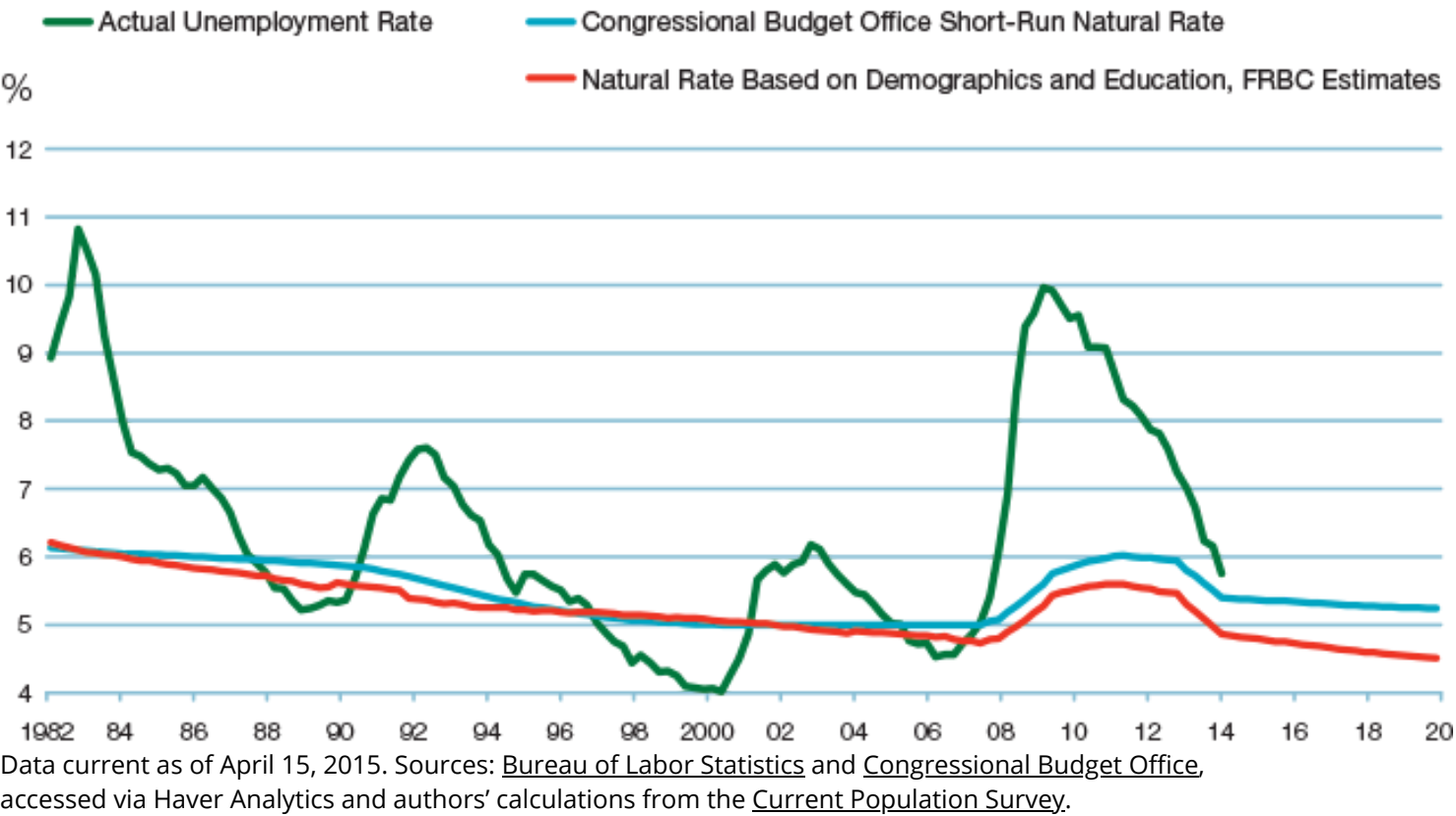
Data current as of April 15, 2015. Sources: Data from the [Bureau of Labor Statistics](#) and the [Board of Governors of the Federal Reserve System](#), accessed via Haver Analytics.

Labor Markets

With the economy expanding, gains in payroll employment averaged 260,000 per month in 2014, and the unemployment rate fell by more than a percentage point to 5.5 percent in March 2015. This progress brought the FOMC much closer to achieving the full employment side of its mandate, with participants in March 2015 projecting a range of 4.9 percent to 5.8 percent for the natural rate of unemployment. It should be noted though that some measures of labor market slack remain elevated relative to the unemployment rate.

Unemployment Research

Actual Unemployment Rate and Natural Rates

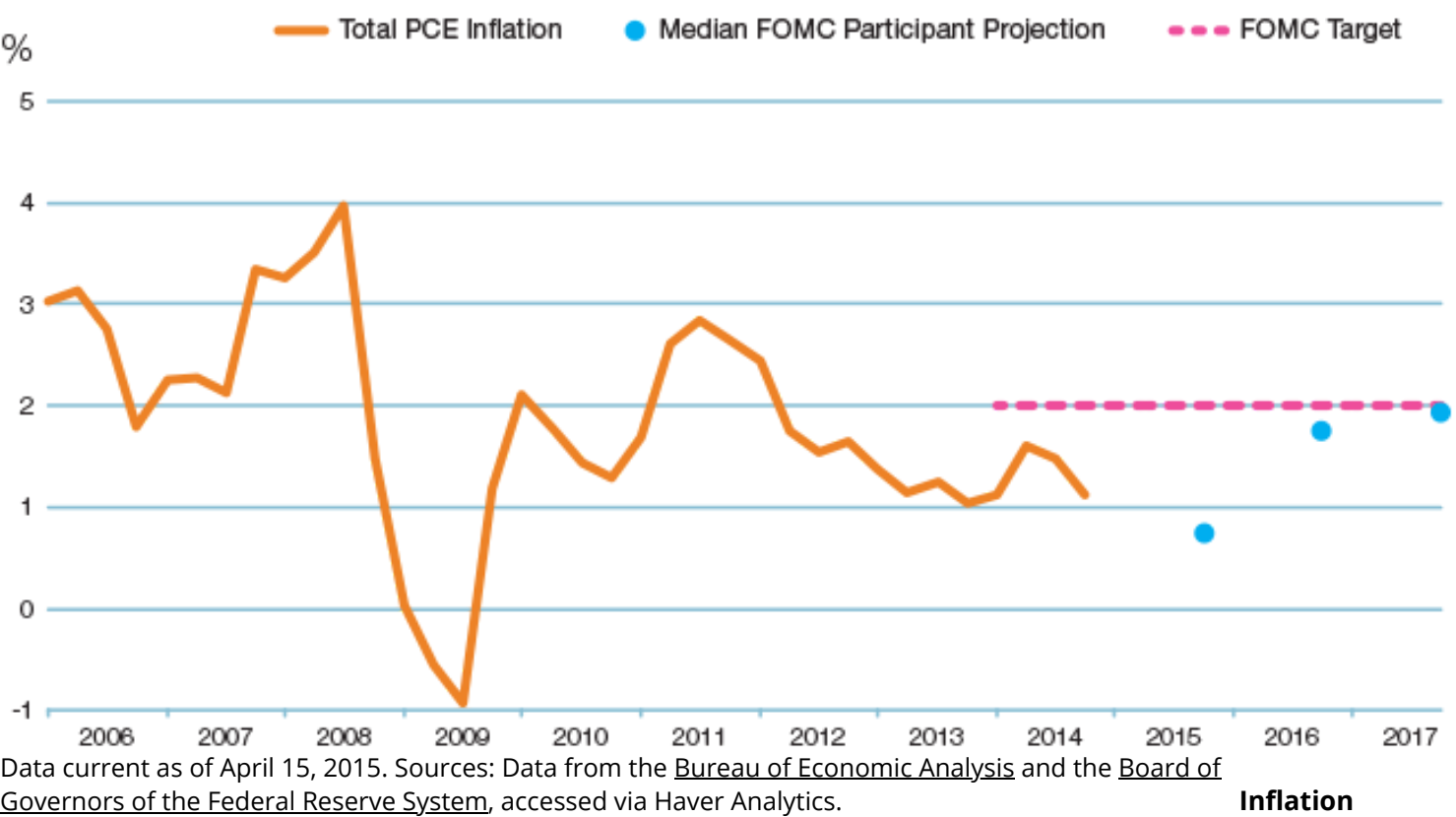


Unemployment Research

The unemployment rate measures the number of unemployed people actively searching for work as a percent of the number of people in the labor force. Estimates of the level of unemployment that is consistent with maximum employment are uncertain and can evolve over time. New research from the Chicago Fed indicates that compositional changes in the labor force — such as the growing number of younger workers — may have reduced the natural rate of unemployment by up to 0.6 percentage points since 2000 to a current level of roughly 5.0 percent.

Inflation

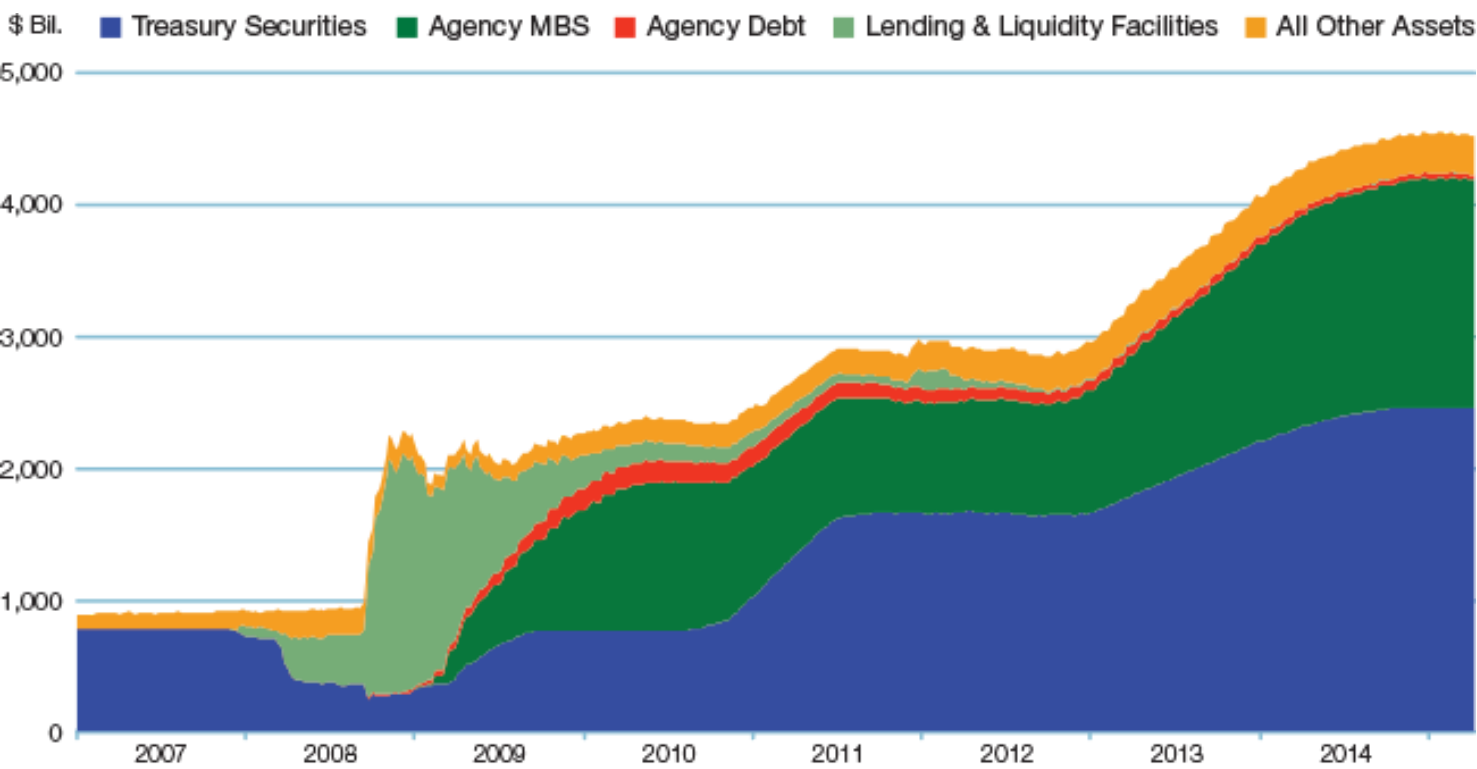
Year-over-Year Personal Consumption Expenditures (PCE) Inflation



Inflation in 2014 remained below the two percent target the FOMC views as consistent with the Federal Reserve's mandate to achieve price stability. After briefly rising in the first half of 2014, inflation moved lower in the second half of the year due to declining energy prices, ending 2014 at 1.1%. Core inflation – which does not include the volatile food and energy components – also moved down during the year and was 1.4 percent in the fourth quarter of 2014. The FOMC expects that inflation will begin to move up toward its target over the next two years as the labor market improves further and the transitory effects of energy price declines and other factors dissipate.

# Balance Sheet

Federal Reserve Asset Categories

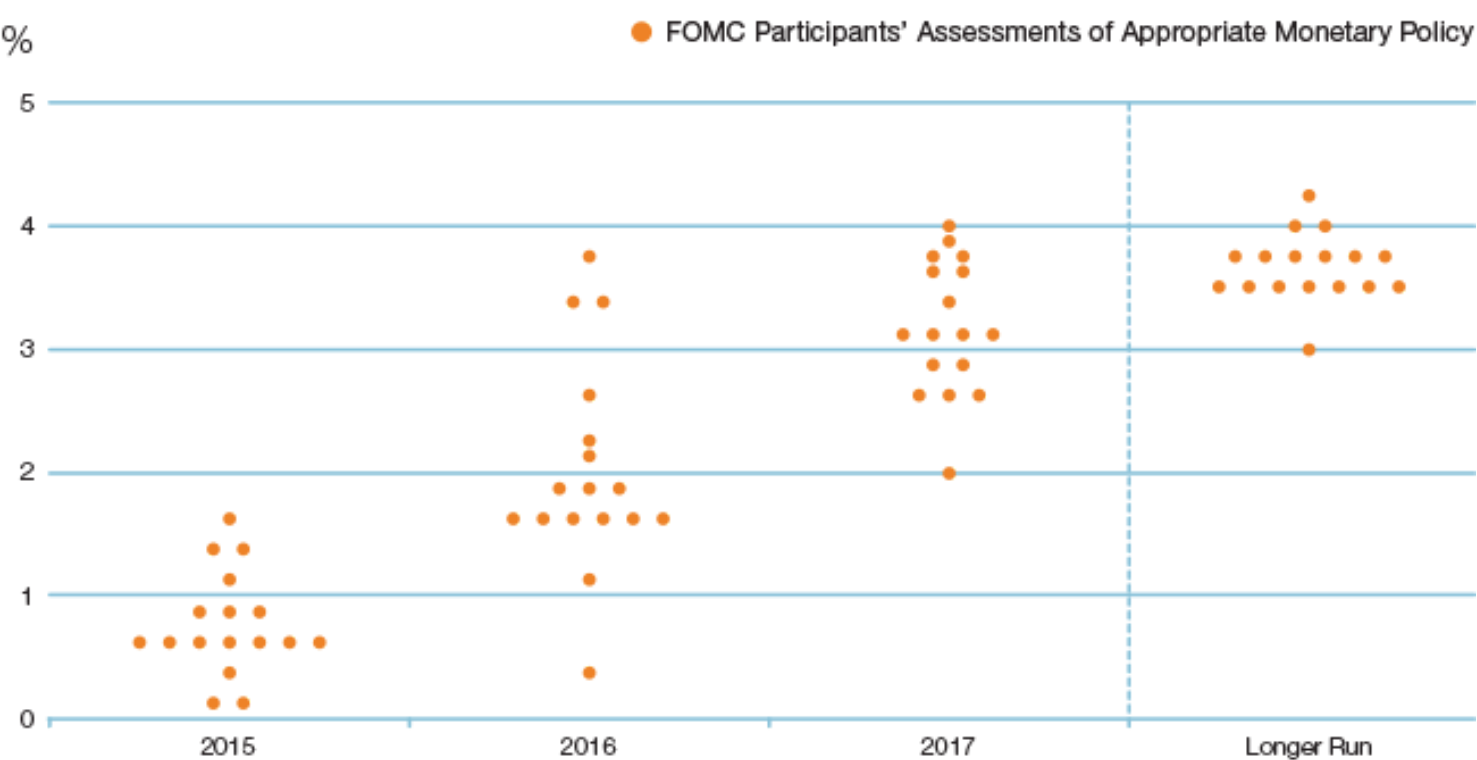


Balance Sheet

Responding to continued economic growth in 2014, the FOMC steadily reduced the pace of asset purchases. At the conclusion of the purchase program in late 2014, the Federal Reserve held \$4.5 trillion in assets, an increase of \$1.7 trillion from the beginning of the most recent asset purchase program in September 2012.

# Federal Funds Rate

Target Federal Funds Rate at Year-End



Data current as of April 15, 2015. Sources: Data from the Board of Governors of the Federal Reserve System, accessed via Haver Analytics.

Federal Funds Rate

The federal funds rate has been at a near-zero level since 2008. With the economy expected to expand at a somewhat above-trend rate in the next few years, the funds rate should move back up toward what has historically been considered normal. A majority of FOMC participants expect



that it will be appropriate to increase the rate sometime in 2015. However, a diversity of views exists as to the rate's appropriate level in 2015 and beyond, as the timing and pace of future rate increases will depend on the evolution of economic and financial conditions.



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## Strategy



### Strategy

The Federal Reserve recently unveiled a plan to help the country's payment system become faster, safer and more efficient. It involves the collaboration of key industry players including large and small businesses, consumer groups, emerging payment firms, card networks, payment processors, and financial institutions. They will come up with suggestions for improving the payments system and then guide efforts to make those suggestions a reality. Details are outlined in "[Strategies for Improving the U.S. Payment System](#)," created by the Federal Reserve Board and the 12 regional Reserve Banks. [First Vice President Gordon Werkema](#) was among a small group of Reserve Bank first vice presidents who played a key leadership role in this strategic effort, and the Chicago Fed's Customer Relations and Support Office (CRSO) was instrumental in collaborating with the payments industry to seek feedback on the strategy. The CRSO will also play a key role in implementing the strategy in 2015.

## Research





### Research

As part of its key leadership role in the payment system, the Federal Reserve Bank of Chicago conducts policy research on broad topics related to the U.S. payment system, which consists of the Fed network and a host of private sector services. The goal is to understand how well – with so many overlapping parts and services – the payment system supports the U.S. economy, and where challenges exist. Recent research focuses on payment system governance and payment card fraud and security.

## Currency



### Currency

Every day Reserve Banks such as the Chicago Fed shred millions of dollars in unfit currency, issue new bills, send counterfeits to the U.S. Secret Service for investigation, and recirculate fit currency to commercial banks. This is a service to the public and the banking industry, and one of the many ways the Federal Reserve helps promote a sound economy. In 2014, the Chicago Fed's currency-processing volumes increased. In addition, significant construction work took place to create more secure and efficient currency-processing space.

## Network





### **Network**

Guided by the goals of integrity, efficiency and accessibility, the Reserve Banks operate national payment clearing and settlement services. The Federal Reserve Bank of Chicago manages the Customer Relations and Support Office (CRSO) for these services, including the electronic network called FedLine, which connects more than 10,000 depository financial institutions with essential payment and information services. Connectivity to the Fed lets depository institutions provide consumers and businesses access to services that are essential for commercial activity, as well as interbank payments that support financial markets. In 2014, the Chicago Fed continued to strengthen the overall security and resiliency of the FedLine network.



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## Chicago Directors / Federal Reserve Bank of Chicago



Chairman  
**Jeffery A. Joerres**  
Executive Chairman  
ManpowerGroup  
Milwaukee, Wisconsin



Deputy Chairman  
**Greg Brown**  
Chairman and Chief  
Executive Officer  
Motorola Solutions,  
Inc.  
Schaumburg, Illinois



**Nelda J. Connors**  
Chairwoman and Chief  
Executive Officer  
Pine Grove Holdings,  
LLC  
Chicago, Illinois



**William M. Farrow III**  
President and Chief  
Executive Officer  
Urban Partnership  
Bank  
Chicago, Illinois



**Terry Mazany**  
President and Chief  
Executive Officer  
The Chicago  
Community Trust  
Chicago, Illinois



**Anne R. Pramaggiore**  
President and Chief  
Executive Officer  
ComEd  
Chicago, Illinois



**Jorge Ramirez**  
President  
Chicago Federation of  
Labor  
Chicago, Illinois



**Abram A. Tubbs**  
Chairman and Chief  
Executive Officer  
Ohnward Bank and  
Trust  
Cascade, Iowa



**Frederick H. Waddell**  
Chairman and Chief  
Executive Officer  
Northern Trust  
Corporation and The  
Northern Trust  
Company  
Chicago, Illinois



**David W. Nelms**  
Chairman and Chief  
Executive Officer  
Discover Financial  
Services  
Riverwoods, Illinois

### New Director in 2015

## Detroit Directors / Federal Reserve Bank of Chicago - Detroit Branch



Chairman  
**Lou Anna K. Simon**  
President  
Michigan State  
University  
East Lansing, Michigan



**Michael E. Bannister**  
Former Chairman and  
Chief Executive Officer  
Ford Motor Credit  
Company  
Dearborn, Michigan



**Sheilah P. Clay**  
President and Chief  
Executive Officer  
Neighborhood Service  
Organization  
Detroit, Michigan



**Susan M. Collins**  
Joan and Sanford Weill  
Dean of Public Policy  
Gerald R. Ford School  
of Public Policy,  
University of Michigan  
Ann Arbor, Michigan



**Fernando Ruiz**  
Corporate Vice  
President and  
Treasurer  
The Dow Chemical  
Company  
Midland, Michigan



**Nancy M. Schlichting**  
Chief Executive Officer  
Henry Ford Health  
System  
Detroit, Michigan



**Douglas W. Stotlar**  
President and Chief  
Executive Officer  
Con-way Inc.  
Ann Arbor, Michigan

## New Director in 2015



**Mike L. Seneski**  
Chief Financial Officer  
Ford Motor Credit  
Company  
Dearborn, Michigan

## Executive Committee



**Charles Evans**  
President and Chief  
Executive Officer



**Gordon Werkema**  
First Vice President  
and Chief Operating  
Officer



**Ellen Bromagen**  
Executive Vice  
President,  
Product Manager  
Customer Relations  
and Support Office  
(CRSO)



**Elizabeth Knospe**  
Senior Vice President  
and General Counsel  
Legal, Board of  
Directors, Enterprise  
Strategy and Risk  
Management, Business  
Continuity, Human  
Resources and Internal  
Communications





**Margaret K. Koenigs**  
Senior Vice President  
and Chief Financial  
Officer



**Cathy Lemieux**  
Executive Vice  
President  
Supervision and  
Regulation



**Jeffrey B. Marcus**  
Vice President and  
General Auditor  
Internal Audit



**David Marshall**  
Senior Vice President  
and Associate Director  
of Research and  
Director of Financial  
Markets Group



**Daniel G. Sullivan**  
Executive Vice  
President and Director  
of Research Economic  
Research and  
Programs



**Valerie Van Meter**  
Senior Vice President  
and Chief Diversity  
Officer and Equal  
Employment  
Opportunity Officer,  
Central Bank Services,  
System Leadership  
Initiative, and Office of  
Diversity and Inclusion



**Robert Wiley**  
Senior Vice President  
and Branch Manager  
District Operations,  
Administrative  
Services, Information  
Technology, Law  
Enforcement, and  
Detroit Branch

## Banking Council / Community Depository Institutions Advisory Council



**Micah R. Bartlett**  
President and Chief  
Executive Officer  
Town and Country  
Bank  
Springfield, Illinois



**Robert J. Cera**  
President and Chief  
Executive Officer  
Baylake Bank  
Sturgeon Bay,  
Wisconsin



**Craig M. Dwight**  
Chairman and Chief  
Executive Officer  
Horizon Bank, NA  
Michigan City, Indiana



**Timothy G. Marshall**  
(Chair)  
President and Chief  
Executive Officer  
Bank of Ann Arbor  
Ann Arbor, Michigan



**Alan D. Martin**  
President and Chief  
Executive Officer  
Iroquois Federal  
Savings and Loan  
Association  
Watseka, Illinois



**Frank P. Novel**  
President  
Metropolitan Capital  
Bank & Trust  
Chicago, Illinois



**Jeff L. Plagge**  
President and Chief  
Executive Officer  
Northwest Financial  
Corporation  
Arnolds Park, Iowa



**Suku V. Radia**  
President and Chief  
Executive Officer  
Bankers Trust Corp.  
Des Moines, Iowa



**Lisa A. Schlehuber**  
Chief Executive Officer  
Elements Financial  
Indianapolis, Indiana



**Thomas R. Sullivan**  
Chairman of the Board  
Mercantile Bank  
Corporation  
Grand Rapids,  
Michigan



**Catherine J. Tierney**  
President and Chief  
Executive Officer  
Community First CU  
Appleton, Wisconsin



**William R. White**  
Chairman and  
President  
Dearborn Federal  
Savings  
Dearborn, Michigan

## 7th District Council / Advisory Council on Agriculture, Small Business and Labor



**Paul Anderson**  
Chief Credit Officer  
GreenStone Farm  
Credit Services  
East Lansing, Michigan



**George Arida**  
Managing Director  
Venture Investors, LLC  
Madison, Wisconsin



**Rhandi Berth**  
Vice President  
Wisconsin Regional  
Training  
Partnership/Big Step  
Milwaukee, Wisconsin



**George Corona**  
Executive Vice  
President and Chief  
Operating Officer  
Kelly Services, Inc.  
Troy, Michigan



**Diane Cullinan  
Oberhelman**  
Chairman and  
Founding Partner  
Cullinan Properties,  
Ltd.  
Peoria, Illinois



**Steve Erlebacher**  
Vice President,  
Analytics  
Wiley Education  
Services  
Oak Brook, Illinois



**Harold Force**  
President and Chief  
Executive Officer  
Force Construction  
Company, Inc.  
Columbus, Indiana



**Terrence Healy**  
Special Assistant to the  
General President/Vice  
President  
Laborers' International  
Union of North  
America  
Chicago, Illinois



**Jack Kelly**  
Senior Consultant  
DPT Solutions, Inc.  
Grand Rapids,  
Michigan



**Birgit M. Klohs**  
President and Chief  
Executive Officer  
The Right Place, Inc.  
Grand Rapids,  
Michigan



**Kevin Knapp**  
Chief Financial Officer  
CareerBuilder LLC  
Chicago, Illinois



**Curt Lansberry**  
President and Chief  
Executive Officer  
North American Tool  
Corp.  
South Beloit, Illinois



**Renaye Manley**  
International  
Representative  
Service Employees  
International Union  
Chicago, Illinois



**Doug Martin**  
Co-owner  
Martin Family Farms  
Mt. Pulaski, Illinois



**Sergio Mazza**  
Chairman and Chief  
Executive Officer  
American Surgical  
Centers, Inc.  
Roseville, Michigan



**Dave Nelson**  
Partner  
Nelson Family Farms  
Fort Dodge, Iowa



**John T. Pagel**  
Owner  
Pagel's Ponderosa  
Dairy, LLC  
Kewaunee, Wisconsin



**Scott Peterson**  
President, Harbor  
Group & Chief  
Financial Officer,  
Interstates Companies  
Sioux Center, Iowa



**Richard C. Tuttle**  
Founding Principle  
Prospect Partners  
Chicago, Illinois



**David J. Ward**  
Chief Executive Officer  
NorthStar Consulting  
Group, LLC  
Sturgeon Bay,  
Wisconsin



**Andrew Warrington**  
President  
United Conveyor  
Corporation  
Waukegan, Illinois



**Ray Waters**  
President  
Detroit Development  
Fund  
Detroit, Michigan



**Lori A. Weyers**  
President  
Northcentral Technical  
College  
Wausau, Wisconsin

# Leadership

Charles L. Evans  
President and  
Chief Executive Officer

Gordon Werkema  
First Vice President and  
Chief Operating Officer

## Economic Research and Programs

Daniel G. Sullivan  
Executive Vice President and  
Director of Research

Spencer D. Krane  
Senior Vice President and Senior Research

## Customer Relations and Support Office (CRSO)

Gordon Werkema  
Product Director

Ellen J. Bromagen  
Executive Vice President  
and Product Manager

## FedLine

Todd Aadland  
Senior Vice President and  
Chief Information Officer



Advisor

David A. Marshall  
Senior Vice President and Director of Financial  
Markets Group  
and Associate Director of Research

**Regional Economics**  
William A. Testa  
Vice President and  
Director of Regional Research

**Macroeconomic Policy Research**  
Jonas D. M. Fisher  
Vice President and Director  
of Macroeconomic Research

**Microeconomic Policy Research**  
Daniel R. Aaronson  
Vice President and Director  
of Microeconomic Research

**Financial Markets Group**  
Douglas D. Evanoff  
Vice President and  
Senior Research Advisor

Edward J. Nosal  
Vice President and  
Senior Research Advisor

Richard A. Heckinger  
Vice President and Senior  
Policy Advisor

Anna L. Paulson  
Vice President and Director of Financial  
Research

Richard J. Rosen  
Vice President and Economic Advisor

**Monetary and Financial Policy**  
Hesna Genay  
Vice President  
Monetary and Financial Policy Advisor

**Community Development and Policy Studies**  
Alicia Williams  
Vice President

**Public Affairs**  
Catherine M. Bourke  
Vice President

G. Douglas Tillett  
Vice President

**Supervision and Regulation**  
Cathy Lemieux  
Executive Vice President

**Community Bank and Consumer Compliance**  
Julie Williams  
Senior Vice President

Joe Davidson  
Vice President  
Consumer Compliance

Tracy Harrington  
Vice President

Marie Munson  
Vice President

**Industry Relations Program**  
Sean Rodriguez  
Senior Vice President

Dan Gonzalez  
Vice President

Connie Theien  
Vice President

**National Sales and Marketing**  
Shonda Clay  
Senior Vice President and National  
Marketing and Sales Director

Steven E. Jung  
Vice President

Ted Kurdes  
Vice President

Brian Mantel  
Vice President

Korie Miller  
Vice President

Erik VanBramer  
Vice President

**Finance and Strategic Planning**  
Kelly Emery  
Vice President

**Retail Product Office and Pricing of Check and  
ACH Services**  
Michael J. Hoppe  
Senior Vice President

**Information Technology, District  
Operations, Administrative Services, Law  
Enforcement and Detroit Branch**

Robert G. Wiley  
Senior Vice President and  
Branch Manager

**Administrative Services**  
Matt LaRocco  
Vice President

**Information Technology**  
Daniel F. Reimann  
Vice President

Guenever Scheuermann  
Vice President

**District Cash**  
Donna M. Dziak  
Vice President

Cynthia Pijarowski  
Vice President

Patrick Wilder  
Vice President  
Community Banking Organizations

**Risk Specialists**

Steven M. Durfey  
Senior Vice President

Nancy Beebe  
Vice President

Emily Greenwald  
Vice President

**Large Specialized Institutions**

James Nelson  
Senior Vice President

Rebecca Chmielewski  
Vice President

Wendy Kallery  
Vice President

Mark Kawa  
Vice President

Andre Reynolds  
Vice President

**Department Oversight**

Pamela S. Rieger  
Vice President

Internal Communications

Yurii Skorin  
Vice President and  
Associate General Counsel

Anna M. Voytovich  
Vice President and  
Associate General Counsel

Kirstin Wells  
Vice President and Risk Officer

**Internal Audit**

Jeffrey B. Marcus  
Vice President and General Auditor

Mary H. Sherburne  
Vice President and Audit Officer

**Finance**

Margaret K. Koenigs  
Senior Vice President and  
Chief Financial Officer

Jeffery S. Anderson  
Vice President

**Central Bank Services, System  
Leadership Initiative and Office of  
Diversity and Inclusion**

Valerie J. Van Meter  
Senior Vice President and Chief Diversity  
Officer and EEO Officer, Central Bank  
Services, System Leadership Initiative,  
and Office of Diversity and Inclusion

Yuri Brown-Cruzat  
Vice President  
Corporate Social Responsibility and  
Office of Diversity and Inclusion

Katie Wisby  
Vice President

**Legal, Board of Directors, Enterprise  
Strategy and Risk Management,  
Business Continuity, Human Resources  
and Internal Communications**

Elizabeth A. Knospe  
Senior Vice President and General  
Counsel

Katherine Hilton Schrepfer  
Vice President  
Associate General Counsel and Ethics  
Officer

Nokihomis Willis  
Vice President  
Human Resources and

**Changes**

**Executive Changes**

## **Executive Changes**

### **Directors**

Members of the Federal Reserve Bank of Chicago's boards of directors are selected to represent a cross-section of the Seventh District economy, including consumers, industry, agriculture, the service sector, labor and banks of various sizes.

The Chicago board consists of nine members. Seventh District member banks elect three bankers and three non-bankers. The Board of Governors appoints three additional non-bankers and designates the Reserve Bank chairman and deputy chairman from among its three appointees.

The Detroit Branch has a seven-member board of directors. The Board of Governors appoints three non-bankers, and the Chicago Reserve Bank board appoints four additional directors. The Chicago board designates one of the Board of Governors appointees as chairman of the Detroit Board. Reserve Bank and Branch directors may serve three-year terms, with a maximum of two full terms.

Director appointments and elections at the Chicago Reserve Bank and its Detroit Branch effective in 2014 were:

Greg Brown was re-appointed to a one-year term as Chicago board deputy chair.

Jeffrey A. Joerres was re-appointed to a one-year term as Chicago board chair.

Anne Pramaggiore was appointed to a three-year term as a Chicago director.

Jorge Ramirez was elected to a three-year term as a Chicago director.

Nancy Schlichting was re-appointed to a three-year term as a Detroit Branch director.

Lou Anna K. Simon was appointed to a one-year term as Detroit Branch board chair.

Douglas W. Stotlar was appointed to a three-year term as a Detroit Branch director.

Abram Tubbs was elected to serve a three-year term as a Chicago director.

The following appointments and elections for 2015 were announced:

Greg Brown was appointed to a one-year term as Chicago board chair.

Nelda Connors was re-elected to a three-year term as a Chicago director.

Jeffrey A. Joerres was re-appointed to serve one additional year as a Chicago director to complete his six years of service.

David W. Nelms was elected to serve a three-year term as a Chicago director.

Anne Pramaggiore was appointed to a one-year term as Chicago board deputy chair.

Michael L. Seneski was appointed to serve as a Detroit director for a term that expires December 31, 2017.

Lou Anna K. Simon was re-appointed to a one-year term as Detroit Branch board chair.

## **Federal Advisory Council Representative**

The Federal Advisory Council, which meets quarterly to discuss business and financial conditions with the Board of Governors in Washington, D.C., is composed of one person from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's board of directors selects a representative to this group.

Frederick H. Waddell, Chairman and Chief Executive Officer of Northern Trust Corporation and The Northern Trust Company, Chicago, Illinois, was selected to serve a one-year term in 2015.

## **Officers**

The Bank's Board of Directors acted on the following promotions during 2014:

### **Senior Vice President**

Shonda Clay to Senior Vice President, CRSO National Sales and Marketing

Michael Hoppe to Senior Vice President, Retail Product Office

### **Vice President**

Nancy Beebe to Vice President, Wholesale Credit Risk Center and Credit Risk/SNC

Hesna Genay to Vice President, Monetary and Financial Policy Advisor

Catherine Bourke to Vice President, Public Affairs Administration

Daniel Gonzalez to Vice President, CRSO National Accounts

Erik VanBramer to Vice President, CRSO National Accounts

Richard Rosen to Vice President, Financial Markets

Connie Theien to Vice President, CRSO Industry Relations

In addition, Yuri Brown-Cruzat joined as Vice President of Corporate Social Responsibility and Office of Diversity and Inclusion



**Assistant Vice President**

Christina Fisher to Assistant Vice President, Financial Management

Kevin Hilbert to Assistant Vice President, Technology and Business Enablement

Mark Lezerkiewicz to Assistant Vice President, National Network Access Control

Jacob Middleton to Assistant Vice President, Information Security Officer

Bryan Napier to Assistant Vice President, Budget and PACS Central Business Administration  
Function (BudPACS CBAF)

Barbara Thomas to Assistant Vice President, Benefits, Compensation, HRIT, Payroll and Compliance

Elva White to Assistant Vice President, Client Services

In addition, Robert Cox joined as Assistant Vice President, Financial Markets Group

## 2014 Chicago Fed Annual Report

[Menu](#)

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## Financials

The Federal Reserve is an independent government agency accountable to the public and the U.S. Congress. The Fed has long viewed transparency as a fundamental principle of central banking that supports accountability. While the 12 regional Reserve Banks are not publicly traded companies, each one's financial statements are made available to the public by the Federal Reserve's Board of Governors. Below are links to the Federal Reserve Bank of Chicago's audited financial statements reflecting balances as of December 31, 2014 and income and expenses for 2014, Management's Report on Internal Controls over Financial Reporting, and the Independent Auditors' Report.

### **Auditor Independence**

The Federal Reserve Board engaged Deloitte & Touche LLP (D&T) to audit the 2014 combined and individual financial statements of the Reserve Banks and Maiden Lane LLC. [1]

In 2014, D&T also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for D&T's services totaled \$7 million, of which \$0.4 million was for the audit of Maiden Lane LLC. To ensure auditor independence, the Board requires that D&T be independent in all matters relating to the audits. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2014, the Bank did not engage D&T for any non-audit services.

[Management's Report on Internal Control Over Financial Reporting](#).

[Independent Auditors' Report](#)

[The Federal Reserve Bank of Chicago -- Financial Statements as of and for the Years Ended December 31, 2014 and 2013](#)

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[1] In addition, D&T audited the Office of Employee Benefits of the Federal Reserve System (OEB), the Retirement Plan for Employees of the Federal Reserve System (System Plan), and the Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The System Plan and the Thrift Plan provide retirement benefits to employees of the Board, the Federal Reserve Banks, the OEB, and the Consumer Financial Protection Bureau.

# ***The Federal Reserve Bank of Chicago***

*Financial Statements as of and for the Years Ended  
December 31, 2014 and 2013 and  
Independent Auditors' Report*



# THE FEDERAL RESERVE BANK OF CHICAGO

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# FEDERAL RESERVE BANK OF CHICAGO

## Management's Report on Internal Control Over Financial Reporting

March 11, 2015

To the Board of Directors


The management of the Federal Reserve Bank of Chicago (the Bank) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2014 and 2013, 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 Bank is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Bank's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the FAM. The Bank's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Bank's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with FAM, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its financial statements.


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

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

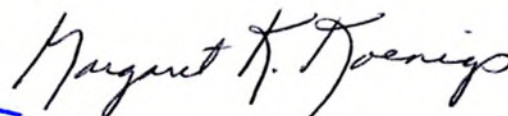
Federal Reserve Bank of Chicago



by Charles L. Evans  
President



by Gordon Werkema  
First Vice President



by Margaret K. Koenigs  
Senior Vice President and CFO

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Federal Reserve Bank of Chicago ("FRB Chicago"), which are comprised of the statements of condition as of December 31, 2014 and 2013, and the related statements of income and comprehensive income, and of changes in capital for the years then ended, and the related notes to the financial statements. We also have audited the FRB Chicago's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### Management's Responsibility

The FRB Chicago's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles established by the Board of Governors of the Federal Reserve System (the "Board") as described in Note 3 to the financial statements. The Board has determined that this basis of accounting is an acceptable basis for the preparation of the FRB Chicago's financial statements in the circumstances. The FRB Chicago's management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The FRB Chicago's management is also responsible 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the FRB Chicago's internal control over financial reporting based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB") and we conducted our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers



internal control relevant to the FRB Chicago's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Definition of Internal Control Over Financial Reporting**

The FRB Chicago's internal control over financial reporting is a process designed by, or under the supervision of, the FRB Chicago's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRB Chicago'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. The FRB Chicago'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 Chicago; (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, and that receipts and expenditures of the FRB Chicago are being made only in accordance with authorizations of management and directors of the FRB Chicago; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the FRB Chicago's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Control Over Financial Reporting**

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 and corrected 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FRB Chicago as of December 31, 2014 and 2013, and the results of its operations for the years then ended in accordance with the basis of accounting described in Note 3 to the financial statements. Also, in our opinion, the FRB Chicago maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

## **Basis of Accounting**

We draw attention to Note 3 to the financial statements, which describes the basis of accounting. The FRB Chicago has prepared these financial statements in conformity with accounting principles established by the Board, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a 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 and accounting principles generally accepted in the United States of America are also described in Note 3 to the financial statements. Our opinion is not modified with respect to this matter.

DELOITTE & TOUCHE LLP

March 11, 2015

## FEDERAL RESERVE BANK OF CHICAGO

### Abbreviations:

ACH	Automated clearinghouse
ASC	Accounting Standards Codification
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
FOMC	Federal Open Market Committee
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
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
TBA	To be announced
TDF	Term Deposit Facility



**FEDERAL RESERVE BANK OF CHICAGO**  
**STATEMENTS OF CONDITION**  
As of December 31, 2014 and December 31, 2013  
(in millions)

	2014	2013
<u>ASSETS</u>		
Gold certificates	\$ 706	\$ 792
Special drawing rights certificates	424	424
Coin	279	285
Loans to depository institutions	30	18
System Open Market Account:		
Treasury securities, net (of which \$455 and \$927 is lent as of December 31, 2014 and 2013, respectively)	106,112	127,495
Government-sponsored enterprise debt securities, net (of which \$26 and \$59 is lent as of December 31, 2014 and 2013, respectively)	1,634	3,195
Federal agency and government-sponsored enterprise mortgage-backed securities, net	73,122	82,884
Foreign currency denominated investments, net	577	677
Central bank liquidity swaps	42	8
Accrued interest receivable	1,047	1,267
Other assets	1	-
Bank premises and equipment, net	227	229
Other assets	41	36
Total assets	<u>\$ 184,242</u>	<u>\$ 217,310</u>
<u>LIABILITIES AND CAPITAL</u>		
Federal Reserve notes outstanding, net	\$ 90,946	\$ 75,778
System Open Market Account:		
Securities sold under agreements to repurchase	20,838	17,071
Other liabilities	34	72
Deposits:		
Depository institutions	69,727	68,547
Other deposits	13	14
Interest payable to depository institutions	3	3
Accrued benefit costs	178	155
Accrued remittances to the Treasury	24	186
Interdistrict settlement account	923	53,946
Other liabilities	22	20
Total liabilities	<u>182,708</u>	<u>215,792</u>
Capital paid-in	767	759
Surplus (including accumulated other comprehensive loss of \$35 and \$23 at December 31, 2014 and 2013, respectively)	767	759
Total capital	<u>1,534</u>	<u>1,518</u>
Total liabilities and capital	<u>\$ 184,242</u>	<u>\$ 217,310</u>

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

**FEDERAL RESERVE BANK OF CHICAGO**  
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
For the years ended December 31, 2014 and December 31, 2013  
(in millions)

	2014	2013
<u>INTEREST INCOME</u>		
System Open Market Account:		
Treasury securities, net	\$ 2,784	\$ 2,807
Government-sponsored enterprise debt securities, net	71	118
Federal agency and government-sponsored enterprise mortgage-backed securities, net	2,273	1,992
Foreign currency denominated investments, net	2	3
Central bank liquidity swaps	-	1
Total interest income	<u>5,130</u>	<u>4,921</u>
<u>INTEREST EXPENSE</u>		
System Open Market Account:		
Securities sold under agreements to repurchase	5	3
Deposits:		
Depository institutions	165	168
Term Deposit Facility	9	1
Total interest expense	<u>179</u>	<u>172</u>
Net interest income	<u>4,951</u>	<u>4,749</u>
<u>NON-INTEREST INCOME</u>		
System Open Market Account:		
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	4	3
Foreign currency translation losses, net	(80)	(36)
Other	1	-
Income from services	85	77
Compensation received for service costs provided	24	22
Reimbursable services to government agencies	6	6
Other	6	8
Total non-interest income	<u>46</u>	<u>80</u>
<u>OPERATING EXPENSES</u>		
Salaries and benefits	217	203
Occupancy	29	29
Equipment	10	9
Compensation paid for service costs incurred	11	12
Other	89	84
Assessments:		
Board of Governors operating expenses and currency costs	78	81
Bureau of Consumer Financial Protection	15	16
Total operating expenses	<u>449</u>	<u>434</u>
Net income before providing for remittances to the Treasury	4,548	4,395
Earnings remittances to the Treasury	4,482	4,407
Net income (loss)	<u>66</u>	<u>(12)</u>
Change in prior service costs related to benefit plans	-	(1)
Change in actuarial (losses) gains related to benefit plans	(12)	38
Total other comprehensive (loss) income	<u>(12)</u>	<u>37</u>
Comprehensive income	<u>\$ 54</u>	<u>\$ 25</u>

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

**FEDERAL RESERVE BANK OF CHICAGO**  
**STATEMENTS OF CHANGES IN CAPITAL**  
For the years ended December 31, 2014 and December 31, 2013  
(in millions, except share data)

	Surplus				
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	Total capital
Balance at December 31, 2012 (15,604,555 shares)	\$ 780	\$ 840	\$ (60)	\$ 780	\$ 1,560
Net change in capital stock redeemed (413,434 shares)	(21)	-	-	-	(21)
Comprehensive income:					
Net loss	-	(12)	-	(12)	(12)
Other comprehensive income	-	-	37	37	37
Dividends on capital stock	-	(46)	-	(46)	(46)
Net change in capital	<u>(21)</u>	<u>(58)</u>	<u>37</u>	<u>(21)</u>	<u>(42)</u>
Balance at December 31, 2013 (15,191,121 shares)	\$ 759	\$ 782	\$ (23)	\$ 759	\$ 1,518
Net change in capital stock issued (157,603 shares)	8	-	-	-	8
Comprehensive income:					
Net income	-	66	-	66	66
Other comprehensive loss	-	-	(12)	(12)	(12)
Dividends on capital stock	-	(46)	-	(46)	(46)
Net change in capital	<u>8</u>	<u>20</u>	<u>(12)</u>	<u>8</u>	<u>16</u>
Balance at December 31, 2014 (15,348,724 shares)	<u>\$ 767</u>	<u>\$ 802</u>	<u>\$ (35)</u>	<u>\$ 767</u>	<u>\$ 1,534</u>

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



## **FEDERAL RESERVE BANK OF CHICAGO NOTES TO FINANCIAL STATEMENTS**

### **1. STRUCTURE**

The Federal Reserve Bank of Chicago (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 Seventh Federal Reserve District, which includes Iowa, and portions of Michigan, Illinois, Wisconsin, and Indiana.

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

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 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, and 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 and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To be prepared to counter disorderly conditions in foreign exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC has authorized and directed the

## **FEDERAL RESERVE BANK OF CHICAGO NOTES TO FINANCIAL STATEMENTS**

FRBNY to execute spot and forward foreign exchange transactions in 14 foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY holds these securities and obligations in the SOMA. The FOMC has also authorized the FRBNY 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 in the maximum amount of \$5 billion.

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

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 for which the costs were not reimbursed by the other Reserve Banks include national business development and customer support.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), which is issued by the Board of Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM. The financial statements 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, adjusted for credit impairment, if any, the recording of all SOMA securities on a settlement-date basis, and the use of straight-line amortization for Treasury securities, GSE debt securities, and foreign currency denominated investments. Amortized cost, rather than the fair value presentation, more appropriately reflects the financial position associated with the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are 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

## **FEDERAL RESERVE BANK OF CHICAGO NOTES TO FINANCIAL STATEMENTS**

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 Bank's unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital, and the accompanying notes to the financial statements. Other than those described above, there are no significant differences 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.

In 2014, the description of certain line items presented in the Statements of Condition and the Statements of Income and Comprehensive Income have been revised to better reflect the nature of these items. Amounts related to these line items were not changed from the prior year, only the nomenclature for the line item was revised, as further noted below:

- The line item "System Open Market Account: Other investments" has been revised in the Statements of Condition to "System Open Market Account: Other assets."
- The line item "System Open Market Account: Foreign currency denominated assets, net" has been revised in the Statements of Income and Comprehensive Income to "System Open Market Account: Foreign currency denominated investments, net."

Certain amounts relating to the prior year have been reclassified in the Statements of Income and Comprehensive Income to conform to the current year presentation. \$1 million previously reported for the year ended December 31, 2013 as "Non-interest income: Other" has been reclassified into a new line titled "Non-interest income: System Open Market Account: Other."

Significant accounts and accounting policies are explained below.

### ***a. Consolidation***

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory authority over some institutions previously supervised by the Reserve Banks in connection with those institutions' compliance with consumer protection statutes. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. The Board of Governors funds the Bureau through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationship to the Bureau and determined that it should not be consolidated in the Bank's financial statements.

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

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be

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

backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at \$42 2/9 per fine troy ounce. Gold certificates are recorded by the Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding twelve months.

Special drawing rights (SDR) are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange-stabilization operations. At the time SDR certificate transactions occur, the Board of Governors allocates the SDR certificates among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding calendar year. SDR certificates are recorded by the Banks at original cost. There were no SDR certificate transactions during the years ended December 31, 2014 and 2013.

**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 typically settled through a tri-party arrangement. In a tri-party 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



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the FRBNY 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 Treasury Inflation-Protected Securities, Separate Trading of Registered Interest and Principal of Securities Treasury securities, and Treasury Floating Rate Notes); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE MBS. The repurchase transactions are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These transactions are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition.

The FRBNY may engage in sales of securities under agreements to repurchase with primary dealers and with a set of expanded counterparties which includes banks, savings associations, GSEs, and domestic money market funds (Overnight and term reverse repurchase agreements). These reverse repurchase transactions, are settled through a tri-party arrangement, 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, or 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 “System Open Market Account: Other liabilities” in the Statements of Condition.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers, typically overnight, to facilitate the effective functioning of the domestic securities markets. The amortized cost basis of securities lent continues to be reported as “System Open Market Account: Treasury securities, net” and “System Open Market Account: Government-sponsored enterprise debt securities, net,” as appropriate, in the Statements of Condition. Securities lending transactions are fully collateralized by Treasury securities based on the fair values of the securities lent increased by a margin determined by the FRBNY. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of “Non-interest income: System Open Market Account: 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 Investments, and Warehousing Agreements***

Interest income on Treasury securities, GSE debt securities, and foreign currency denominated investments included in the SOMA is accrued using the straight-line method. 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 or accreted over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, 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

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reported net of the amortization of premiums and accretion of discounts in the Statements of Income and Comprehensive Income.

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. During the years ended December 31, 2014 and 2013, the FRBNY executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as purchases or sales on a settlement-date basis. In addition, TBA MBS transactions may be paired off or assigned prior to settlement. Net gains resulting from these MBS 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 investments, 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. Foreign currency translation gains and losses that result from the daily revaluation of foreign currency denominated investments are reported as “Non-interest income: System Open Market Account: Foreign currency translation losses, net” in the Statements of Income and Comprehensive Income.

Because the FRBNY enters into commitments to buy Treasury securities, federal agency and GSE MBS, and foreign government debt instruments and records the related securities on a settlement-date basis in accordance with the FAM, the related outstanding commitments are not reflected in the Statements of Condition.

Activity related to Treasury securities, 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 investments, 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 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 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.

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

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. The Bank's allocated portion of the foreign currency amounts that the FRBNY acquires are reported as "System Open Market Account: Central bank liquidity swaps" in the Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the FRBNY based on the amount outstanding and the rate under the swap agreement. The Bank's allocated portion of the amount of compensation received during the term of the swap transaction is reported as "Interest income: System Open Market Account: Central bank liquidity swaps" in the Statements of 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 amounts that the FRBNY receives are recorded as a liability.

***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 3 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 to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from three to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred.

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

***i. Interdistrict Settlement Account***

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

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

**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.

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 \$10,427 million and \$13,399 million at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, all Federal Reserve notes outstanding, reduced by the Reserve Bank's currency holdings, were fully collateralized. At December 31, 2014, all gold certificates, all special drawing rights certificates, and \$1,282 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2014, no investments denominated in foreign currencies were pledged as collateral.

**k. *Deposits***

***Depository Institutions***

Depository institutions' deposits represent the reserve and service-related 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 a component of "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 a component of "Interest payable to depository institutions" in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2014 and 2013.

***Other***

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



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***l. 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 six 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.

By law, each Reserve Bank is required to pay each member bank an annual dividend of six percent on the paid-in capital stock. This cumulative dividend is paid semiannually.

***m. 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 9 and 10.

***n. Remittances to the Treasury***

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. Currently, remittances to the Treasury are made on a weekly basis. This amount is reported as "Earnings remittances to the Treasury" in the Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued remittances to the Treasury" in the Statements of Condition. See Note 12 for additional information on earnings remittances to the Treasury.

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, remittances 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.

***o. 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, 2014 and 2013, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

***p. Income from Services, 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 electronic access services to depository institutions and, as a result, reports total System revenue for these services as "Income from services" in its Statements of Income and Comprehensive Income. The Bank compensates the applicable Reserve Banks for the costs incurred to provide these services and reports the resulting compensation paid as "Operating expenses: Compensation paid for service costs incurred" in its Statements of Income and Comprehensive Income.

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The Federal Reserve Bank of Atlanta has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and the FRBNY has overall responsibility for managing the Reserve Banks' provision of Fedwire funds and securities services. The Reserve Bank that has overall responsibility for managing these services recognizes the related total System revenue in its Statements of Income and Comprehensive Income. The Bank is compensated for costs incurred to provide these services by the Reserve Banks responsible for managing these services and reports this compensation as "Non-interest income: Compensation received for service costs provided" in its Statements of Income and Comprehensive Income.

**q. Assessments**

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances. The Board of Governors also assesses each Reserve Bank for expenses related to producing, issuing, and retiring Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governors' 2009 annual report, which totaled \$4.98 billion. After 2013, the amount will be adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2014 and 2013 was 12.22 percent (\$608.4 million) and 12 percent (\$597.6 million), respectively. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Statements of Income and Comprehensive Income.

**r. 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 \$4 million and \$3 million for the years ended December 31, 2014 and 2013, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Income and Comprehensive Income.

**s. 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.

In 2014, the Treasury announced plans to consolidate the provision of substantially all fiscal agent services for the U.S. Treasury at the Federal Reserve Bank of Cleveland, the Federal Reserve Bank of Kansas City, the FRBNY, and the Federal Reserve Bank of St. Louis. The implementation plan associated with this consolidation is expected to be completed in 2018.

The Bank had no significant restructuring activities in 2014 and 2013.

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**t. Recently Issued Accounting Standards**

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update changes the requirements for reporting discontinued operations, which may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. This update is effective for the Bank for the year ending December 31, 2015, and is not expected to have a material effect on the Bank's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. This update is effective for the Bank for the year ending December 31, 2018, and is not expected to have a material effect on the Bank's financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfer and Servicing* (Topic 860): *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This update requires changes in the accounting for repurchase to maturity transactions and repurchase financing transactions. Additionally, this update provides guidance for the disclosures for certain transfers of financial assets accounted for as sales, where the transferor retains substantially all of the exposure to economic return on the transferred financial asset; and repurchase agreements, securities lending transactions, and repurchase to maturity transactions that are accounted for as secured borrowings. This update is effective for the Bank for the year ending December 31, 2015, and is not expected to have a material effect on the Bank's financial statements.

**4. LOANS**

***Loans to Depository Institutions***

The Bank offers primary, secondary, and seasonal loans to eligible borrowers, 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 secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

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

Loans to depository institutions were \$30 million and \$18 million as of December 31, 2014 and 2013, respectively, with a remaining maturity within 15 days.

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At December 31, 2014 and 2013, the Bank did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2014 and 2013.

**5. SYSTEM OPEN MARKET ACCOUNT**

**a. Domestic Securities Holdings**

The FRBNY conducts domestic open market operations and, on behalf of the Reserve Banks, holds the resulting securities in the SOMA.

During the years ended December 31, 2014 and 2013, the FRBNY continued the purchase of Treasury securities and federal agency and GSE MBS under the large-scale asset purchase programs authorized by the FOMC. In September 2011, the FOMC announced that the Federal Reserve would reinvest principal payments from the SOMA portfolio holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS. In June 2012, the FOMC announced that it would continue this reinvestment policy. In September 2012, the FOMC announced that the Federal Reserve would purchase additional federal agency and GSE MBS at a pace of \$40 billion per month. In December 2012, the FOMC announced that the Federal Reserve would also purchase longer-term Treasury securities initially at a pace of \$45 billion per month after its program to extend the average maturity of its holdings of Treasury securities was completed in 2012. In December 2013, the FOMC announced that it would slow the pace of its additional asset purchases. In October 2014, the FOMC concluded its asset purchase program while maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The Bank's allocated share of activity related to domestic open market operations was 4.087 percent and 5.404 percent at December 31, 2014 and 2013, respectively.

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):

2014				
	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost
Notes	\$ 66,822	\$ 1,131	\$ (315)	\$ 67,638
Bonds	33,777	5,093	(396)	38,474
Total Treasury securities	<u>\$ 100,599</u>	<u>\$ 6,224</u>	<u>\$ (711)</u>	<u>\$ 106,112</u>
GSE debt securities	<u>\$ 1,581</u>	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ 1,634</u>
Federal agency and GSE MBS	<u>\$ 70,987</u>	<u>\$ 2,175</u>	<u>\$ (40)</u>	<u>\$ 73,122</u>
2013				
	Par	Unamortized premiums	Unaccrued discounts	Total amortized cost
Notes	\$ 79,294	\$ 1,804	\$ (308)	\$ 80,790
Bonds	40,060	6,946	(301)	46,705
Total Treasury securities	<u>\$ 119,354</u>	<u>\$ 8,750</u>	<u>\$ (609)</u>	<u>\$ 127,495</u>
GSE debt securities	<u>\$ 3,092</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ 3,195</u>
Federal agency and GSE MBS	<u>\$ 80,523</u>	<u>\$ 2,420</u>	<u>\$ (59)</u>	<u>\$ 82,884</u>



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The FRBNY enters into transactions for the purchase of securities under agreements to resell and transactions to sell securities under agreements to repurchase as part of its monetary policy activities. These operations are for the purpose of further assessing the appropriate structure of such operations in supporting the implementation of monetary policy during normalization. In addition, transactions to sell securities under agreements to repurchase are entered into as part of a service offering to foreign official and international account holders.

There were no material transactions related to securities purchased under agreements to resell during the years ended December 31, 2014 and 2013. Financial information related to securities sold under agreements to repurchase for the years ended December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2014	2013	2014	2013
<u>Overnight and term reverse repurchase agreements:</u>				
Contract amount outstanding, end of year	\$ 16,214	\$ 10,686	\$ 396,705	\$ 197,755
Average daily amount outstanding, during the year	5,630	225	130,281	4,161
Maximum balance outstanding, during the year	16,214	10,686	396,705	197,755
Securities pledged (par value), end of year	14,928	10,160	365,235	188,028
Securities pledged (market value), end of year	16,289	10,630	398,540	196,726
<u>Foreign official and international accounts:</u>				
Contract amount outstanding, end of year	\$ 4,624	\$ 6,385	\$ 113,132	\$ 118,169
Average daily amount outstanding, during the year	4,564	5,200	102,968	95,520
Maximum balance outstanding, during the year	6,385	6,385	122,232	118,169
Securities pledged (par value), end of year	4,429	6,615	108,355	122,424
Securities pledged (market value), end of year	4,624	6,386	113,132	118,175
Total contract amount outstanding, end of year	<u>\$ 20,838</u>	<u>\$ 17,071</u>	<u>\$ 509,837</u>	<u>\$ 315,924</u>

Securities pledged as collateral, at December 31, 2014 and 2013, consisted solely of Treasury securities.

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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, 2014 and 2013 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
December 31, 2014:							
Treasury securities (par value)	\$ -	\$ -	\$ 144	\$ 45,487	\$ 28,063	\$ 26,905	\$ 100,599
GSE debt securities (par value)	45	29	161	1,250	-	96	1,581
Federal agency and GSE MBS (par value) <sup>1</sup>	-	-	-	1	264	70,722	70,987
Securities sold under agreements to repurchase (contract amount)	20,838	-	-	-	-	-	20,838
December 31, 2013:							
Treasury securities (par value)	\$ -	\$ 16	\$ 9	\$ 41,248	\$ 46,725	\$ 31,356	\$ 119,354
GSE debt securities (par value)	125	409	468	1,960	3	127	3,092
Federal agency and GSE MBS (par value) <sup>1</sup>	-	-	-	-	138	80,385	80,523
Securities sold under agreements to repurchase (contract amount)	17,071	-	-	-	-	-	17,071

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

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 5.7 and 6.5 years as of December 31, 2014 and 2013, respectively.

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

	Allocated to the Bank		Total SOMA	
	2014	2013	2014	2013
Treasury securities (amortized cost)	\$ 455	\$ 927	\$ 11,144	\$ 17,153
Treasury securities (par value)	413	835	10,105	15,447
GSE debt securities (amortized cost)	26	59	633	1,099
GSE debt securities (par value)	25	57	616	1,055

The FRBNY enters into commitments to buy and sell Treasury securities and records the related securities on a settlement-date basis. As of December 31, 2014, there were no outstanding commitments.

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, 2014, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was \$28,692 million, none of which was related to dollar rolls. The total purchase price of outstanding purchase commitments allocated to the Bank was \$1,173 million, none of which was related to dollar rolls. As of December 31, 2014, there were no outstanding sales commitments for federal agency and GSE MBS. These commitments, which had contractual settlement dates

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extending through January 2015, are principally for the purchase 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. 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 MBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets consists primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio. Other liabilities, which are primarily 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 MBS 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 assets and 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	
	2014	2013	2014	2013
Other assets:				
MBS portfolio related cash and short term investments	\$ 1	\$ -	\$ 28	\$ 1
Other	-	-	1	1
Total other assets	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 29</u>	<u>\$ 2</u>
Other liabilities:				
Cash margin	\$ 33	\$ 71	\$ 793	\$ 1,320
Obligations from MBS transaction fails	1	1	30	11
Other	-	-	7	-
Total other liabilities	<u>\$ 34</u>	<u>\$ 72</u>	<u>\$ 830</u>	<u>\$ 1,331</u>

Accrued interest receivable on domestic securities holdings was \$25,561 million and \$23,405 million as of December 31, 2014 and 2013, respectively, of which \$1,045 million and \$1,264 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

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Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the years ended December 31, 2014 and 2013, is summarized as follows (in millions):

	Allocated to the Bank				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2012	\$ 63,365	\$ 37,001	\$ 100,366	\$ 4,409	\$ 52,720
Purchases <sup>1</sup>	19,532	11,234	30,766	-	47,142
Sales <sup>1</sup>	-	-	-	-	-
Realized gains, net <sup>2</sup>	-	-	-	-	-
Principal payments and maturities	(1)	-	(1)	(1,064)	(14,934)
Amortization of premiums and accretion of discounts, net	(328)	(517)	(845)	(43)	(382)
Inflation adjustment on inflation-indexed securities	15	35	50	-	-
Annual reallocation adjustment <sup>3</sup>	(1,793)	(1,048)	(2,841)	(107)	(1,662)
Balance at December 31, 2013	\$ 80,790	\$ 46,705	\$ 127,495	\$ 3,195	\$ 82,884
Purchases <sup>1</sup>	7,747	3,994	11,741	-	21,096
Sales <sup>1</sup>	-	-	-	-	(2)
Realized gains, net <sup>2</sup>	-	-	-	-	-
Principal payments and maturities	(23)	-	(23)	(888)	(8,820)
Amortization of premiums and accretion of discounts, net	(246)	(449)	(695)	(27)	(312)
Inflation adjustment on inflation-indexed securities	21	57	78	-	-
Annual reallocation adjustment <sup>3</sup>	(20,651)	(11,833)	(32,484)	(646)	(21,724)
Balance at December 31, 2014	\$ 67,638	\$ 38,474	\$ 106,112	\$ 1,634	\$ 73,122
Year-ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases <sup>4</sup>	\$ 19,422	\$ 10,069	\$ 29,491	\$ -	\$ 45,663
Sales	-	-	-	-	-
Year-ended December 31, 2014					
Supplemental information - par value of transactions:					
Purchases <sup>4</sup>	\$ 7,861	\$ 3,926	\$ 11,787	\$ -	\$ 20,391
Sales	-	-	-	-	(2)

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

<sup>2</sup> Realized gains, net offset the amount of realized gains and losses included in the reported sales amount.

<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 3i.

<sup>4</sup> Includes inflation compensation.



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	Total SOMA				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2012	\$ 1,142,219	\$ 666,969	\$ 1,809,188	\$ 79,479	\$ 950,321
Purchases <sup>1</sup>	358,656	206,208	564,864	-	864,538
Sales <sup>1</sup>	-	-	-	-	-
Realized gains, net <sup>2</sup>	-	-	-	-	-
Principal payments and maturities	(21)	-	(21)	(19,562)	(273,990)
Amortization of premiums and accretion of discounts, net	(6,024)	(9,503)	(15,527)	(795)	(7,009)
Inflation adjustment on inflation-indexed securities	285	645	930	-	-
Balance at December 31, 2013	\$ 1,495,115	\$ 864,319	\$ 2,359,434	\$ 59,122	\$ 1,533,860
Purchases <sup>1</sup>	165,306	85,826	251,132	-	466,384
Sales <sup>1</sup>	-	-	-	-	(29)
Realized gains, net <sup>2</sup>	-	-	-	-	-
Principal payments and maturities	(475)	-	(475)	(18,544)	(203,933)
Amortization of premiums and accretion of discounts, net	(5,545)	(10,132)	(15,677)	(588)	(7,199)
Inflation adjustment on inflation-indexed securities	500	1,327	1,827	-	-
Balance at December 31, 2014	\$ 1,654,901	\$ 941,340	\$ 2,596,241	\$ 39,990	\$ 1,789,083
Year-ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases <sup>3</sup>	\$ 356,766	\$ 184,956	\$ 541,722	\$ -	\$ 837,490
Sales	-	-	-	-	-
Year-ended December 31, 2014					
Supplemental information - par value of transactions:					
Purchases <sup>3</sup>	\$ 167,497	\$ 83,739	\$ 251,236	\$ -	\$ 450,633
Sales	-	-	-	-	(29)

<sup>1</sup> Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

<sup>2</sup> Realized gains, net offset the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Includes inflation compensation.

**b. Foreign Currency Denominated Investments**

The FRBNY conducts foreign currency operations and, on behalf of the Reserve Banks, holds the resulting foreign currency denominated investments in the SOMA.

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 government debt instruments are backed by the full faith and credit of 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, which are backed by the full faith and credit of those issuing governments.

The Bank's allocated share of activity related to foreign currency operations was 2.761 percent and 2.852 percent at December 31, 2014 and 2013, respectively.

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Information about foreign currency denominated investments valued at amortized cost and foreign currency market exchange rates at December 31 was as follows (in millions):

	Allocated to Bank		Total SOMA	
	2014	2013	2014	2013
Euro:				
Foreign currency deposits	\$ 191	\$ 215	\$ 6,936	\$ 7,530
Securities purchased under agreements to resell	-	73	-	2,550
German government debt instruments	69	68	2,494	2,396
French government debt instruments	102	68	3,687	2,397
Japanese yen:				
Foreign currency deposits	71	84	2,576	2,926
Japanese government debt instruments	144	169	5,207	5,925
Total	<u>\$ 577</u>	<u>\$ 677</u>	<u>\$ 20,900</u>	<u>\$ 23,724</u>

Accrued interest receivable on foreign currency denominated investments was \$83 million and \$88 million as of December 31, 2014 and 2013, respectively, of which \$2 million and \$3 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2014 and 2013, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
December 31, 2014:					
Euro	\$ 100	\$ 78	\$ 45	\$ 139	\$ 362
Japanese yen	76	11	43	85	215
Total	<u>\$ 176</u>	<u>\$ 89</u>	<u>\$ 88</u>	<u>\$ 224</u>	<u>\$ 577</u>
December 31, 2013:					
Euro	\$ 201	\$ 51	\$ 62	\$ 110	\$ 424
Japanese yen	89	11	53	100	253
Total	<u>\$ 290</u>	<u>\$ 62</u>	<u>\$ 115</u>	<u>\$ 210</u>	<u>\$ 677</u>

There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2014.

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, 2014, there were \$137 million of outstanding commitments to purchase foreign government debt instruments, of which \$4 million was allocated to the Bank. These securities settled on January 5, 2015, and replaced Euro-denominated government debt instruments held in the SOMA that matured on that date. During 2014, there were purchases and maturities of foreign government debt instruments of \$5,494 million and \$3,337 million, respectively, of which \$152 million and \$93 million, respectively, were allocated to the Bank. There were no sales of foreign government debt instruments in 2014.

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

At December 31, 2014 and 2013, there was no balance outstanding under the authorized warehousing facility.

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, 2014 and 2013.

Foreign currency working balances held and foreign exchange contracts executed by the Bank to facilitate its international payments and currency transactions it made on behalf of foreign central banks and U.S. official institution customers were not material as of December 31, 2014 and 2013.

**c. Central Bank Liquidity Swaps**

***U.S. Dollar Liquidity Swaps***

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 2.761 percent and 2.852 percent at December 31, 2014 and 2013, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2014 and 2013, was \$1,528 million and \$272 million, respectively, of which \$42 million and \$8 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):

	2014			2013		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	\$ -	\$ -	\$ -	\$ 3	\$ 5	\$ 8
Japanese yen	42	-	42	-	-	-
Total	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 8</u>

***Foreign Currency Liquidity Swaps***

At December 31, 2014 and 2013, there was no balance outstanding related to foreign currency liquidity swaps.

**d. Fair Value of SOMA Assets and Liabilities**

The fair value amounts below are presented solely for informational purposes. Although the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Statements of Income and Comprehensive Income.

The fair value of the Treasury securities, GSE debt securities, federal agency and GSE MBS, and foreign government debt instruments in the SOMA's holdings is subject to market risk, arising from movements in

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market variables such as interest rates and credit risk. The fair value of federal agency and GSE MBS is also affected by the expected rate of prepayments of mortgage loans underlying the securities. The fair value of foreign government debt instruments is also affected by currency risk. Based on evaluations performed as of December 31, 2014, there are no credit impairments of SOMA securities holdings.

The following table presents the amortized cost, fair value, and cumulative unrealized gains (losses) on the Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA at December 31 (in millions):

	Allocated to the Bank					
	2014			2013		
	Amortized cost	Fair value	Cumulative unrealized gains	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	\$ 67,638	\$ 68,802	\$ 1,164	\$ 80,790	\$ 81,001	\$ 211
Bonds	38,474	43,034	4,560	46,705	45,517	(1,188)
Total Treasury securities	\$ 106,112	\$ 111,836	\$ 5,724	\$ 127,495	\$ 126,518	\$ (977)
GSE debt securities	1,634	1,737	103	3,195	3,363	168
Federal agency and GSE MBS	73,122	74,408	1,286	82,884	80,815	(2,069)
Total domestic SOMA portfolio securities holdings	<u>\$ 180,868</u>	<u>\$ 187,981</u>	<u>\$ 7,113</u>	<u>\$ 213,574</u>	<u>\$ 210,696</u>	<u>\$ (2,878)</u>
Memorandum - Commitments for:						
Purchases of Treasury securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchases of Federal agency and GSE MBS	1,173	1,177	4	3,207	3,195	(12)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

	Total SOMA					
	2014			2013		
	Amortized cost	Fair value	Cumulative unrealized gains	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	\$ 1,654,901	\$ 1,683,377	\$ 28,476	\$ 1,495,115	\$ 1,499,000	\$ 3,885
Bonds	941,340	1,052,916	111,576	864,319	842,336	(21,983)
Total Treasury securities	\$ 2,596,241	\$ 2,736,293	\$ 140,052	\$ 2,359,434	\$ 2,341,336	\$ (18,098)
GSE debt securities	39,990	42,499	2,509	59,122	62,236	3,114
Federal agency and GSE MBS	1,789,083	1,820,544	31,461	1,533,860	1,495,572	(38,288)
Total domestic SOMA portfolio securities holdings	<u>\$ 4,425,314</u>	<u>\$ 4,599,336</u>	<u>\$ 174,022</u>	<u>\$ 3,952,416</u>	<u>\$ 3,899,144</u>	<u>\$ (53,272)</u>
Memorandum - Commitments for:						
Purchases of Treasury securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchases of Federal agency and GSE MBS	28,692	28,803	111	59,350	59,129	(221)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

The fair value of Treasury securities and GSE debt securities was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of federal agency and GSE MBS was determined using a pricing service that utilizes a model-based approach that considers observable inputs for similar securities.

The cost basis of securities purchased under agreements to resell, securities sold under agreements to repurchase, and other investments held in the SOMA domestic portfolio approximate fair value.

At December 31, 2014 and 2013, the fair value of foreign currency denominated investments was \$20,996 million and \$23,802 million, respectively, of which \$580 million and \$679 million, respectively, was allocated to the Bank. The fair value of foreign government debt instruments was determined using pricing services that

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provide market consensus prices based on indicative quotes from various market participants. The fair value of foreign currency deposits and securities purchased under agreements to resell was determined by reference to market interest rates.

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	2014		2013	
	Amortized cost	Fair value	Amortized cost	Fair value
Allocated to the Bank:				
2.0%	\$ 523	\$ 516	\$ 767	\$ 731
2.5%	4,684	4,638	6,691	6,401
3.0%	20,979	20,692	28,197	26,168
3.5%	19,672	20,002	18,896	18,284
4.0%	17,495	18,033	12,442	12,489
4.5%	6,370	6,860	10,041	10,563
5.0%	2,679	2,890	4,501	4,753
5.5%	622	671	1,161	1,228
6.0%	86	93	165	174
6.5%	12	13	23	24
Total	<u>\$ 73,122</u>	<u>\$ 74,408</u>	<u>\$ 82,884</u>	<u>\$ 80,815</u>
Total SOMA:				
2.0%	\$ 12,788	\$ 12,618	\$ 14,191	\$ 13,529
2.5%	114,609	113,468	123,832	118,458
3.0%	513,289	506,280	521,809	484,275
3.5%	481,305	489,390	349,689	338,357
4.0%	428,047	441,204	230,256	231,113
4.5%	155,867	167,844	185,825	195,481
5.0%	65,544	70,719	83,290	87,968
5.5%	15,232	16,414	21,496	22,718
6.0%	2,110	2,287	3,051	3,225
6.5%	292	320	421	448
Total	<u>\$ 1,789,083</u>	<u>\$ 1,820,544</u>	<u>\$ 1,533,860</u>	<u>\$ 1,495,572</u>



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The following tables present the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the years ended December 31, 2014 and 2013 (in millions):

	Allocated to Bank			
	2014		2013	
	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>
Treasury securities	\$ -	\$ 7,164	\$ -	\$ (9,893)
GSE debt securities	-	(26)	-	(131)
Federal agency and GSE MBS	4	3,180	3	(4,436)
Total	\$ 4	\$ 10,318	\$ 3	\$ (14,460)

	Total SOMA			
	2014		2013	
	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>	Realized gains <sup>1</sup>	Change in cumulative unrealized gains (losses) <sup>2</sup>
Treasury securities	\$ -	\$ 158,150	\$ -	\$ (183,225)
GSE debt securities	-	(605)	-	(2,411)
Federal agency and GSE MBS	81	69,749	51	(81,957)
Total	\$ 81	\$ 227,294	\$ 51	\$ (267,593)

<sup>1</sup> Realized gains are reported in "Non-interest income: System Open Market Account" in the Statements of Income and Comprehensive Income.

<sup>2</sup> Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Statements of Income and Comprehensive Income.

The amount of change in cumulative unrealized gains (losses) position, net, related to foreign currency denominated investments was a gain of \$18 million and a loss of \$90 million for the years ended December 31, 2014 and 2013, respectively, of which \$1 million and \$2 million, respectively, were allocated to the Bank.

Accounting Standards Codification (ASC) Topic 820 (ASC 820) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Bank's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the Bank's

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estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

Treasury securities, GSE debt securities, federal agency and GSE MBS, and foreign government debt instruments are classified as Level 2 within the ASC 820 hierarchy because the fair values are based on indicative quotes and other observable inputs obtained from independent pricing services. The fair value hierarchy level of SOMA financial assets is not necessarily an indication of the risk associated with those assets.

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

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

	2014	2013
Bank premises and equipment:		
Land and land improvements	\$ 18	\$ 17
Buildings	292	280
Building machinery and equipment	41	40
Construction in progress	13	14
Furniture and equipment	59	57
Subtotal	423	408
Accumulated depreciation	(196)	(179)
Bank premises and equipment, net	<u>\$ 227</u>	<u>\$ 229</u>
Depreciation expense, for the years ended December 31	<u>\$ 19</u>	<u>\$ 18</u>

The Bank leases space to outside tenants with remaining lease terms ranging from two to nine years. Rental income from such leases was \$5 million for each of the years ended December 31, 2014 and 2013 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, 2014, are as follows (in millions):

2015	\$ 5
2016	6
2017	5
2018	3
2019	3
Thereafter	5
Total	<u>\$ 27</u>

The Bank had capitalized software assets, net of amortization, of \$9 million and \$8 million at December 31, 2014 and 2013, respectively. Amortization expense was \$2 million and \$1 million for the years ended December 31, 2014 and 2013, 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.

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**7. COMMITMENTS AND CONTINGENCIES**

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

At December 31, 2014, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from three to approximately six years. These leases provide for increased lease payments based upon increases in real estate taxes, operating costs, or selected price indexes.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was \$2 million for each of the years ended December 31, 2014 and 2013, respectively. Certain of the Bank's leases have options to renew.

Future minimum lease payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2014, are as follows (in thousands):

	<u>Operating leases</u>
2015	\$ 381
2016	388
2017	241
2018	234
2019	457
Thereafter	321
Future minimum lease payments	<u>\$ 2,022</u>

At December 31, 2014, 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, 2014 and 2013.

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

**8. RETIREMENT AND THRIFT PLANS**

***Retirement Plans***

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System 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. In addition, employees at certain compensation levels participate in

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the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP).

The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. During the years ended December 31, 2014 and 2013, certain costs associated with the System Plan were reimbursed by the Bureau.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2014 and 2013, 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 \$9 million for each of the years ended December 31, 2014 and 2013, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

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

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

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

The Bank 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):

	2014	2013
Accumulated postretirement benefit obligation at January 1	\$ 138.3	\$ 166.1
Service cost benefits earned during the period	4.3	5.3
Interest cost on accumulated benefit obligation	6.6	6.1
Net actuarial loss (gain)	13.2	(32.4)
Contributions by plan participants	2.4	2.4
Benefits paid	(9.1)	(10.0)
Medicare Part D subsidies	0.6	0.6
Plan amendments	-	0.2
Accumulated postretirement benefit obligation at December 31	<u>\$ 156.3</u>	<u>\$ 138.3</u>

At December 31, 2014 and 2013, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 3.96 percent and 4.79 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due. The System Plan discount rate assumption setting convention uses an unrounded rate.

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

	2014	2013
Fair value of plan assets at January 1	\$ -	\$ -
Contributions by the employer	6.1	7.0
Contributions by plan participants	2.4	2.4
Benefits paid	(9.1)	(10.0)
Medicare Part D subsidies	0.6	0.6
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Unfunded obligation and accrued postretirement benefit cost	<u>\$ 156.3</u>	<u>\$ 138.3</u>

Amounts included in accumulated other comprehensive loss are shown below:

Prior service cost	\$ -	\$ 0.3
Net actuarial loss	(35.3)	(23.0)
Total accumulated other comprehensive loss	<u>\$ (35.3)</u>	<u>\$ (22.7)</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:

	2014	2013
Health-care cost trend rate assumed for next year	6.60%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2019

Assumed health-care cost trend rates have a significant effect on the amounts reported for health-care plans. A one percentage point change in assumed health-care cost trend rates would have the following effects for the year ended December 31, 2014 (in millions):

	One percentage point increase	One percentage point decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	\$ 2.3	\$ (1.8)
Effect on accumulated postretirement benefit obligation	23.4	(19.0)

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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):

	2014	2013
Service cost-benefits earned during the period	\$ 4.3	\$ 5.3
Interest cost on accumulated benefit obligation	6.6	6.1
Amortization of prior service cost	(0.4)	(0.6)
Amortization of net actuarial loss	1.1	5.2
Net periodic postretirement benefit expense	<u>\$ 11.6</u>	<u>\$ 16.0</u>

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2015 are shown below:

Prior service cost	\$ (0.1)
Net actuarial loss	2.3
Total	<u>\$ 2.2</u>

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2014 and 2013, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 4.79 percent and 3.75 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 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 \$598 thousand and \$483 thousand in the years ended December 31, 2014 and 2013, respectively. Expected receipts in 2015, related to benefits paid in the years ended December 31, 2014 and 2013, are \$313 thousand.

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

	Without subsidy	With subsidy
2015	\$ 7.8	\$ 7.2
2016	8.0	7.3
2017	8.0	7.4
2018	8.1	7.4
2019	8.3	7.5
2020 - 2024	45.8	41.2
Total	<u>\$ 86.0</u>	<u>\$ 78.0</u>



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***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, dental, and vision insurance; survivor income; disability benefits; and self-insured workers' compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2014 and 2013, were \$10 million and \$9 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit expense (credit) included in 2014 and 2013 operating expenses were \$2 million and (\$1) million, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

**10. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME**

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) as of December 31 (in millions):

	2014	2013
	Amount related to postretirement benefits other than retirement plans	Amount related to postretirement benefits other than retirement plans
Balance at January 1	\$ (22.7)	\$ (59.5)
Change in funded status of benefit plans:		
Prior service costs arising during the year	-	(0.2)
Amortization of prior service cost	(0.4) <sup>1</sup>	(0.6) <sup>1</sup>
Change in prior service costs related to benefit plans	(0.4)	(0.8)
Net actuarial (loss) gain arising during the year	(13.3)	32.4
Amortization of net actuarial loss	1.1 <sup>1</sup>	5.2 <sup>1</sup>
Change in actuarial (losses) gain related to benefit plans	(12.2)	37.6
Change in funded status of benefit plans - other comprehensive (loss) income	(12.6)	36.8
Balance at December 31	\$ (35.3)	\$ (22.7)

<sup>1</sup> Reclassification is reported as a component of "Operating Expenses: Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

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

**11. BUSINESS RESTRUCTURING CHARGES**

The Bank had no business restructuring charges in 2014 or 2013.

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**12. DISTRIBUTION OF COMPREHENSIVE INCOME**

In accordance with Board policy, Reserve Banks remit excess earnings, after providing for dividends and the amount necessary to equate surplus with capital paid-in, to the U.S. Treasury as earnings remittances to the Treasury. The following table presents the distribution of the Bank's comprehensive income in accordance with the Board's policy for the years ended December 31 (in millions):

	<u>2014</u>	<u>2013</u>
Dividends on capital stock	\$ 46	\$ 46
Transfer to (from) surplus - amount required to equate surplus with capital paid-in	8	(21)
Earnings remittances to the Treasury	<u>4,482</u>	<u>4,407</u>
Total distribution	<u>\$ 4,536</u>	<u>\$ 4,432</u>

During the year ended December 31, 2013, the Bank recorded a reduction in the amount of capital paid-in and a corresponding reduction of surplus, which is presented in the above table as "Transfer to (from) surplus – amount required to equate surplus with capital paid-in." The reduction of surplus resulted in an equivalent increase in "Earnings remittances to the Treasury" and a reduction in "Comprehensive income" for the year ended December 31, 2013.

**13. SUBSEQUENT EVENTS**

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2014. Subsequent events were evaluated through March 11, 2015, which is the date that the financial statements were available to be issued.