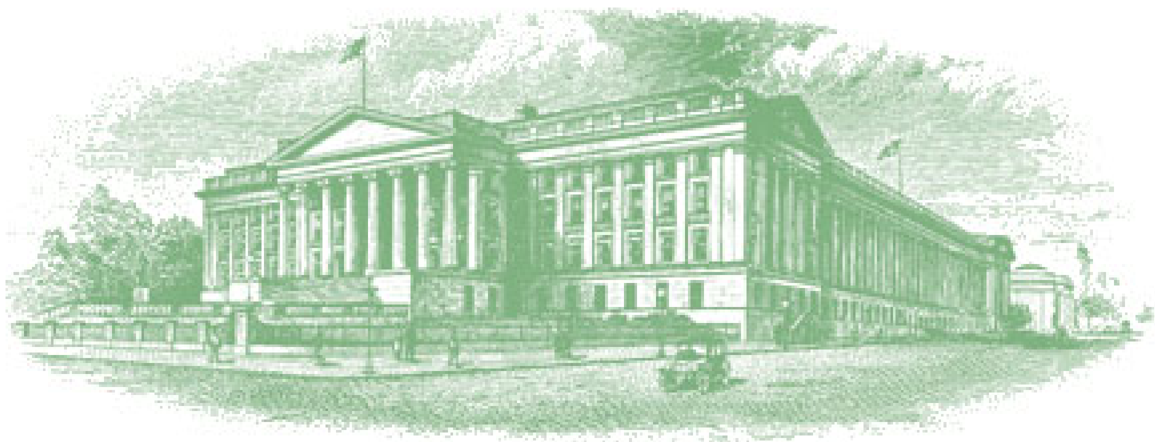
Audit Report



OIG-21-024

FINANCIAL MANAGEMENT

Audit of the Exchange Stabilization Fund's Financial Statements for Fiscal Years 2020 and 2019

March 10, 2021

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

March 10, 2021

MEMORANDUM FOR ANDREW BAUKOL
PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL MONETARY POLICY

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Audit of the Exchange Stabilization Fund's Financial Statements for Fiscal Years 2020 and 2019

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the Exchange Stabilization Fund's (ESF) statements of financial position as of September 30, 2020 and 2019, the related statements of operations and comprehensive (loss) income, cash flows, and changes in equity for the years then ended, and provided a report on internal control over financial reporting, and on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

In its audit of the ESF, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the ESF's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' report dated March 10, 2021, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial Audit, at (202) 927-5591.

Attachment

DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND

Financial Statements

September 30, 2020 and 2019

DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND

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EXCHANGE STABILIZATION FUND
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THE NATURE AND FUNCTION OF THE EXCHANGE STABILIZATION FUND

The Gold Reserve Act of 1934 established a fund to be operated by the Secretary of the Treasury (the Secretary), with the approval of the U.S. President. Section 10 of the Act provided that "For the purpose of stabilizing the exchange value of the dollar, the Secretary, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section." To this end, Congress, in 1934, appropriated to the Exchange Stabilization Fund (ESF) the sum of $2.0 billion out of the increment resulting from the reduction in the "weight of the gold dollar." Subsequent amendments to the Gold Reserve Act approved the operation of the ESF through June 30, 1945. Section 7 of the Bretton Woods Agreements Act, approved July 31, 1945, continued its operations permanently. The Bretton Woods Agreements Act also directed the Secretary to pay $1.8 billion from the ESF to the International Monetary Fund (IMF) for the initial U.S. quota subscription in the IMF, thereby reducing the ESF's appropriated capital from its initial $2.0 billion to $200 million. Section 10 of the Gold Reserve Act was codified in 31 United States Code (U.S.C.) 5302.

Reflecting termination of the fixed exchange rate system, legislation enacted in 1976 (P.L. 94-564, October 19, 1976) amended the language of Section 10 of the Gold Reserve Act to specify that the ESF is to be used as the Secretary "may deem necessary to and consistent with the United States obligations in the International Monetary Fund." This amendment became effective on April 1, 1978, the date of entry into force of the Second Amendment of the IMF Articles of Agreement. In 1977, P.L. 95-147 further amended Section 10 of the Gold Reserve Act. The following Gold Reserve Act codification now provides in relevant part:

> "Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary. However, a loan or credit to a foreign entity or government of a foreign country may be made for more than 6 months in a 12-month period only if the President gives Congress a written statement that unique or emergency circumstances require the loan or credit be for more than 6 months (31 U.S.C. 5302 (b))."

Pursuant to the Special Drawing Rights Act of 1968 (P.L. 90-349, amended by P.L. 94-564), Special Drawing Rights (SDRs) allocated by the IMF to the United States or otherwise acquired by the United States are resources of the ESF.

22 U.S.C. 286p allows for SDRs to be monetized/demonetized through the issuance/redemption by the Secretary of SDR certificates to the Federal Reserve Banks in exchange for dollars. The total amount of SDR certificates outstanding cannot exceed the dollar equivalent of ESF (i.e., U.S.) holdings of SDRs; such certificates are a liability of the ESF.

Unaudited – see accompanying auditors' report

ADDITIONAL AUTHORITIES AND ESF OPERATIONS IN RESPONSE TO COVID-19

In March of 2020, the Federal Reserve Board of Governors (Board) and Congress took steps to limit the damage caused by the pandemic in the United States by helping to reduce the financial burden on individuals and their families, minimize business and employment losses, and enhance the liquidity of the U.S. financial system. The ESF played a critical role in the implementation and support of these actions by the Board and Congress primarily through Treasury's execution of the Coronavirus Aid, Relief and Economic Security Act (CARES Act, P.L. 116-136) using funds from the ESF to support programs in support of the coronavirus disease 2019 (COVID-19) pandemic recovery.

Specifically, Section 4003 of the CARES Act authorized the Secretary to make certain loans, loan guarantees and other investments that did not, in the aggregate, exceed $500.0 billion. Of this amount, $46.0 billion was available to make direct loans and loan guarantees to passenger air carriers and certain related businesses, air cargo carriers, and businesses critical to maintaining national security, and $454.0 billion (together with any unused amounts from the $46.0 billion) was available to make loans and loan guarantees to, and investments in, programs or facilities established by the Board to provide liquidity to the financial system that supported lending to eligible businesses, states, or municipalities. Using funds appropriated to the ESF by Section 4027 of the CARES Act combined with borrowings from Treasury's Bureau of the Fiscal Service (Fiscal Service), and $11.5 billion of ESF existing core funds, the ESF had disbursed $112.5 billion, $1.8 billion, and $1.5 billion for investments, loans, and other assets, respectively, as of September 30, 2020, in response to the COVID-19 pandemic (also refer to Note 4 entitled *"Economic Recovery Program Investments,"* Note 5 entitled *"Economic Recovery Program Loans and Related Interest Receivable and Investments,"* and Note 6 entitled *"Economic Recovery Program Other Assets"* of the audited financial statements for further discussion).

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act and provided that the remaining unobligated appropriation as of January 9, 2021 be rescinded as of that date other than with respect to those funds made available for administrative expenses pursuant to Section 4003(f), for the Special Inspector General for Pandemic Recovery pursuant to Section 4018(g), and for the Congressional Oversight Commission pursuant to Section 4020. The Special Inspector General and Congressional Oversight Commission are not components of the ESF. The remaining unobligated appropriation balance as of January 9, 2021 was $49.8 billion. Effective January 9, 2021, the statute eliminated Treasury's ability to make new investments and loans under Section 4003 of the CARES Act (also refer to Note 13 entitled *"Subsequent Events"* of the audited financial statements for further discussion of these rescissions by Congress).

FINANCIAL HIGHLIGHTS AND ANALYSIS OF OPERATIONS

The ESF financial performance as of and for the twelve months ended September 30, 2020 when compared to 2019, primarily reflects ESF's financial support provided for economic recovery programs in response to the global spread of COVID-19.

Unaudited – see accompanying auditors' report

EXCHANGE STABILIZATION FUND

POLICY AND OPERATIONS STATEMENTS

FISCAL YEAR 2020

Total Assets

Total assets of $676.4 billion at September 30, 2020 primarily consisted of Fund Balance with Treasury and cash and cash equivalents, economic recovery program investments and loan receivables, SDR holdings, investment securities, and foreign currency denominated assets. Total assets at the end of Fiscal Year (FY) 2020 increased by $583.1 billion over the $93.3 billion of total assets reported at the end of FY 2019, mainly due to the receipt of CARES Act appropriations of $500.0 billion which was recorded as Fund Balance with Treasury. A portion of these appropriated funds, along with authorized borrowings from the Fiscal Service and $11.5 billion of ESF's cash and cash equivalents, were used to finance equity investments, loans and other assets of $112.5 billion, $1.8 billion, and $1.5 billion, respectively, to support economic recovery programs in response to the COVID-19 pandemic. Other assets, including SDR holdings, investment securities and foreign currency denominated assets, remained relatively constant at $57.5 billion and $56.7 billion in 2020 and 2019, respectively.

Total Liabilities

Total liabilities increased $88.6 billion, from $53.4 billion at September 30, 2019 to $142.0 billion at September 30, 2020, primarily due to $87.1 billion of authorized outstanding borrowings as of September 30, 2020 obtained from Fiscal Service used to finance the economic recovery program investments, loans and other assets.

Equity

Appropriations and borrowings from Fiscal Service financed the ESF's new economic recovery investments and loans receivable programs established under the CARES Act. The $500.0 billion in appropriations received was recorded to Additional Appropriated Capital during FY 2020. Of this amount, $1.2 billion was transferred back to Treasury due to a revaluation of an investment, and $25 million was transferred to the Special Inspector General for Pandemic Recovery, in accordance with the CARES Act, in support of its newly-established operations. An additional $5 million was used to pay authorized administrative expenditures of the program. The balance of Additional Appropriated Capital of $498.8 billion as of September 30, 2020 will remain outstanding until rescinded by Congress or used to pay additional authorized administrative expenditures up to $100 million. (Subsequent to September 30, 2020, Congress rescinded a total of $478.8 billion of the $498.8 billion. Refer to Note 13 entitled "*Subsequent Events*" of the audited financial statements for a further discussion of rescissions by Congress.)

Retained earnings decreased by $4.3 billion, primarily due to $4.8 billion of unrealized fair value losses on the ESF's COVID-19 related investments and loans.

Unaudited – see accompanying auditors' report

EXCHANGE STABILIZATION FUND

POLICY AND OPERATIONS STATEMENTS

FISCAL YEAR 2020

Results of Operations

Interest Income and Expense. Interest income totaled $320 million, consisting of $170 million in interest on dollar holdings invested in U.S. Government securities, $189 million equivalent in interest on SDR holdings, and $(39) million equivalent in interest on foreign currency investments.

Interest expense totaled $182 million, primarily representing interest charges on SDR Allocations.

Foreign Currency Operations. Euros and Japanese Yen—The ESF had a net valuation gain of $1.1 billion on its holdings of euros and yen. The ESF had investment expense of $711 thousand equivalent on its euro and yen assets.

With Mexico - In April 1994, Treasury signed the North American Framework Agreement (NAFA) with Mexico and Canada. In accordance with the NAFA, Treasury entered into an Exchange Stabilization Agreement (ESA) with Mexico. The ESA offers Mexico a swap line with drawings contingent on certain conditions being met. Effective November 30, 2018, an amended and restated ESA increased the potential size of a swap line from $3.0 billion to $9.0 billion. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA and NAFA were renewed through December 15, 2021 and December 12, 2021, respectively. There were no drawings outstanding on the ESF swap line as of September 30, 2020.

SDR Operations. As of September 30, 2020, U.S. holdings (assets) of SDRs totaled SDR 36.8 billion ($51.7 billion equivalent), a net increase of 95 million SDR from September 30, 2019. As the SDR appreciated against the dollar in this period, there was a net valuation gain of $1.6 billion on U.S. holdings of SDRs. The ESF reimbursed Treasury's General Fund $122 million for SDRs received from the IMF as remuneration on the U.S. reserve position in the IMF and on other lending to the IMF. The ESF received interest of $261 million equivalent on its SDR holdings.

As of September 30, 2020, cumulative allocations to (liabilities of) the United States totaled SDR 35.3 billion ($49.7 billion equivalent). These liabilities would come due only in the event of liquidation of, or U.S. withdrawal from, the SDR Department of the IMF, or cancellation of SDRs.

SDR certificates of $5.2 billion that had been issued to the Federal Reserve System prior to fiscal year 2019 remain in 2020.

COVID-19 Economic Recovery Programs. The ESF incurred a $4.6 billion unrealized fair value loss on equity investments made in FY 2020 in support of the Federal Reserve Bank of New York and the Federal Reserve Bank of Boston (FRBB) emergency liquidity lending programs. The ESF also incurred $946 million in interest expense on borrowings from the Fiscal Service, and $5 million of administrative expenses which were funded by appropriation revenue. Partially offsetting these costs was accrued facility fee income of $119 million related to one of the FRBB's emergency liquidity lending facility programs.

Unaudited – see accompanying auditors' report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Acting Inspector General
Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of the Treasury's Exchange Stabilization Fund (ESF), which comprise the statements of financial position as of September 30, 2020 and 2019, the related statements of operations and comprehensive (loss) income, the related statements of cash flows, the related statements of changes in equity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury's Exchange Stabilization Fund as of September 30, 2020 and 2019, and its results of its operations, changes in equity and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Policy and Operations Statements section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2020, we considered ESF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESF's internal control. Accordingly, we do not express an opinion on the effectiveness of ESF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESF's financial statements as of and for the year ended September 30, 2020 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts; noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ESF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
March 10, 2021

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF FINANCIAL POSITION
(in thousands)

	As of September 30,	
	2020	**2019**
Assets		
Fund Balance with Treasury (Note 2)	**$ 480,643,983**	$ -
Cash and Cash Equivalents (Note 3)	**27,037,273**	36,657,996
Economic Recovery Program Investments, Receivables, and Other		
Investments, at fair value (Note 4)	**107,946,003**	-
Loans and Related Interest Receivable and Investments, at fair value (Note 5)	**1,617,963**	-
Other Assets (Note 6)	**1,618,699**	-
Special Drawing Right Holdings (Note 7)	**51,732,943**	49,976,358
Investment Securities and Other Foreign Currency Denominated Assets, at fair value (Note 8)	**5,748,168**	6,560,243
Interest Receivable on Foreign Currency Investments	**52,976**	50,120
Interest Receivable on Special Drawing Right Holdings	**7,261**	77,582
Total Assets	**$ 676,405,269**	$ 93,322,299
Liabilities and Equity		
Liabilities:		
Economic Recovery Programs - Debt (Note 9)	**$ 87,102,396**	$ -
Special Drawing Right Allocations (Note 7)	**49,709,293**	48,146,221
Special Drawing Right Certificates Issued to Federal Reserve Banks (Note 10)	**5,200,000**	5,200,000
Interest Payable on Special Drawing Right Allocations	**7,244**	74,741
Other	**627**	228
Total Liabilities	**142,019,560**	53,421,190
Commitments and Contingencies (Note 11)		
Equity:		
Appropriated Capital	**200,000**	200,000
Additional Appropriated Capital	**498,806,743**	-
Retained Earnings	**35,251,177**	39,574,427
Accumulated Other Comprehensive Income (Note 8)	**127,789**	126,682
Total Equity	**534,385,709**	39,901,109
Total Liabilities and Equity	**$ 676,405,269**	$ 93,322,299

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(in thousands)

	Fiscal Years Ended September 30, 2020	2019
Interest Income		
Cash and Cash Equivalents	**$ 126,779**	$ 483,976
Investment Securities and Other Foreign Currency Denominated Assets (Note 8)	**3,373**	5,142
Special Drawing Right Holdings (Note 7)	**189,442**	537,457
Total Interest Income	**319,594**	1,026,575
Interest Expense		
Special Drawing Right Allocations (Note 7)	**(182,277)**	(518,940)
Special Drawing Rights - Remuneration due to the U.S. Treasury (Note 7)	**(79)**	(274)
Total Interest Expense	**(182,356)**	(519,214)
Net Interest Income	**137,238**	507,361
Net Gains/(Losses) on Foreign Currency Valuations		
Special Drawing Right Holdings (Note 7)	**1,626,363**	(1,170,851)
Special Drawing Right Allocations (Note 7)	**(1,564,077)**	1,129,475
Investment Securities and Other Foreign Currency Denominated Assets (Note 8)	**1,061,054**	(185,587)
Other-Than-Temporary Losses on Investment Securities (Note 8)	**-**	(11,329)
International Monetary Fund Annual Assessment and Other (Note 7)	**(711)**	(677)
Total Net Gains (Losses)	**1,122,629**	(238,969)
Economic Recovery Programs Net (Expense) Income		
Facility Fee Income (Note 6)	**118,699**	-
Interest Income on Loans Receivable (Note 5)	**3,973**	-
Appropriations Revenue	**4,729**	-
Unrealized Fair Value Loss on Investments and Loans (Notes 4 and 5)	**(4,759,435)**	-
Interest Expense on Debt (Note 9)	**(946,013)**	-
Administrative Expenses (Note 12)	**(5,070)**	-
Total Net (Expense) Income	**(5,583,117)**	-
Net (Loss) Income	**(4,323,250)**	268,392
Other Comprehensive (Loss) Income		
Unrealized Holding Gain/(Loss), Net	**1,107**	(6,084)
Comprehensive (Loss) Income	**$ (4,322,143)**	$ 262,308

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Years Ended September 30,	
	2020	**2019**
Cash Flows from Operating Activities:		
Interest Received/(Paid) on:		
Cash and Cash Equivalents	**$ 121,809**	$ 485,999
Investment Securities and Other Foreign Currency Denominated Assets	**110,394**	120,337
Interest Paid on Borrowings (Note 9)	**(946,013)**	-
Interest Collected on Loans	**572**	-
Other	**(1,484)**	2,853
Net Cash (Used in) Provided by Operating Activities	**(714,722)**	609,189
Cash Flows from Investing Activities:		
Purchase of Economic Recovery Program Investments and Loans (Notes 4 and 5)	**(114,320,000)**	-
Purchase of Investment Securities and Foreign Currency Denominated Assets, Trading	**(285,482)**	(938,824)
Reimbursement Paid for Remuneration Received	**(122,145)**	(210,342)
Maturities of Investment Securities and Foreign Currency Denominated Assets, AFS	**1,099,792**	1,011,449
Maturities of Investment Securities and Foreign Currency Denominated Assets, Trading	**237,161**	96,325
Sale of Investment Securities and Foreign Currency Denominated Assets, AFS	**6,527**	1,784
Sale of Investment Securities and Foreign Currency Denominated Assets, Trading	**3,786**	2,384
International Monetary Fund Annual Assessment	**641**	764
Net Cash Used in Investing Activities	**(113,379,720)**	(36,460)
Cash Flows from Financing Activities:		
Receipt of Appropriations (Note 4)	**500,000,000**	-
Proceeds from Issuances of Debt	**94,985,639**	-
Repayment of Debt Principal	**(7,883,243)**	-
Appropriations Transferred Out (Note 4)	**(1,188,528)**	-
Appropriations Income presented within Operating Activities	**(4,729)**	-
Net Cash Provided by Financing Activities	**585,909,139**	-
Effect of Exchange Rate on Cash	**708,563**	(63,432)
Net Increase in Cash, Cash Equivalents, and Restricted Cash	**472,523,260**	509,297
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	**36,657,996**	36,148,699
Cash, Cash Equivalents, and Restricted Cash, End of Year	**$ 509,181,256**	$ 36,657,996

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF CASH FLOWS (Continued)
(in thousands)

	Fiscal Years Ended September 30, 2020	2019
Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities		
Results of Operations	**$ (4,323,250)**	$ 268,392
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Equity-Method Investments and Loans Due to Valuation	**4,759,436**	-
Non-cash Interest Income on PIK Loans	**(1,145)**	-
Net Exchange Rate (Gain)/Loss on Repos, FCDAs and Investment Securities	**(1,061,054)**	185,587
(Increase)/Decrease in Special Drawing Right Holdings Due to Valuation	**(1,625,320)**	1,169,305
Increase/(Decrease) in Special Drawing Right Allocations Due to Valuation	**1,563,072**	(1,127,983)
Net Amortization of Bond Premium and Other	**103,889**	110,547
Other-Than-Temporary Losses on Investment Securities	**-**	11,329
Decrease (Increase) in Accrued Interest Receivable	**65,208**	15,039
Decrease (Increase) in Special Drawing Right Holdings, net	**(9,761)**	(18,270)
Decrease (Increase) in Economic Recovery Program - Other Asset	**(118,699)**	-
Increase (Decrease) in Accrued Interest Payable and IMF Annual Assessment	**(67,098)**	(4,757)
Total Adjustments	**3,608,528**	340,797
Net Cash Provided by (Used in) Operating Activities	**$ (714,722)**	$ 609,189
Composition of Cash, Cash Equivalents, and Restricted Cash reported on the Statements of Financial Position:		
Fund Balance with Treasury (Note 2)	**$ 480,643,983**	$ -
Cash and Cash Equivalents (Note 3)	**27,037,273**	36,657,996
Restricted Cash included within Economic Recovery Program - Other Assets (Note 6)	**1,500,000**	-
Total Cash, Cash Equivalents, and Restricted Cash shown in the Statements of Cash Flows	**$ 509,181,256**	$ 36,657,996

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Fiscal Years Ended September 30,	
	2020	**2019**
Appropriated Capital	**$ 200,000**	$ 200,000
Additional Appropriated Capital		
Balance, Beginning of Period	-	-
Appropriations Received (Note 4)	**500,000,000**	-
Appropriations Transferred Out (Note 4)	**(1,188,528)**	-
Appropriations Used	**(4,729)**	-
Balance, End of Period	**498,806,743**	-
Retained Earnings		
Balance, Beginning of Period	**39,574,427**	39,306,035
Net (Loss) Income	**(4,323,250)**	268,392
Balance, End of Period	**35,251,177**	39,574,427
Accumulated Other Comprehensive Income		
Balance, Beginning of Period	**126,682**	132,766
Unrealized holding gains/(losses), net, arising during the period (Note 8)	**75,250**	(30,805)
Less: reclassification of (gains)/losses recognized in net income (Note 8)	**(74,143)**	13,392
Less: reclassification of losses related to impaired instruments recognized in net income	**-**	11,329
Balance, End of Period	**127,789**	126,682
Total Equity	**$ 534,385,709**	$ 39,901,109

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Exchange Stabilization Fund (ESF) was originally established pursuant to Section 10 of the *Gold Reserve Act of 1934* for the purpose of stabilizing the exchange value of the dollar. Section 10 has been amended several times since 1934. This Section currently authorizes the Secretary of the U.S. Department of the Treasury (Treasury), with the approval of the President, to deal in gold, foreign exchange, and instruments of credit and securities consistent with U.S. obligations in the International Monetary Fund (IMF) on orderly exchange arrangements and a stable system of exchange rates (31 U.S.C. 5302(b)).

The Federal Reserve Bank of New York (FRBNY) acts as the fiscal agent for the ESF, as permitted by the *Federal Reserve Act of 1913* (Federal Reserve Act). As the fiscal agent, the FRBNY plays a significant role in the processing of foreign currency transactions that the Secretary of Treasury (Secretary) authorizes. The manager of the ESF foreign currency portfolio at the FRBNY consults regularly with the Federal Open Market Committee and Treasury about the disposition of investments and the status of the portfolio. The level and currency composition of the ESF foreign currency portfolio are the products of Treasury's policy determinations. The ESF management is responsible for the record keeping and investment decisions for foreign currency transaction activity carried out by the FRBNY.

The global spread of the coronavirus disease 2019 (COVID-19) in early spring of 2020 has resulted in a severe global health and economic crisis. In March of 2020, the Federal Reserve Board of Governors (Board) and Congress took steps to limit the damage caused by the pandemic in the U.S. by helping to reduce the financial burden on individuals and their families, minimize business and employment losses, and enhance the liquidity of the U.S. financial system.

Among other things, the Board used its emergency-lending authority under Section 13(3) of the Federal Reserve Act (Section 13(3)) authorizing the Federal Reserve Bank of New York (FRBNY) and the Federal Reserve Bank of Boston (FRBB) to establish liquidity lending facilities for the purpose of making loans and purchasing debt and other commercial paper of eligible entities to support key U.S. financial markets. Additionally, Congress passed the *Coronavirus Aid, Relief and Economic Security Ac*t (CARES Act), P.L. 116-136, authorizing the Secretary to make certain loans, loan guarantees and other investments to provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus and appropriating $500.0 billion (included within the "*Additional Appropriated Capital*" line on the Statements of Financial Position) to the ESF to carry out such authorities. The ESF played a critical role in the implementation and support of these actions by the Board and Congress primarily through Treasury's execution of the CARES Act using funds from the ESF to support programs in support of COVID-19 pandemic recovery. The ESF's financial statements for the fiscal year ended September 30, 2020 were significantly impacted by the effects of these transactions.

By law, the ESF is not permitted to pay administrative expenses, except under the specific authority provided by the CARES Act. Treasury's Office of International Affairs has responsibility for managing ESF operations, and Treasury's Office of the Deputy Chief Financial Officer provides the recordkeeping and financial reporting services for the ESF. These Treasury offices bear all administrative expenses of the ESF except for those of the CARES Act administration. Accordingly, there are no administrative expenses reported in the financial statements, other than those expenses authorized under the CARES Act.

B. Basis of Accounting and Presentation

The accompanying financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

The American Institute of Certified Public Accountants (AICPA) has designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal governmental entities, with respect to the establishment of accounting principles generally accepted in the United States of America. Statement of Federal Financial Accounting Standards No. 34, issued by FASAB, provides authoritative guidance allowing federal entities to prepare financial statements in conformance with accounting and reporting principles issued by the Financial Accounting Standards Board (FASB). Accordingly, the ESF financial statements are presented in accordance with accounting standards published by FASB.

C. Risks, Uncertainties and Use of Estimates

The ESF faces certain risks and uncertainties as a result of holding foreign currency securities. The price of the ESF's holdings of such securities may fluctuate as a result of volatility in foreign currency markets and changes in real and perceived credit of ESF's counterparties.

Credit risk related to the ESF's holdings, has the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. As authorized by Congress and in support of the Board, the ESF has played a critical role in implementing and supporting economic recovery programs to help minimize business losses and enhance the liquidity of the U.S. financial system caused by the COVID-19 pandemic (refer to Notes 4, 5, and 6 for an in-depth discussion of these programs and their financial impact involving the ESF). The severity, magnitude and duration, as well as the economic consequences of the COVID-19 pandemic, are uncertain, rapidly changing, and difficult to predict.

Amounts based on estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty. Therefore, accounting estimates and assumptions may change over time and actual results could differ materially from those estimates.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of ESF's accounts with the U.S. government's central accounts from which the ESF is authorized to make expenditures and pay liabilities. It is an asset because it represents ESF's claim to the U.S. government's resources. For purposes of the Statements of Cash Flows, the Fund Balance with Treasury is presented as cash. The ESF does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements.

E. Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of change in value due to changes in interest rates. These assets are reported on the Statements of Financial Position at amounts that approximate their fair values. Cash and cash equivalents consist of U.S. Government Securities and Short-term Foreign Currency Denominated Assets (FCDAs) (including deposits and securities denominated in both euro and yen that have terms of three months or less). The ESF may invest dollars in excess of its immediate needs in overnight, nonmarketable U.S. Government Securities issued by Treasury. The interest rate earned on the investments is equal to the overnight repurchase agreement rate as established by the Bureau of the Fiscal Service (Fiscal Service).

F. Variable Interest Entities

The ESF is involved in certain entities that are considered variable interest entities (VIEs). A VIE is defined as a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets generally that either: (i) does not have equity investors with voting rights that can directly or indirectly make decisions about entity's activities through those voting rights or similar rights; or (ii) has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support. The ESF's involvement with VIEs is primarily related to the liquidity lending facilities established in FY 2020 by FRBNY and FRBB under Section 13(3) in response to the COVID 19 pandemic in the U.S.

The ESF analyzes each investment to determine whether it is a VIE or not, and if so, whether the ESF is the primary beneficiary or a significant variable interest holder based on a qualitative and quantitative assessment. This assessment includes consideration as to whether or not the ESF has the power to direct the activities of the VIE that most significantly impact its economic performance, and whether or not the ESF has either the obligation to absorb losses or the right to receive returns from the VIE that could be significant to the VIE. The ESF evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder, and the extent of the ESF's control of and variable interest in the VIE. In the event the ESF meets the requirements of a primary beneficiary, VIEs are consolidated. Equity investments made by the ESF in connection with the economic recovery programs that result in a variable interest are not consolidated because the ESF is not considered to be the primary beneficiary. Refer to 1(G) below and Note 4 for further discussion of this investment.

G. Economic Recovery Program Investments, at fair value

In response to the economic effects of the COVID-19 pandemic, the ESF made equity investments in Special Purpose Vehicles (SPVs) formed to operationalize emergency liquidity lending facilities established by the Board through the FRBNY and FRBB. As a practical consideration, the ESF has elected the fair value option (FVO) in accordance with FASB's Accounting Standards Codification (ASC) No. 825-10, *Financial Instruments* to account for these investment holdings. As such, these investments are initially measured at fair value. Subsequent changes in fair value are recognized as unrealized gains and losses within the *"Unrealized Fair Value Loss on Investments and Loans"* line on the Statements of Operations and Comprehensive (Loss) Income.

To support two of the Board's liquidity lending facilities, the ESF funded the disbursed amounts using the ESF funds other than those appropriated by the CARES Act (i.e. "core funds."). Refer to Notes 4 and 6 for further discussion.

H. Economic Recovery Program Loans and Related Interest Receivable and Investments, at fair value

Economic recovery program loans receivable relate to loans disbursed by the ESF as authorized by the CARES Act, Section 4003(b). These loans provide liquidity to eligible businesses which incurred losses as a result of COVID-19, including passenger air carriers and certain related businesses, air cargo carriers, and businesses critical to maintaining national security. The ESF also received common stock and common stock warrants in connection with the loans disbursed.

As a practical consideration, the ESF has elected the FVO to account for loans and securities received in connection with the economic recovery program. The loans are initially recognized at an amount equal to the cash funded amount less the fair value of the securities received (which are recognized as loan discounts) at the date of origination. After the initial recognition, the ESF subsequently measures the loans, along with the common stock and common stock warrants, at fair value and recognizes the changes in fair value as unrealized gains and losses within the *"Unrealized Fair Value Loss on Investments and Loans"* line on the Statements of Operations and Comprehensive (Loss) Income.

Interest income on these loans is accrued as earned within *"Interest Income on Loans Receivable"* line on the Statements of Operations and Comprehensive (Loss) Income.

I. Investment Securities and Other Foreign Currency Denominated Assets, at fair value

Trading securities are those which are bought and held principally for the purpose of selling them in the near term and therefore may be held for only a short period of time. The ESF's Other Foreign Currency Denominated Assets (FCDAs) and Investment Securities purchased after June 30, 2016 are classified as trading. Trading securities are recorded at fair value with all unrealized holding gains and losses reflected in earnings. Realized gains and losses from the sale of trading securities are determined on a specific-identification basis.

Available-for-sale securities are those which are neither trading nor held-to-maturity. The ESF's Other FCDAs and Investment Securities purchased prior to July 1, 2016 are classified as available-for-sale. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities, including amounts related to foreign currency valuation, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized or deemed to be other than temporary. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

Interest on investments, amortization of premiums, and accretion of discounts are reported in Interest Income and are recognized on an accrual basis. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method.

Foreign currency assets (FCAs) include interest-bearing foreign deposit accounts and investments in foreign government securities. FCAs include FCDAs reported as Cash and Cash Equivalents, Other FCDAs, and Investment Securities. These categorizations are based on maturity. FCDAs reported as Cash and Cash Equivalents have terms of three months or less. Other FCDAs have terms of less than or equal to a year but greater than three months and Investment Securities have terms greater than one year.

J. Foreign Currency Valuations

FCAs as well as Special Drawing Rights and related accrued interest receivable or payable are revalued to reflect exchange rates in effect as of the reporting date. Gains and losses related to foreign currency revaluations on available-for-sale securities are reported as a component of Other Comprehensive Income until realized or deemed to be other than temporary. Other such gains or losses, recognized in the period of the fluctuations, are reported on the Statements of Operations and Comprehensive (Loss) Income as *Net Gains/(Losses) on Foreign Currency Valuation.*

K. Other-Than-Temporary Impairment

A decline in the market value (either due to credit, price or currency) of any investment below cost that is deemed to be other-than-temporary is accounted for as an impairment and the carrying value is reduced to fair value for financial statement reporting purposes. The impairment is charged to earnings and the charge establishes a new cost basis for the investment. To determine whether impairment is other-than-temporary, the ESF considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, remaining maturity of the investment and the general market condition in the geographic area or industry in which the investee operates. ESF regularly evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment that would require recognition in the financial statements.

L. Fair Values of Financial Instruments

FASB's ASC No. 820-10, *Fair Value Measurements* establishes a three-level valuation hierarchy based upon observable and non-observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the ESF's market assumptions. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement of the financial instrument. The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

When available, the ESF uses quoted market prices to determine fair value and classifies such items as Level 1. The measurement of Level 3 financial instrument fair values uses unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. Valuation subjectivity increases when markets are less liquid due to the lack of more transparent market-based inputs, which may increase the potential that estimated fair values are not reflective of the price at which an actual transaction would occur.

Valuation of Economic Recovery Program Investments includes Level 3 inputs. See Note 4 for further information about these Level 3 financial assets, including changes in Level 3 financial assets and related fair value measurements.

Valuation of Economic Recovery Program Loans and Related Interest Receivable and Investments includes both Level 3 and Level 1 inputs for the loans and investments, respectively. Refer to Note 5.

The ESF's Investment Securities and Other Foreign Currency Denominated Assets are Level 1 measurements since these financial assets are traded in active markets where quoted values are readily available. Refer to Note 8.

M. Special Drawing Right Certificates Issued to Federal Reserve Banks

Special Drawing Right Certificates issued to the Federal Reserve Banks (FRBs) are reflected on the Statements of Financial Position at their face value. Under the terms of the agreement, there is no set repayment date and no interest accrued while certificates remain outstanding. As a result, the carrying amount represents the face value.

N. Economic Recovery Programs - Debt

Debt represents borrowings payable to the Fiscal Service that were incurred to finance, in part, the making of investments and loans authorized by the CARES Act. The ESF recognizes this as a related-party transaction. The maturity dates for the debt payable to the Fiscal Service range from September 30, 2024 to September 30, 2025. Refer to Note 9 for further discussion related to this debt.

O. Revenue and Other Financing Sources

Interest income is obtained from interest received on Cash and Cash Equivalents; Investment Securities and Other Foreign Currency Denominated Assets; Special Drawing Right Holdings; and Economic Recovery Program Loans Receivable. Interest is recognized when earned and determined to be collectible. Refer to Notes 5 and 7 for further discussion related to interest income on these securities.

The ESF accrues facility fees earned in connection with an economic recovery program. Refer to Note 6 for further discussion related to this fee income.

Section 4027 of the CARES Act appropriated $500.0 billion to finance the subsidy portion of investments and loans to eligible businesses, states, and municipalities authorized under Section 4003 of the CARES Act, as well as for up to $100 million of administration expenses in support of implementing the CARES Act (refer to Note 4 entitled "*Economic Recovery Program*

Investments"). Subsidies are costs to the government over the entire life of the loan or investment program, and are appropriated in accordance with the *Federal Credit Reform Act of 1990* (FCRA). Cash provided by appropriations used for subsidy disbursements are considered to be a financing source rather than an expense and, therefore, is not recognized on the Statements of Operations and Comprehensive (Loss) Income as an expense, and, accordingly, also results in no recognition of appropriations revenue. Administrative expenses incurred in connection with making investments and loans authorized under the CARES Act are reported on the Statements of Operations and Comprehensive (Loss) Income. The ESF recognizes appropriations revenue in connection with the administrative expenses when earned and determined to be collectible.

P. Other Comprehensive Gain/(Loss)

Accumulated Other Comprehensive Gain/(Loss) represents changes in the fair value of investments classified as available-for-sale. Unrealized gains and losses, if any, are subsequently reclassified into income in the same period the underlying investment is either sold, matured, deemed to be other-than-temporarily impaired or transferred to the Trading classification.

Q. Tax-Exempt Status

As a component of Treasury, which is a federal agency, the ESF is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes is recorded.

R. Adoption of New Accounting Standards

On October 1, 2019 the ESF adopted Accounting Standards Update (ASU) 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which (i) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, and (ii) requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The loans, receivables and equity investments that are presented within the *"Economic Recovery Program Loans and Related Interest Receivable and Investments, at fair value"* line on the Statements of Financial Position are reported in accordance with this new accounting standard. Refer to Note 5.

On October 1, 2019 the ESF adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which (i) requires that the statement of cash flows explain the change during the reporting period in total cash, cash equivalents, restricted cash, and restricted cash equivalents, and (ii) discloses the components of cash, cash equivalents, restricted cash, and restricted cash equivalents, and to describe such restrictions. The ESF's restricted cash is reflected on the Statements of Cash Flows in accordance with this new accounting standard. Refer to Note 6.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund balance activity for the year ended September 30, 2020, and fund balance status as of September 30, 2020 are presented below. The ESF did not have a fund balance as of and for the fiscal year ended September 30, 2019.

(in thousands)	As of September 30, 2020
Balance, beginning of period	$ -
Appropriations Received	500,000,000
Appropriations Transferred Out	(1,188,528)
Borrowings from the Fiscal Service, net	87,102,396
Disbursements for Loans and Investments	(104,320,000)
Disbursements for Net Interest Expense	(945,441)
Disbursements for Administrative Costs	(4,444)
Balance, end of period	$ 480,643,983

(in thousands)	As of September 30, 2020
Available	$ 468,136,264
Obligated	12,507,719
Balance, end of period	$ 480,643,983

As of September 30, 2020, the ESF obligated $12.5 billion of funds for future investment and loan disbursements in support of the economic recovery programs in accordance with the CARES Act. Refer to Note 4 for further discussion.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalent amounts held as of September 30, 2020 and 2019 are as follows:

(in thousands)	As of September 30, 2020	As of September 30, 2019
U.S. government securities	$ 11,169,942	$ 22,622,443
Short-term FCDAs:		
European euro	7,388,817	6,437,979
Japanese yen	8,478,514	7,597,574
Total short-term FCDAs	15,867,331	14,035,553
Total	$ 27,037,273	$ 36,657,996

The year-over-year decrease in the balance of U.S. government securities is due to the use of $11.5 billion of ESF's core funds to finance support for certain FRBNY and FRBB liquidity lending facilities (refer to Notes 4 and 6). The table above excludes restricted cash of $1.5 billion as of

September 30, 2020 which was restricted in connection with one of the economic recovery programs, and is reported in the *"Economic Recovery Program – Other Assets"* line on the Statements of Financial Position (refer to Note 6 for further discussion). There was no restricted cash as of September 30, 2019.

NOTE 4 - ECONOMIC RECOVERY PROGRAM INVESTMENTS, AT FAIR VALUE

Economic Recovery Program Overview

In March of 2020, the Board and Congress took steps to limit the damage caused by the COVID-19 pandemic in the United States. The Board, using its emergency-lending authority under Section 13(3) with approval from Treasury, authorized the FRBNY and the FRBB to establish liquidity lending facilities for the purpose of making loans and purchasing debt and other commercial paper of eligible entities to support key U.S. financial markets. Additionally, Congress passed the CARES Act, appropriating additional funds to the ESF to support the Board's emergency efforts, as well as to provide financial aid to U.S. individuals and businesses to counter losses. The ESF utilized its core authority, the *Gold Reserve Act*, as amended, to support two of the Board's liquidity lending facilities.

Section 4027 of the CARES Act appropriated $500.0 billion to the ESF to fund the credit subsidy costs associated with making loans, loan guarantees, or investments through December 31, 2020 in support of eligible businesses, states and municipalities that incurred losses as a result of COVID-19. Section 4003 of the CARES Act authorized Treasury to make such loans, loan guarantees and other investments that did not, in the aggregate, exceed $500.0 billion (together referred to as the "economic recovery programs"). Of this amount, $46.0 billion was available to make direct loans and loan guarantees to passenger air carriers and certain related businesses, air cargo carriers, and businesses critical to maintaining national security (refer to Note 5), and $454.0 billion (together with any unused amounts from the $46.0 billion) was available to make loans and loan guarantees to, and investments in, programs or facilities established by the Board to provide liquidity to the financial system that supported lending to eligible businesses, states, or municipalities. Treasury executed the economic recovery programs through the ESF.

During FY 2020, the ESF disbursed an aggregate of $104.3 billion (comprised of $102.5 billion and $1.8 billion for investments and loans, respectively) under CARES Act authority, which the ESF financed with cash provided by the appropriations to fund the subsidy portion of the investments and loans, and borrowings from the Fiscal Service (refer to Note 9 entitled *"Economic Recovery Programs – Debt"*). As of September 30, 2020, $480.6 billion of the CARES Act appropriation remained and was reported in the Fund Balance with Treasury (refer to Note 2 entitled *"Fund Balance with Treasury"*).

In addition to the amounts already disbursed, the ESF also had obligated but undisbursed amounts committed as of September 30, 2020 for future investment and loan disbursements totaling $106.0 billion (comprised of $92.5 billion and $13.5 billion, respectively). If disbursed, the ESF would use $12.5 billion of the remaining $480.6 billion of the CARES Act appropriation to finance the subsidy portion of these disbursements and finance the remaining $93.5 billion using Fiscal

Service borrowings. Accordingly, when factoring in the obligated but undisbursed amounts committed, the ESF's Fund Balance available as of September 30, 2020 was $468.1 billion ($480.6 billion remaining appropriation less $12.5 billion of obligated but undisbursed amounts). Refer to Note 2 entitled *"Fund Balance with Treasury"* and Note 13 entitled *"Subsequent Events."* Pursuant to Section 4018(g) of the CARES Act, $25 million in the appropriated funds was made available to the Special Inspector General for Pandemic Recovery. Further, during the fiscal year ended September 30, 2020, $1.2 billion in appropriated funds was transferred back to Treasury.

Section 13(3) Federal Reserve Programs

In March through July 2020, the FRBNY and FRBB established emergency liquidity lending facilities pursuant to Section 13(3). Certain of the facilities were operationalized through SPVs governed by Limited Liability Company (LLC) agreements between Treasury and the applicable Federal Reserve Bank (FRB). The FRBNY and FRBB established these facilities for the purpose of making loans and purchasing debt and other commercial paper of eligible entities affected by COVID-19 in an effort to provide liquidity to the U.S. financial system. As of September 30, 2020, the two FRBs had established the following LLCs: (i) Corporate Credit Facilities LLC (CCF), (ii) Main Street Facilities LLC (MSF), (iii) Municipal Liquidity Facility LLC (MLF), (iv) Term Asset-Backed Securities II LLC (TALF), and (v) Commercial Paper Funding Facility II LLC (CPFF). The FRBB also established the Money Market Mutual Fund Liquidity Facility (MMLF) for similar purposes as the SPVs, but with a structure that differs from that of the SPVs (refer to Note 6 for further discussion of this facility).

The SPVs were established to purchase assets and offer loans collateralized by corporate bonds, commercial paper, asset-backed securities, and municipal debt and loans to certain eligible states, municipalities, businesses and non-profit organizations affected by COVID-19. The FRBNY or FRBB, as applicable, contributed $10.00 in cash to capitalize each SPV they established. Additionally, the FRBNY and FRBB make loans to the SPVs, on a recourse basis, to fund the SPVs' purchase of assets from, or loans made to, eligible U.S. issuers and businesses with certain assets as collateral. As the managing member of each SPV, the FRBNY or FRBB, as applicable, has the exclusive right to manage the business of the SPV and has all powers and rights necessary to carry out the purposes and business of the SPV. The FRBNY and FRBB will continue to fund each SPV until the SPV's underlying assets mature or are sold or distributed.

The ESF provided equity to each SPV to protect the FRBNY and FRBB from potential losses from financing the facilities. The ESF provided this protection by committing and contributing capital in the form of cash to the SPVs in exchange for a preferred equity interest in the SPVs. To the extent the FRBNY and FRBB would experience losses, the ESF's preferred equity accounts absorb such losses up to the maximum amounts established per the terms of the LLC agreements. As a preferred equity member, the ESF has no voting, consent, or control rights over the SPV. The managing member and preferred equity member are the sole members of the SPVs.

The following summarizes ESF's financial support undertaken for each facility as of September 30, 2020:

	As of September 30, 2020			
(in thousands)	**FRB Manager**	**Total Commitment**	**Amount Disbursed**	**Available for Future Disbursement**
Corporate Credit Facilities [(1)]	FRBNY	$ 75,000,000	$ 37,500,000	$ 37,500,000
Main Street Facilities [(1)]	FRBB	75,000,000	37,500,000	37,500,000
Municipal Liquidity Facility [(1)]	FRBNY	35,000,000	17,500,000	17,500,000
Term Asset-Backed Securities [(1)]	FRBNY	10,000,000	10,000,000	-
Commercial Paper Funding Facility	FRBNY	10,000,000	10,000,000	-
Money Market Mutual Fund Liquidity Facility (refer to Note 6)	FRBB	10,000,000	1,500,000	8,500,000
Total		$ 215,000,000	$ 114,000,000	$ 101,000,000

[(1)]Consistent with the enactment of the Consolidated Appropriations Act, 2021, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act to, among other things, change the terms of ESF's commitments (refer to Note 13 entitled "Subsequent Events").

The ESF funded the disbursed amounts for both the CPFF and MMLF credit facilities using ESF's core funds. These core funds were previously invested in overnight, nonmarketable U.S. Treasury securities (refer to Note 3). For all other credit facilities, the ESF funded the disbursed amounts utilizing, in part, the funds appropriated under Section 4027 that Treasury, under Section 4003(a) of the CARES Act, was authorized to use to make loans, loan guarantees and other investments in programs or facilities established by the Board. In accordance with Section 4003(a) of the CARES Act, these appropriated funds were to be used to provide the subsidy amounts necessary for such loans, loan guarantees, and other investments in accordance with the provisions of FCRA. The remainder of the disbursed amounts were funded by borrowings from the Fiscal Service (refer to Note 9).

Each SPV maintains the proceeds of the ESF's equity investment within a preferred equity account. As mutually agreed to by the applicable FRB and Treasury, 85 percent of the preferred equity cash proceeds of each SPV are permitted to be invested in interest-bearing, special, non-marketable Treasury securities. The remaining 15 percent is retained in cash or cash-equivalents by the SPV for its cash requirements. Any interest and other proceeds from these investments will be deposited into the preferred equity account.

Under the terms of the LLC agreements as of September 30, 2020, membership interests would not receive periodic or other distributions during the life of the SPV. Distribution of the SPV's assets were to be made only upon dissolution of the facility, after liabilities and other interests are paid (refer to Note 13 entitled *"Subsequent Events"* for events that occurred subsequent to September 30, 2020). Upon dissolution, Treasury will be entitled to an amount equal to the cash balance of the preferred equity account plus 90 percent of the cash balance in all of the other accounts of the SPV. The applicable FRB is entitled to 10 percent of the cash balance in all of the other accounts of the SPV. The final distribution amount Treasury receives will be used to repay all costs associated with ESF's preferred equity investment in the SPV, including, with respect to investments made pursuant to the CARES Act, the initial subsidy amounts funded by appropriation and all amounts borrowed from the Fiscal Service. In accordance with Section 4003(c) of the CARES Act, any excess amount of the final distribution after repayment of the appropriations and debt will be deposited into the Federal Old-Age and Survivors Insurance Trust Fund established under Section 201(a) of the *Social Security Act*.

The following is a description of each investment. These descriptions include financial information about the assets held in each SPV as of September 30, 2020 which the ESF obtained from the FRB's Combined Quarterly Financial Reports (unaudited).

Corporate Credit Facilities LLC (CCF)

On April 13, 2020, the FRBNY established the CCF as the SPV to facilitate both the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) programs in support of providing the flow of credit to employers through corporate bond and loan issuances.

The FRBNY loaned to the SPV on a recourse basis. The PMCCF purchased qualified bonds from eligible issuers, and purchased portions of syndicated loans or bonds at issuance, giving issuers access to credit so that they are better able to maintain business operations and capacity during the period of disruption caused by COVID-19. The FRBNY is secured by all the assets of the SPV. The PMCCF purchased bonds and loans of investment grade companies, as well as certain companies that were investment grade as of March 22, 2020.

The SMCCF supported the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds. The SMCCF purchased in the secondary market corporate bonds issued by investment grade U.S. companies or certain U.S. companies that were investment grade as of March 22, 2020, as well as U.S. listed exchange-traded funds whose investment objective was to provide broad exposure to the market for U.S. corporate bonds.

Treasury committed to contribute, through the ESF, up to a combined total of $75.0 billion in capital in the single common SPV supporting both programs. The nominal allocation of the equity is up to $50.0 billion toward the PMCCF and up to $25.0 billion toward the SMCCF. On May 11, 2020, the ESF acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and borrowed funds for an aggregate total of $37.5 billion to the CCF SPV to cover potential losses incurred by FRBNY in connection with this program. The aggregate funding commitment of the FRBNY to the CCF SPV was up to $750.0 billion. As of September 30, 2020, the CCF held total assets of $13.1 billion excluding ESF's equity contribution of $37.5 billion (or $50.6 billion including ESF's equity contribution). The SPV ceased purchasing eligible notes on December 31, 2020. Refer to Note 13 entitled "*Subsequent Events*" for events that transpired after September 30, 2020.

Main Street Facilities LLC (MSF)

On May 18, 2020, the FRBB established the MSF to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. The MSF program operated through five facilities: (i) the Main

Street New Loan Facility (MSNLF), (ii) the Main Street Priority Loan Facility (MSPLF),(iii) the Main Street Extended Loan Facility (MSELF), (iv) the Main Street Nonprofit Organization New Loan Facility (NONLF), and (v) the Main Street Nonprofit Organization Expanded Loan Facilities (NOELF). Through loans from the FRBB, the SPV purchased 95 percent participations in loans originated by eligible lenders, while the lender retains five percent. To qualify for MSF loans, potential borrowers had to meet certain specified eligibility criteria and pass normal lender underwriting processes. Loans issued under the MSF program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. All loans are amortized in years 3 through 5 according to the following schedule: 15 percent, 15 percent, 70 percent. Transaction fees were specified for all facilities and were structured to incentivize lenders to make loans in the $100,000 to $250,000 range under the MSNLF, MSPLF, and NONLF. Eligible lenders were not allowed to charge additional fees beyond those specified.

Treasury committed to contribute, through the ESF, up to $75.0 billion in capital in the single common SPV in connection with the MSF. On June 1, 2020, the ESF acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and borrowed funds for an aggregate total of $37.5 billion to the Main Street LLC to cover potential losses incurred by the FRBB in connection with this program. The combined funding commitment of the FRBB to the MSF SPV was up to $600.0 billion. As of September 30, 2020, MSF held total assets of $2.1 billion excluding ESF's equity contribution of $37.5 billion (or $39.6 billion including ESF's equity contribution). The SPV ceased purchasing loan participations on January 8, 2021. Refer to Note 13 entitled "*Subsequent Events*" for events that transpired after September 30, 2020.

Municipal Liquidity Facility LLC (MLF)

On May 1, 2020, the FRBNY established the MLF SPV to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The FRBNY loaned to the MLF SPV, on a recourse basis, to allow the facility to purchase up to $500.0 billion of short-term notes directly from eligible U.S. states (including the District of Columbia), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Issuers must have been rated at least BBB-/Baa3, as of April 8, 2020, by two or more nationally recognized statistical rating organizations. The SPV purchased eligible notes directly from issuers at the time of issuance. The SPV charged an origination fee of 10 basis points.

Treasury committed to contribute, through the ESF, up to $35.0 billion in capital in the MLF SPV. On May 26, 2020, the ESF acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and borrowed funds for an aggregate total of $17.5 billion to the MLF LLC to cover potential losses incurred by FRBNY in connection with this program. As of September 30, 2020, MLF held total assets of $1.7 billion excluding ESF's equity contribution of $17.5 billion (or $19.2 billion including ESF's equity contribution). The SPV ceased purchasing eligible notes on December 31, 2020. Refer to Note 13 entitled "*Subsequent Events*" for events that transpired after September 30, 2020.

Term Asset-Backed Securities Loan Facility II LLC (TALF)

The FRBNY established the TALF SPV on March 23, 2020, to support the flow of credit to consumers and businesses for purposes of stabilizing the U.S. financial system. The TALF facilitated the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, commercial mortgages, and certain other assets. Through loans from the FRBNY, the TALF SPV loaned to holders of eligible ABS, an amount equal to the market value of the ABS less fees, and the loans are secured at all times by the ABS. Eligible borrowers were U.S.-organized or U.S.-based businesses that maintained banking relationships with a primary dealer. Collateral valuations were reduced by haircuts ranging from five percent on credit card loans to 20 percent on static leveraged loans.

On June 16, 2020, Treasury, through the ESF, acquired an equity interest in the SPV by committing to and transferring a combination of CARES Act appropriated and borrowed funds for an aggregate total of $10.0 billion to the TALF LLC to cover potential losses incurred by the FRBNY in connection with this program. The funding commitment of the FRBNY to the TALF SPV was up to $100.0 billion of loans. As of September 30, 2020, the TALF held total assets of $3.2 billion excluding ESF's equity contribution of $10.0 billion (or $13.2 billion including ESF's equity contribution). No new credit extensions will be made after December 31, 2020. Refer to Note 13 entitled "*Subsequent Events*" for events that transpired after September 30, 2020.

Commercial Paper Funding Facility II LLC (CPFF)

On March 30, 2020, the FRBNY established the CPFF LLC to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY makes loans to the SPV, on a recourse basis, to fund the SPV's purchase from eligible U.S. issuers of three-month U.S. dollar-denominated commercial paper through the FRBNY's primary dealers.

On April 13, 2020, Treasury, through the ESF, made a capital contribution in the CPFF SPV by committing to and transferring $10.0 billion to the SPV in exchange for a preferred equity interest in the SPV. This contribution is being used to cover potential losses incurred by FRBNY in connection with this program. Unlike the other SPVs, which were funded by a combination of CARES Act appropriated and borrowed funds, the ESF funded the CPFF contribution with core ESF funds which were previously invested in overnight federal investments (refer to Note 3). As of September 30, 2020, the CPFF held total assets of $59 million excluding ESF's equity contribution of $10.0 billion (or $10.1 billion including ESF's equity contribution). In November 2020, the Board and Treasury extended the operation of the CPFF, previously due to expire on March 17, 2021, to March 31, 2021.

Fair Value Estimation

The following table depicts the estimated fair value of the preferred equity investments in the SPVs as of September 30, 2020:

	As of September 30, 2020					
(in thousands)	**Gross Investment**		**Unrealized FV Gain/(Loss)**		**Fair Value**	
Corporate Credit Facilities	$	37,500,000	$	(96,191)	$	37,403,809
Main Street Facilities		37,500,000		(4,253,643)		33,246,357
Municipal Liquidity Facility		17,500,000		(176,762)		17,323,238
Term Asset-Backed Securities		10,000,000		(73,913)		9,926,087
Commercial Paper Funding Facility		10,000,000		46,512		10,046,512
Total	$	112,500,000	$	(4,553,997)	$	107,946,003

The fair value of ESF's SPV preferred equity investments are estimated based on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected annual cash flows associated with these investments. In determining the fair value of the ESF's SPV equity investments, the ESF used available market pricing data, risk-free discount rates, market pricing of floating interest-rate swaps, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows for the SPVs. For market pricing data, the ESF specifically use: (i) active market prices for the CCF and TALF programs that own publicly traded securities, (ii) Bloomberg estimated prices for the MLF program which owns securities that do not have active market prices but have estimated prices in Bloomberg, or (iii) market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. The ESF used contractual instrument terms and market-derived, risk-neutral loss rates and, where applicable, market pricing of floating interest-rate swaps to estimate scenario-specific, risk-neutral cash flows which are discounted using risk-free discount rates.

The ESF relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, and other information pertinent to the valuations. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

NOTE 5 - ECONOMIC RECOVERY PROGRAM LOANS AND RELATED INTEREST RECEIVABLE AND INVESTMENTS, AT FAIR VALUE

Section 4003 of the CARES Act authorized Treasury to make direct loans and loan guarantees to eligible passenger and cargo air carriers and national security businesses to provide them liquidity for losses incurred as a result of the COVID-19. As of September 30, 2020, Treasury chose to make only loans under this authorization. Total authorized funding of $46.0 billion for making direct loans and loan guarantees is allocated as follows:

- Not more than $25.0 billion is available to passenger air carriers, eligible businesses that are certified under part 145 of title 14, Code of Federal Regulations, and approved to perform inspection, repair, replace, or overhaul services, and ticket agents (as defined in Section 40102 of Title 49, United States Code).

- Not more than $4.0 billion is available to cargo air carriers.
- Not more than $17.0 billion is available to businesses critical to maintaining national security.

The CARES Act specifies that the Secretary determines the terms and conditions of the loans. It also mandates that these loans "shall be at a rate determined based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity." The CARES Act also states that the duration of the loans will be no longer than five years. For the "financial protection of the Government," the CARES Act mandates that the ESF obtains a warrant, equity interest, or senior debt instrument in the eligible business which serves to provide for a "reasonable participation by the Secretary, for the benefit of taxpayers, in equity appreciation in the case of a warrant or other equity interest, or a reasonable interest rate premium, in the case of a debt instrument." The CARES Act further states that Treasury may sell, exercise, or surrender a warrant or any senior debt instrument received, and may not exercise voting power with respect to any shares of common stock acquired.

Passenger and cargo air carrier borrowers were required to submit applications before April 27, 2020 and national security borrowers before May 1, 2020. Loans to large airlines were partially disbursed by September 30, 2020, and these airlines will have until May 28, 2021 to fully draw down their remaining available borrowings. A loan to a national security business was partially disbursed by September 30, 2020, and it has until September 30, 2024 to draw down its remaining available borrowings. All disbursements for smaller airlines, air cargo, other national security, and maintenance and ticket agent loans had been completed as of December 31, 2020.

The CARES Act specifies that loan repayments and other proceeds collected will be deposited in the following order of priority: (1) first, into the financing accounts established under FCRA, up to an amount equal to the sum of: (i) the amount of the appropriations transferred to the financing accounts and (ii) the amounts necessary to repay borrowings from the Fiscal Service; and (2) second, after the deposits outlined in (1) above have fully recouped loan costs, into the Federal Old-Age and Survivors Insurance Trust Fund.

As of September 30, 2020, Treasury had finalized loan agreements with seven passenger airlines and one national security business under which an aggregate of $1.6 billion and $245 million, respectively, in loans had been disbursed through the ESF. These loan agreements provide for up to an aggregate total of $14.7 billion and $700 million, respectively, of available borrowings by these passenger airlines and national security business, respectively, of which $13.1 billion, and $455 million, respectively, remain available for future disbursement as of September 30, 2020.

As financial protection, Treasury received from these borrowers warrants to purchase common stock equal to 10 percent of the total loan amount drawn, which are held in the ESF. From the one national security business, the ESF received common shares equal to 29.6 percent of this business's common stock, on a fully diluted basis, to be held in a voting trust, as appropriate taxpayer compensation, with specified terms of loan interest payable in cash and Payment-In-Kind (PIK). As of September 30, 2020, the ESF also obtained senior debt instruments from the national security business.

Subsequent to September 30, 2020, Treasury finalized and obligated $6.1 billion of additional loan commitments to the six large passenger borrowers with existing commitments that qualified for increases and eight small carriers for $325M for an aggregate total of $6.5 billion. Treasury also finalized and obligated loan commitments to a national security business, ticket agents, and part suppliers for an aggregate total of $78 million. Of the total $6.6 billion of additional loans obligated across all borrowers, Treasury disbursed $403 million through the ESF as of February 28, 2021; and received one $20 million loan repayment. During this period, the large passenger airlines which initiated loans as of September 30, 2020, repaid $45 million of outstanding loans and Treasury terminated obligations for $577 million. No additional draws from the remaining available borrowing amount had been made to the large carriers. A national security borrower, which initiated loans during the fiscal year 2020, received additional $307 million in loans.

For the fiscal year ended September 30, 2020, the ESF recorded an unrealized fair value net loss of $205 million related to this program within the *"Unrealized Fair Value Loss on Investments and Loans"* line on the Statements of Operations and Comprehensive (Loss) Income.

For the fiscal year ended September 30, 2020, the ESF recorded interest income of $4 million related to these loans. Payments satisfied using the PIK option are reflected by reducing the interest receivable and increasing the loan principal by the unpaid interest amount, pursuant to the terms of loan agreements. As of September 30, 2020, there were no loans measured at fair value that were in a nonaccrual or past due status.

The following table depicts the activity from the initial origination in fiscal year 2020 to the ending balance as of September 30, 2020, and concentration of credit risk by industry as of September 30, 2020:

	As of September 30, 2020		
(in thousands)	**Passenger Airlines**	**National Security Business**	**Total Loans**
Loans Principal Amount Disbursed	$ 1,575,000	$ 245,000	$ 1,820,000
Less - Fair Value of Investments (Loan Discount)	(112,248)	(46,715)	(158,963)
PIK- Unpaid Interest Added to Principal	-	1,145	1,145
Accrued Interest Receivable	597	1,659	2,256
Unrealized Fair Value Loss	(125,716)	(96,514)	(222,230)
Loans and Interest Receivable, at fair value	1,337,633	104,575	1,442,208
Common Stock and Warrants Investments	112,248	46,715	158,963
Unrealized Fair Value Gain	1,007	15,785	16,792
Investments, at fair value	113,255	62,500	175,755
Total	$ 1,450,888	$ 167,075	$ 1,617,963

The portion of unrealized gains and losses for the period related to the common stock and common stock warrants still held as of September 30, 2020 is presented below. The ESF did not have equity securities as of and for the fiscal year ended September 30, 2019.

(in thousands)		**Fiscal Year Ended September 30, 2020**
Net gains and losses recognized during the period on equity securities	$	16,792
Less: Net gains and losses recognized during the period on equity securities sold during the period		-
Unrealized gains and losses recognized during the reporting period on equity securities still held at September 30, 2020	$	16,792

The following table presents the fair value using the hierarchy or lowest level input that is significant to the fair value measurement in its entirety. Discussion of the assumptions and observability of inputs in measurement of fair value follows the table.

	As of September 30, 2020							
(in thousands)		**Fair Value**		**Level 1**		**Level 2**		**Level 3**
Loans and Interest Receivable, net of Loan Discount	$	1,442,208	$	-	$	-	$	1,442,208
Investments - Common Stock		62,500		62,500		-		-
Investments - Common Stock Warrants		113,255		-		-		113,255
Total	$	1,617,963	$	62,500	$	-	$	1,555,463

The fair value of the loans is estimated based on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected annual cash flows associated with these loans. In determining the fair value, the ESF uses available market pricing data obtained from Bloomberg, risk-free discount rates, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price as of September 30, 2020.

Provided that the quoted market prices are readily available for publicly traded common stock shares the ESF received from the one national security business, fair value of common stock shares is based on the closing price as of September 30, 2020 and is classified in Level 1 of the fair value hierarchy.

The ESF's common stock warrants are comprised of those that either give the ESF a right to purchase common shares of publicly traded or non-publicly traded air carriers. The fair value of the warrants was determined based on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. Factors impacting the fair value of the warrants include the nominal exercise price and the number of potential exercise shares, along with the time until the expiration of the warrants. Other factors impacting the fair value of the ESF's warrants of publicly traded companies include the market trading of the common stock that underlies the warrants as of September 30, the market estimate of the volatility of the common stock, and the market participants.

NOTE 6 – ECONOMIC RECOVERY PROGRAM – OTHER ASSETS

Money Market Mutual Fund Liquidity Facility (MMLF) Program Overview

The FRBB used its emergency-lending authority under Section 13(3) to establish the MMLF on March 18, 2020 to broaden its program of support for the flow of credit to households and businesses. Launched on March 23, 2020, the MMLF makes loans available to eligible financial institutions, on a non-recourse basis, secured by high-quality assets purchased by the financial institution from money market mutual funds. Loans made by the MMLF are at a rate equal to the primary credit rate in effect at the FRBB that is offered to depository institutions at the time the advance is made, plus a spread of 0 to 100 bps depending on the type of collateral that is securing the loan. Each loan made by the FRBB will have a maturity date not to exceed 12 months. In November 2020, the Board and Treasury extended the operation of the MMLF, previously due to expire on December 31, 2020, to March 31, 2021.

Treasury's participation in the MMLF is similar to the SPVs established by the Board (as discussed in Note 4) in that its purpose is to provide credit protection to the FRBB in the event of potential MMLF losses. The MMLF program differs from the other FRB programs in that, among other things, it is not operated through an SPV. Pursuant to the terms of the MMLF Credit Support Agreement (CSA) dated May 20, 2020 by and between FRBB and Treasury, the Treasury, through the ESF, committed to provide $10.0 billion of credit support to the MMLF under ESF's core authority, Section 10 of the *Gold Reserve Act*, as amended. As of September 30, 2020, MMLF held loans outstanding to eligible financial institutions of $7.1 billion.

On May 20, 2020, the ESF transferred an initial $1.5 billion of the $10.0 billion of committed funds from core ESF funds—which were previously invested in overnight federal investments (refer to Note 3)—to a separate deposit account maintained by the FRBNY in the name of the FRBB as a secured party (MMLF Fund or MMLF Account, henceforth). On a quarterly basis beginning September 30, 2020 and until the dissolution of the MMLF, the ESF may be required to transfer a portion of the remaining $8.5 billion of undisbursed credit support to restore the balance of the MMLF Account to $1.5 billion should the program experience losses.

MMLF Restricted Cash

The funds held in the MMLF Account can be used only for the purpose of providing credit support of the MMLF program in accordance with the terms of the CSA. Per the CSA, the FRBB has exclusive control and dominion over the MMLF Account and can take actions related to this account without ESF's consent. Based on the nature of the restrictions associated with the MMLF Account, the ESF reclassified the $1.5 billion from an overnight investment account to a restricted cash account as reported in the *"Economic Recovery Program – Other Assets"* line on the Statements of Financial Position.

MMLF Facility Fee

Pursuant to the terms of the MMLF CSA, the FRBB agrees to pay the ESF a facility fee for the use of the MMLF based on the amount of interest owed by the borrower on each MMLF loan. The facility fee for each MMLF loan is an amount equal to 90 percent of the difference between the interest rate charged to the related borrower on the MMLF loan and the primary credit rate offered by the FRBB to depository institutions at the time the MMLF loan is advanced. To the extent the MMLF experiences credit losses, the MMLF will first utilize the accumulated facility fees and then the principal amount of ESF's credit support provided to the MMLF to reimburse FRBB for such losses experienced up to $10.0 billion. The accumulated facility fees, net of any amounts used to cover credit losses, are accrued over the life of the facility and payable to the ESF upon the dissolution of the facility and liquidation of any remaining MMLF investments. The ESF accrued net facility fees totaling $119 million for the fiscal year ended September 30, 2020 as reported as income on the Statements of Operations and Comprehensive (Loss) Income, with a corresponding amount reported within the *"Economic Recovery Program-Other Assets"* line on the Statements of Financial Position.

The MMLF will be terminated when all extensions of credit have been discharged and released in full, and all final deficiency amounts related to items of the MMLF collateral have been determined and paid. Before the MMLF is terminated, the FRBB will pay any unpaid facility fees to the ESF. Within three business days following payment of all final deficiency amounts, the FRBB will return all amounts of the MMLF Fund, plus any residual earnings (facility fee) of the MMLF to the ESF.

The following table details the total commitment, amount disbursed, and available for future disbursement as of September 30, 2020:

	As of September 30, 2020			
(in thousands)	**FRB Manager**	**Total Commitment**	**Amount Disbursed**	**Available for Future Disbursement**
Money Market Mutual Fund Liquidity Facility	FRBB	$ 10,000,000	$ 1,500,000	$ 8,500,000

The following table details the amount of gross investment and facility fee as of September 30, 2020:

	As of September 30, 2020		
(in thousands)	**Gross Investment**	**Facility Fee**	**Total Balance**
Money Market Mutual Fund Liquidity Facility	$ 1,500,000	$ 118,699	$ 1,618,699

NOTE 7 - SPECIAL DRAWING RIGHTS

The Special Drawing Right (SDR) is an international reserve asset created by the IMF in 1969 to supplement the existing reserve assets of IMF member countries, including the United States. In addition to its role as a supplementary reserve asset, the SDR serves as a means of payment within the IMF, as well as the unit of account for the IMF and several other international organizations. SDRs may be held only by the official sector – IMF member countries and certain institutions designated by the IMF as prescribed holders. On several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR Department, including the United States. SDR transactions by the United States require the explicit authorization of the Secretary.

The SDR's value is based on a weighted average of a basket of key international reserve currencies issued by IMF members (or monetary unions that include IMF members) which have been determined by the IMF to be freely usable currencies. These currencies are currently the U.S. dollar, the Euro, the Japanese yen, the U.K. pound sterling, and the Chinese renminbi. The SDR carries a variable interest rate, calculated weekly as a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies. The ESF's SDR Allocations and Holdings (see below) are revalued monthly, based on the SDR valuation rate calculated by the IMF, and unrealized gains or losses are recognized upon revaluation. SDR Holdings and SDR Allocations are reported as an asset and liability respectively in the financial statements of the ESF.

SDR Allocations

SDRs, once allocated to the United States, are permanent resources unless:

- They are canceled by an 85 percent majority decision of the total voting power of the Board of Governors of the IMF;
- The SDR Department of the IMF is liquidated;
- The IMF is liquidated; or
- The United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Due to the fact that the SDRs are able to be withdrawn, the ESF carries a liability related to such allocations.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of ESF's liability related to the SDR allocations is conditional on events listed above, in which the United States has a controlling vote. Allocations of SDRs were made during 1970, 1971, 1972, 1979, 1980, 1981, and 2009. As of September 30, 2020 and 2019, the value of SDR allocations to the United States was the equivalent of $49.7 billion and $48.1 billion, respectively.

SDR Holdings

Pursuant to the Special Drawing Rights Act of 1968, as amended, SDRs allocated by the IMF to, or otherwise acquired by the United States, are also resources (holdings) of the ESF. SDR holdings represent transactions resulting from these SDR activities, primarily the result of IMF allocations. Other transactions reported in this account are recorded as they are incurred and include any SDR acquisitions and sales, interest received on SDR Holdings, interest charges on SDR Allocations, and other SDR related activities, as well as valuation adjustments.

Other SDR Activities

The U.S. Government receives remuneration in SDRs from the IMF on the U.S. claim on the IMF, represented by the U.S. Reserve Position, and from other lending to the IMF. The ESF is the only program within Treasury permitted to transact in SDRs. Such SDRs received as remuneration become the resources of the ESF, as required by law, and the ESF pays the dollar equivalent to the U. S. Government's Treasury General Account (TGA). The ESF's receipt of the SDRs and payment of the dollar equivalent to the TGA are not simultaneous. Typically, the payment is several weeks after the receipt of SDRs from the IMF. Therefore, the ESF must reimburse the TGA the interest it earned on the dollar equivalent of the SDRs held on behalf of the TGA during the period which elapsed between the receipt of the SDRs and the dollar payment to the TGA.

The ESF paid to the TGA $79 thousand and $274 thousand in fiscal years 2020 and 2019, respectively, in interest due on the transferred dollars. The ESF did not transact to buy or sell SDRs to any participating members during fiscal years 2020 and 2019.

The following schedule reflects the activity related to SDR Holdings during fiscal years 2020 and 2019, SDR and dollar equivalent:

	Fiscal Year Ended	
(SDRs in thousands)	**September 30, 2020**	**September 30, 2019**
Balance, beginning of period	36,658,104	36,493,687
SDR Purchases	-	-
Interest Credits on Holdings	189,322	389,821
Interest Charges on Allocations	(182,237)	(376,639)
Remuneration	88,652	151,786
IMF Annual Assessment	(469)	(551)
Balance, end of period	36,753,372	36,658,104

	Fiscal Year Ended	
(Dollar Equivalent in thousands)	**September 30, 2020**	**September 30, 2019**
Balance, beginning of period	$ 49,976,358	$ 50,917,816
SDR Purchases	-	-
Interest Credits on Holdings	260,807	540,353
Interest Charges on Allocations	(251,046)	(522,084)
Remuneration	122,145	210,342
IMF Annual Assessment	(641)	(764)
Net Gain/(Loss) on Valuation of Holdings	1,625,320	(1,169,305)
Balance, end of period	$ 51,732,943	$ 49,976,358

The table above reflects the actual dollar equivalent amount of SDRs received or transferred by the ESF. Amounts within the financial statements are computed on an accrual basis and will thus differ due to: 1) changes in SDR exchange rates between accrual date and transaction date, and 2) changes in interest receivable/charges payable balances between beginning and end of year.

NOTE 8 – INVESTMENT SECURITIES AND OTHER FOREIGN CURRENCY DENOMINATED ASSETS, AT FAIR VALUE

Fair Value Estimation

The following table presents the fair value of available-for-sale and trading investment securities using the Level 1 input to measure their fair value as of September 30, 2020 and 2019.

(in thousands)	As of September 30, 2020	As of September 30, 2019
Available-for-sale:		
German Bonds	$ 522,183	$ 665,917
French Bonds	590,088	817,389
Japanese Bonds	368,607	1,051,401
Total Available-for-sale	1,480,878	2,534,707
Trading:		
German Bonds	531,061	608,128
French Bonds	2,104,170	1,993,518
French Time Deposit	142,198	-
Dutch Bonds	1,483,187	1,423,890
Japanese Bonds	6,674	-
Total Trading	4,267,290	4,025,536
Total	$ 5,748,168	$ 6,560,243

The amortized cost, gross unrealized holding gains and losses, and fair value of available-for-sale debt securities by major security type and class of security at September 30, 2020 and 2019 are as follows:

	Fiscal Year Ended September 30, 2020			
(in thousands)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding (Losses)	Fair Value
Available-for-sale:				
German Bonds	$ 477,598	$ 44,585	$ -	$ 522,183
French Bonds	548,204	41,884	-	590,088
Japanese Bonds	327,287	41,320	-	368,607
Total	$ 1,353,089	$ 127,789	$ -	$ 1,480,878

(in thousands)	Fiscal Year Ended September 30, 2019 Amortized Cost	Unrealized Holding Gains	Unrealized Holding (Losses)	Fair Value
Available-for-sale:				
German Bonds	$ 653,279	$ 15,042	$ (2,404)	$ 665,917
French Bonds	814,321	6,601	(3,533)	817,389
Japanese Bonds	940,425	110,976	-	1,051,401
Total	$ 2,408,025	$ 132,619	$ (5,937)	$ 2,534,707

The following table depicts the unrealized holding gains/(losses) that arose during the fiscal years ended September 30, 2020 and 2019 on available-for-sale-securities and those holding gains/(losses) that were realized during those years and reclassified from the *"Unrealized Holding Gain/(Loss), Net"* line to the "*Investment Securities and Other Foreign Currency Denominated Assets"* line within the Statements of Operations and Comprehensive (Loss) Income.

(in thousands)	For the Fiscal Year Ended September 30, 2020	September 30, 2019
Unrealized holding gains/(losses), net arising during the period	$ 75,250	$ (30,805)
Less: reclassification of (gains)/losses recognized in net income	(74,143)	13,392
Less: reclassification of losses related to impaired instruments recognized in net income	-	11,329
Unrealized Holding Gain/(Loss), Net	$ 1,107	$ (6,084)

The ESF recognized no other-than-temporary impairment for the fiscal year ended September 30, 2020. As of September 30, 2019, gross unrealized losses in which other-than-temporary impairments have not been recognized and the fair value of those securities are as follows:

(in thousands)	Fiscal Year Ended September 30, 2019 Unrealized Losses Less Than 1 Year	Fair Value	Unrealized Losses Greater Than 1 Year	Fair Value
Available-for-sale:				
German Bonds	$ (2,404)	$ 175,100	$ -	$ -
French Bonds	(3,533)	434,448	-	-
Total	$ (5,937)	$ 609,548	$ -	$ -

Maturities of debt securities classified as available for sale as of September 30, 2020 and 2019 are as follows:

	As of September 30, 2020			
(in thousands)	**Amortized Cost**		**Fair Value**	
Available-for-sale:				
Due within one year	$	592,435	$	653,855
Due after one year but before five years		760,654		827,023
Total	$	1,353,089	$	1,480,878

	As of September 30, 2019			
(in thousands)	**Amortized Cost**		**Fair Value**	
Available-for-sale:				
Due within one year	$	1,028,160	$	1,101,952
Due after one year but before five years		1,185,584		1,231,369
Due after five years but before ten years		194,281		201,386
Total	$	2,408,025	$	2,534,707

Impairment Assessment

As of each balance sheet date, the ESF evaluates available-for-sale securities holdings in an unrealized loss position. For debt securities, the ESF considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Based on the circumstances present at the date of evaluation, if the ESF does not expect a full recovery of value or do not intend to hold such securities until they have fully recovered their carrying value, the ESF recognizes an impairment charge.

As of September 30, 2020, the ESF evaluated available-for-sale securities holdings and concluded that there are no securities that are deemed to be other-than-temporarily impaired within the ESF, resulting in no impairment charge recognized.

During the year ended September 30, 2019, the euro depreciated in value against the dollar relative to a number of previous years when euro securities were purchased. Given the level of decline and current outlook, the ESF does not reasonably expect to recover the dollar equivalent invested for one certain euro denominated security in the near term and/or before its maturity. Accordingly, the ESF has recognized other-than-temporary impairment on a certain German Bond based on the expectation of recoverability.

The portion of trading gains and losses for the period related to trading securities still held as of September 30, 2020 and 2019 is as follows:

	Unrealized Gains and Losses for Fiscal Year Ended	
(in thousands)	**September 30, 2020**	**September 30, 2019**
Net gains and losses recognized during the period on trading securities	$ 273,402	$ (100,318)
Less: Net gains and losses recognized during the period on trading securities sold during the period	-	-
Unrealized gains and losses recognized during the reporting period on trading securities still held at September 30, 2020	$ 273,402	$ (100,318)

The net gain/(loss) on investment securities and other FCDAs for the periods ending September 30, 2020 and 2019 is as follows:

	Fiscal Year Ended	
(in thousands)	**September 30, 2020**	**September 30, 2019**
Realized net gain/(loss) on Available-for-sale securities	$ 75,215	$ (27,445)
Unrealized net gain/(loss) on Trading securities	273,402	(100,318)
Net gain/(loss) on Foreign Exchange on Other FCDAs, Interest and Other	712,437	(57,824)
Total	$ 1,061,054	$ (185,587)

NOTE 9 – ECONOMIC RECOVERY PROGRAMS - DEBT

During FY 2020, the ESF disbursed $102.5 billion and $1.8 billion for investments and loans, respectively, under CARES Act authority, which the ESF financed, in part, with $87.1 billion of Fiscal Service borrowings and the remainder with the CARES Act appropriated funding. This principal borrowing amount also includes $945 million that the ESF borrowed to finance the scheduled payment of interest due on September 30, 2020 related to the Fiscal Service outstanding principal borrowings.

The maturity dates for the debt payable to the Fiscal Service range from September 30, 2024 to September 30, 2025. Effective interest rates range from 3.44 percent to 3.46 percent. As discussed in Note 13 entitled *"Subsequent Events,"* the ESF repaid $62.2 billion of Fiscal Service borrowings in January 2021.

Interest expense on the outstanding debt is accrued and reported within the *"Interest Expense on Debt "* line on the Statements of Operations and Comprehensive (Loss) Income and paid annually on September 30. For the fiscal year ended September 30, 2020, the ESF recorded interest expense totaling $946 million related to this debt. The accrued interest expense was paid in full on September 30, 2020.

The following table presents a summary of debt payable to the Fiscal Service as of September 30, 2020, and corresponding interest rates associated with the debt, as issued in connection with each of the liquidity lending facilities. There was no debt outstanding as of September 30, 2019:

	As of September 30, 2020	
(in thousands)	**Carrying Amount**	**Effective Interest Rate**
SPV Investment-Related Borrowing (Note 4):		
Corporate Credit Facilities	$ 36,906,000	3.46 %
Main Street Facilities	20,938,545	3.45 %
Municipal Liquidity Facility	17,723,079	3.44 %
Term Asset-Backed Securities	9,972,297	3.44 %
Loans-Related Borrowing (Note 5):		
National Security Business	133,759	3.45 %
Passenger Air Carriers	1,428,716	3.44 %
Total	$ 87,102,396	

The following table presents future debt maturities (there are no maturities for fiscal years 2021-2023):

Fiscal Year	**(in thousands)**
2024	$ 133,759
2025	86,968,637
Total	$ 87, 102,396

NOTE 10 - SDR CERTIFICATES ISSUED TO FEDERAL RESERVE BANKS

The Special Drawing Right Act of 1968 authorized the Secretary to issue Special Drawing Right Certificates (SDRCs), not to exceed the value of SDR holdings, to the Federal Reserve System in return for interest-free dollar amounts equal to the face value of certificates issued (SDR monetization). The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or to provide resources for financing other operations of the ESF. Certificates issued have no set maturity and are to be redeemed by the ESF at such times and in such amounts as the Secretary may determine (SDR demonetization). As of September 30, 2020 and 2019, the amount of certificates issued to the FRBs was $5.2 billion.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Foreign Currency Denominated Agreements

Foreign currency denominated agreements that exist between Treasury and foreign entities or governments provide for drawings of dollars by those entities or governments and drawings of foreign currencies by Treasury. Treasury enters into these agreements through the ESF. Under these agreements, the ESF receives repayment of an agreed-upon amount in dollars regardless of currency fluctuations. With the exception of the Mexico agreement noted below, there were no foreign currency denominated exchange stabilization agreements as of September 30, 2020 and 2019.

Exchange Stabilization Agreements

In April 1994, Treasury signed the North American Framework Agreement (NAFA) with Mexico and Canada. In accordance with the NAFA, Treasury entered into an Exchange Stabilization Agreement (ESA) with Mexico. The ESF offers Mexico a swap line with drawings contingent on certain conditions being met. Effective November 30, 2018, an amended and restated ESA increased the potential size of the swap line from $3.0 billion to $9.0 billion. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA and NAFA were renewed through December 15, 2021 and December 12, 2021, respectively. There were no drawings outstanding on the ESF swap line as of September 30, 2020 and 2019.

COVID-19 Future Funding Commitments

As of September 30, 2020, the ESF committed to contribute $205.0 billion to capitalize the FRBs' SPVs (utilizing $195.0 billion of CARES Act-appropriated funds and Fiscal Service borrowings, and $10.0 billion of ESF core funds) to protect the FRBNY and FRBB from potential losses incurred by these liquidity lending facilities that were established in response to the COVID-19 pandemic. Treasury, through the ESF, funded $112.5 billion of this commitment as of September 30, 2020 and had a commitment, as of that date, to fund the remaining $92.5 billion as provided under the SPV LLC Agreements. As discussed in Note 13 entitled *"Subsequent Events,"* on December 29, 2020, Treasury and the two FRBs amended the terms of the SPV LLC Agreements for each of the SPVs funded under the CARES Act to, among other things, change the terms of ESF's commitment to the SPVs.

Pursuant to the ESF core authority, the ESF also committed $10.0 billion to the FRBB to provide it with credit protection in the event of potential credit losses related to the MMLF liquidity lending facility. The ESF satisfied a portion of ESF's MMLF commitment by transferring $1.5 billion of funds into a deposit account, and may be required to transfer the remaining $8.5 billion as stipulated by the MMLF CSA. As of September 30, 2020, there was no requirement for any additional funding.

Under Section 4003, Treasury also entered into loan agreements that provide for up to an aggregate total of $14.7 billion and $700 million, respectively, of available borrowings through the ESF by certain passenger airlines and a national security business, respectively, of which $13.1 billion and $455 million, respectively, remain available for future borrowings as of September 30, 2020. As of September 30, 2020, there was no requirement for any additional funding.

Transfer of Proceeds Realized from COVID-19 Investments and Receivables

For those SPVs and loans that were funded through a combination of CARES Act appropriation and Fiscal Service borrowings, all proceeds that the ESF realizes upon the dissolution of the SPVs and loans will be transferred to the ESF to repay all borrowings and other funding costs incurred to finance these transactions. In accordance with the CARES Act, any remaining excess residual proceeds must then be transferred to the Federal Old-Age and Survivors Insurance Trust Fund. To the extent that the fair value of the SPV equity investment assets and loans receivable also incorporate anticipated realization of excess residual proceeds, the ESF will record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. The ESF recorded no such liability as of September 30, 2020. For programs that were funded utilizing the ESF's core funds, all proceeds realized from this investment upon dissolution will be returned fully to the ESF.

NOTE 12 - RELATED PARTY TRANSACTIONS

The ESF recognizes Interagency Agreements with Treasury as related party transactions. The ESF is a fund under the ownership and control of Treasury. Because historically the ESF was not available to pay administrative expenses, such support was provided by, and costs incurred only by, Treasury. Costs were not allocated to the ESF fund. The CARES Act authorized the ESF to incur administrative expenses of up to $100 million in support of its economic recovery goals. Therefore, the ESF has established new interagency agreements with Treasury for administrative expenses ranging from financial management and accounting services, shared Information Technology, building rent and maintenance. For the fiscal year ended September 30, 2020, the ESF incurred $5 million in administrative charges, which were recognized within the *"Administrative Expenses"* line on the Statements of Operations and Comprehensive (Loss) Income.

During the fiscal year ended September 30, 2020, the ESF made equity investments in connection with the economic recovery programs, which are recognized as a related-party transaction. Refer to Note 4 for further discussion related to this equity method investment.

ESF's borrowings payable to the Fiscal Service that were incurred to finance, in part, the making of investments and loans authorized by the CARES Act, are recognized as a related-party transaction. Refer to Note 9 for further discussion related to this debt.

NOTE 13 - SUBSEQUENT EVENTS

The following are events that transpired after September 30, 2020 but prior to the issuance date of this report.

Enactment of New COVID-19 Relief Legislation

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act and provided that the remaining unobligated appropriation as of January 9, 2021 be rescinded as of that date other than with respect to those funds made available for administrative expenses pursuant to Section 4003(f), for the Special Inspector General for Pandemic Recovery pursuant to Section 4018(g), and for the Congressional Oversight Commission pursuant to Section 4020. The remaining unobligated appropriation balance as of January 9, 2021 was $49.8 billion. Effective January 9, 2021, the statute eliminated Treasury's ability to make new loans and investments under Section 4003 of the CARES Act. In addition, the statute prohibits the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through facilities established by the Federal Reserve under Section 13(3) in which Treasury made investments under Section 4003 of the CARES Act other than a loan submitted on or before December 14, 2020, to the MSF for the sale of a participation interest in such loan, provided that the MSF purchased such participation interest on or before January 8, 2021. After December 31, 2020, the Federal Reserve is also prohibited from modifying the terms and conditions of any of the facilities in which Treasury made investments under the CARES Act.

Amendment of SPV Agreements

Consistent with the *Consolidated Appropriations Act, 2021*, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements primarily provide for the cancellation of Treasury's undisbursed investment commitments, and an interim distribution between December 31, 2020 and January 8, 2021 to return funds already disbursed by Treasury in excess of the purchase price of the remaining assets, loans, and/or loan participations, as the case may be, of each facility. The excess funds were returned to Treasury (through the ESF) on January 5, 2021 for the CCF, TALF, and MLF, and on January 8, 2021 for the MSF, for an aggregate total amount returned of $62.2 billion. The ESF used this $62.2 billion of cash received to repay outstanding debt to the Fiscal Service that was used to finance the non-subsidized portion of these investment transactions. According to the Federal Reserve, the purchased assets held in the CCF, TALF, MLF, and MSF on or immediately prior to the return of the excess funds were $14.1 billion, $3.6 billion, $6.3 billion, and $16.6 billion, respectively, excluding the ESF's equity contribution remaining in each of these SPVs. Further, Treasury's canceled commitments in the amount of $92.5 billion were de-obligated. The ESF funds remaining in the SPVs funded under the CARES Act cannot be used for further lending, asset purchases, or extensions of credit.

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