Audit Report

OIG-22-029

FINANCIAL MANAGEMENT

Audit of the Exchange Stabilization Fund's Financial Statements for Fiscal Years 2021 and 2020

March 9, 2022

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 9, 2022

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

FROM: Pauletta Battle /s/
Deputy Assistant Inspector General, Financial Management and Transparency Audits

SUBJECT: Audit of the Exchange Stabilization Fund's Financial Statements for Fiscal Years 2021 and 2020

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) balance sheets as of September 30, 2021 and 2020, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended. 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. 21-04, *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 9, 2022, 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) 927-5792, or a member of your staff may contact Catherine Yi, Manager, Financial Statement Audits, at (202) 927-5591.

Attachment

DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND

Financial Statements

September 30, 2021 and 2020

DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND

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MISSION

Section 10 of the Gold Reserve Act of 1934 established the Exchange Stabilization Fund (ESF), originally 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 Treasury (Secretary), 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). In 2020, Congress passed and the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act), P.L. 116-136, authorizing the Secretary to make certain loans, loan guarantees, and investments in support of the coronavirus disease 2019 (COVID-19) pandemic recovery. The ESF's assets principally include U.S. dollars, foreign currencies, and Special Drawing Rights (SDRs), an international reserve asset created by the IMF. The ESF's assets also include COVID-19 investments and receivables.

ORGANIZATION

The Secretary, subject to the approval of the President, has the authority to use the ESF in accordance with section 10 of the Gold Reserve Act. The Secretary is the lead decision-maker for all ESF foreign exchange intervention, credit operations, and investment activities, but has delegated to the Under Secretary of International Affairs non-policy related investment decisions regarding technical adjustments to the ESF's foreign currency holdings and operations.

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.

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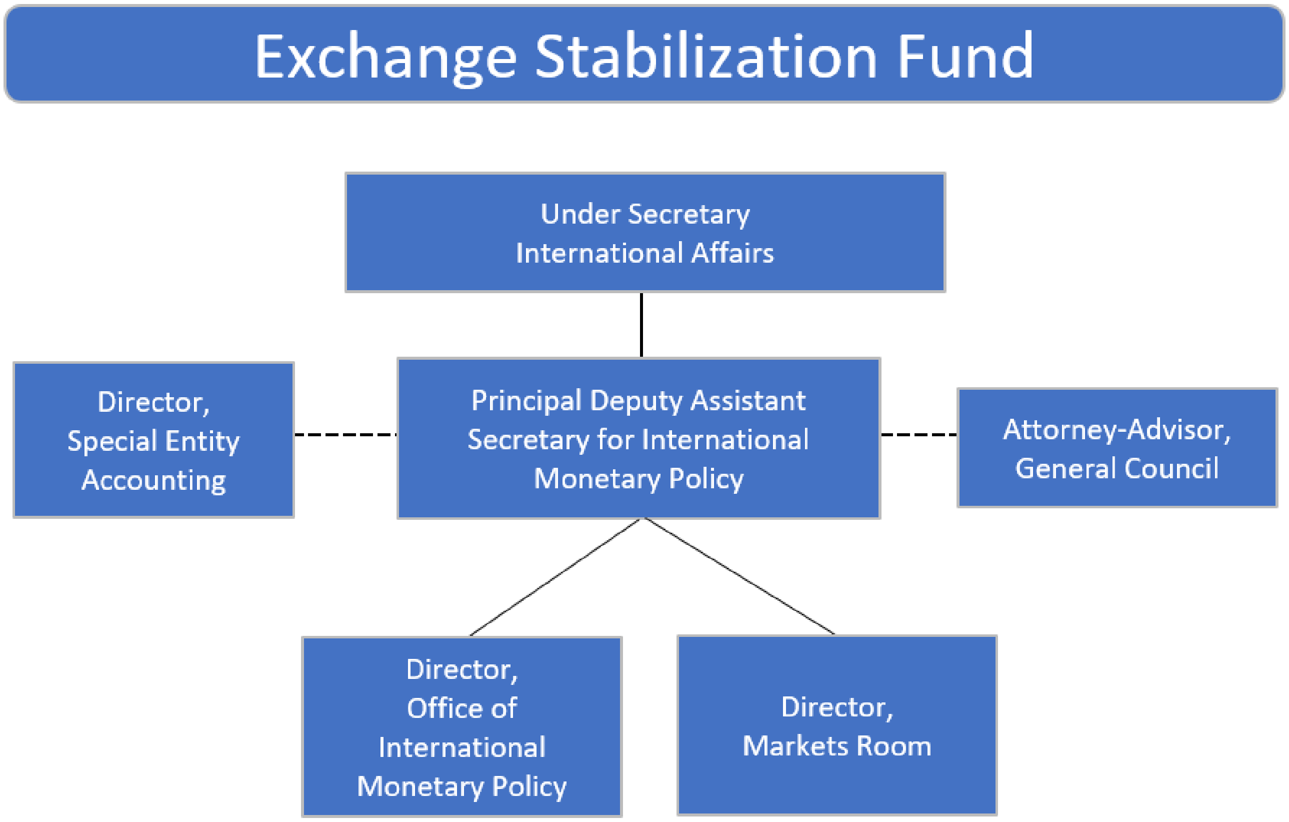

The Federal Reserve Bank of New York (FRBNY) acts as the fiscal agent for the ESF, as permitted by the Federal Reserve Act of 1913 (Federal Reserve Act). As the fiscal agent, the FRBNY plays a significant role in the processing of foreign currency transactions that the Secretary authorizes. The manager 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.

Treasury's ESF management is responsible for the record keeping and investment decisions for foreign currency transaction activity carried out by the FRBNY. The level and currency composition of the ESF foreign currency portfolio are the products of Treasury's policy determinations. Per reserve management guidelines, the liquidity and safety of the investments are top priorities of the ESF's management given the foreign exchange intervention role of the ESF. Under current guidance, investment instruments continue to carry low cost or have ample market liquidity while managing and/or limiting price, credit, and settlement risk. In addition, consistent with the objectives of liquidity and safety, the currency portfolios are designed to earn a high rate of return.

PERFORMANCE OVERVIEW

The Secretary is responsible for the formulation and implementation of U.S. international monetary and financial policy, including exchange market intervention policy. The ESF helps the Secretary to carry out these responsibilities. By law, the Secretary has considerable discretion over the use of ESF resources.

The ESF reports the results of its operations under the Treasury-wide goal to "Boost U. S. Economic Growth." Treasury is responsible for fostering prosperity and security for the American people and plays a critical role in the domestic and global economies. Treasury utilizes the ESF to help safeguard U.S. economic prosperity by strengthening the external environment to support U.S. growth, preventing and mitigating global financial instability, and managing key domestic and global challenges. In 2020, for example, the ESF utilized a portion of its U.S. dollars and appropriated funds under the CARES Act to make investments in facilities managed by the Federal Reserve Bank that extended loans to firms to support the U.S. economy.

To carry out its supporting mission, the ESF has historically leveraged its assets, including U.S. dollars; foreign currency holdings of euros, yen, and other foreign currency denominated assets; and holdings of SDRs. Appropriated funds from Congress also funded COVID-19 programs.

Consistent with its mission, the ESF has established the following two strategic goals:

- Goal 1: Exchange Stabilization. To engage in targeted foreign exchange intervention to address excessive exchange rate volatility and to provide sovereign loans to emerging and developing economies; this includes supporting the Government's obligations to the International Monetary Fund to ensure orderly currency exchange arrangements worldwide.

- Goal 2: Economic Recovery Program. To support economic growth and stability at home, including in response to the COVID-19 pandemic.

<u>Goal 1: Exchange Stabilization</u>

Congress, in 1934, appropriated to the 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 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), 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.

Since the start of the 21st century, the United States has intervened in foreign exchange markets two times during bouts of extremely disorderly market conditions and through coordinated G7 action. Each of these interventions utilized roughly $1 billion in ESF assets, working as a signal to stabilize markets rather than an attempt to directly affect the level of an exchange rate.

The 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 and with some other International Financial Institutions (IFIs), as well as the unit of account for the IMF and several other international organizations. 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 resources (holdings) of the ESF.

To meet the long-term global need to supplement existing reserve assets, in August 2021, the IMF Board of Governors approved a general allocation of SDRs equivalent to about $650 billion (SDR 456 billion). This SDR allocation increased the total global stock of SDRs outstanding from about $290 billion (SDR 204 billion) to $940 billion (SDR 661 billion). Of the total August 2021 allocation, the United States received about $113 billion (about SDR 80 billion).

Until the late 1990s, the most frequent use of the ESF was to provide sovereign loans to foreign governments experiencing external balance crises, often as short-term bridge loans to facilitate financing from International Financial Institutions (IFIs). Since 2000, Treasury has used the ESF to provide short-term credit for bridge loans to Uruguay ($1.5 billion in 2002), to the International Development Association (IDA) to facilitate the clearance of Liberia's arrears with the World Bank ($888 million in 2008), and to the IDA to facilitate the clearance of Sudan's arrears to the World Bank ($1.2 billion in 2021). Treasury also has a notional written agreement with Mexico setting out the framework for providing a $9 billion Foreign Currency swap, should circumstances require it.[1]

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[1] Drawings are not automatic: the U.S. and Mexico would have to negotiate the amount, duration, interest rate, and assured source of repayment of any borrowings.

Goal 2: Economic Recovery Program:

Treasury has used the ESF during the past two economic and financial crises to help stabilize domestic financial markets in support of a stable international monetary system. Treasury used the ESF in coordination with the Federal Reserve to help stabilize financial markets in 2007-2008. These programs have expired, and the ESF's financial statements no longer reflect this support. Following the 2008 crisis, however, Congress prohibited Treasury from using the ESF specifically to establish future guarantee programs for the U.S. money market mutual fund industry (which prohibition was temporarily lifted by the CARES Act).

In March of 2020, the Federal Reserve Board of Governors (Board) and Congress took steps to limit the economic 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 Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136) appropriations used to support programs in support recovery from the COVID-19 pandemic. Treasury pledged $215 billion to Federal Reserve lending facilities—$20 billion committed from existing ESF assets and the remainder under the authority of the CARES Act.[2]

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. The CARES Act authorized Treasury to make such loans, loan guarantees and other investments that did not, in the aggregate, exceed $500.0 billion. Treasury executed the COVID-19 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 direct loans, respectively), which was financed with $19.3 billion of the appropriation to fund the credit subsidy portion of the investments and direct loans, and $85.0 billion of borrowings from the Fiscal Service. As of September 30, 2020, $480.6 billion of the CARES Act appropriation remained.

Also during FY 2020, the ESF transferred $11.5 billion of the $20.0 billion committed under its core authority provided by Section 10 of the *Gold Reserve Act*, as amended, to support two of the COVID-19 programs.

The December 27, 2020 enactment of the *Consolidated Appropriations Act, 2021* (CAA), among other things, eliminated the ESF's authority to make new loans and investments under the CARES Act and prohibited the Federal Reserve from engaging in further lending or extensions of credit. Accordingly, on December 27, 2020, the CAA rescinded $478.8 billion of the $500.0 billion appropriation provided to Treasury (through the ESF).

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[2] The CARES Act provided Treasury authorization and appropriations to support Federal Reserve credit facilities using the ESF. Using the ESF's authority and CARES Act authority, Treasury supported facilities providing support to the money market mutual fund market; the commercial paper, corporate bond, and municipal bond markets; asset-backed loans; and main street loans.

On December 29, 2020, consistent with the CAA, Treasury cancelled and de-obligated any remaining undisbursed investment commitments totaling an aggregate of $92.5 billion (along with an additional $8.5 billion that was committed by ESF core funds), and the ESF received an interim distribution totaling an aggregate of $62.2 billion related to four COVID programs. The ESF used this cash received to repay outstanding debt to the Fiscal Service that was used to finance the non-subsidized portion of these investment transactions. Also during FY 2021, the FRBNY and FRBB fully dissolved three of its liquidity facilities, resulting in a distribution to the ESF totaling an aggregate of $25.4 billion (of which $11.5 billion constituted a return of ESF's core funds). (Refer to Note 6).

FINANCIAL HIGHLIGHTS AND ANALYSIS OF OPERATIONS

The financial highlights below are an analysis of the information included in the ESF's financial statements that appear within Part 2, "Financial Section" of this report. The ESF prepared principal financial statements to report the financial position and results of operations of its programs consistent with the requirements of 31 U.S.C. 3515(b). These statements have been prepared from the books and records of the ESF (and the Department of the Treasury) in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget. These statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records, and should be read with the understanding that they are for a component of the U. S. Government.

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2021, as compared to September 30, 2020.

Summary Financial Information (*dollars in thousands*)

	2021	2020	$ Change	% Change
Total Assets	$ **236,991,931**	$ 676,366,926	$ (439,374,995)	(65.0) %
Total Liabilities	$ **194,768,607**	$ 154,854,419	$ 39,914,188	25.8 %
Total Net Position	$ **42,223,324**	$ 521,512,507	$ (479,289,183)	(91.9) %
Total Net Cost (Income) – Core Exchange Stabilization	$ **725,062**	$ (1,261,054)	$ 1,986,116	(157.5) %
Total Net Cost (Income) – Economic Recovery Program	$ **(4,256,380)**	$ 5,626,220	$ (9,882,600)	175.7 %
Total Net Cost (Income) from Operations	$ **(3,531,318)**	$ 4,365,166	$ (7,896,484)	180.9 %
Total Budgetary Resources	$ **172,659,259**	$ 757,593,604	$ (584,934,345)	(77.2) %
Agency Outlays, Net	$ **(24,535,407)**	$ 29,528,266	$ (54,063,673)	(183.1) %

Financial Overview. The ESF financial performance as of and for the fiscal year ended September 30, 2021, when compared to 2020, primarily reflects a $478.8 billion rescission of initial CARES Act appropriations in fiscal year 2021, compared to the initial receipt in fiscal year 2020 of $500.0 billion of CARES Act appropriations to fund commitments to disburse investments and loans as financial support provided for economic recovery programs in response to the global spread of COVID-19. Additionally in fiscal year 2021, the IMF approved a $650.0 billion general SDR allocation to meet the long-term global need to supplement existing reserve assets. The allocation was distributed to IMF member countries in proportion to their quota shares at the IMF on August 23, 2021, resulting in an increase of $112.8 billion in

ESF SDR holding assets and a corresponding increase in a related liability for allocations of SDRs.

Total Assets

Total assets of $237.0 billion at September 30, 2021, primarily included fund balance with Treasury of $2.0 billion, nonmarketable U.S. Treasury securities of $22.8 billion, SDR holdings and related interest receivable of $163.9 billion, foreign currency and other monetary assets totaling $20.9 billion, and economic recovery program assets totaling $27.4 billion. The $439.4 billion (or 65.0%) decrease in total assets at the end of FY 2021 from the prior year primarily reflects a $478.7 billion decrease in fund balance due to a $478.8 billion rescission of the CARES Act appropriations in December 2020. This appropriations funding was initially received in FY 2020 to fund investments and loans to U.S. eligible businesses, states and municipalities, and to enhance the liquidity of the U.S. financial system in response to the pandemic (refer to Notes 6, 7 and 8 within the Financial Statements).

The decline in total assets in FY 2021 also is attributable to an $83.8 billion decrease in economic recovery program assets. These assets primarily consisted of equity investments in Special Purpose Vehicles (SPVs) of $25.6 billion and $107.9 billion as of September 30, 2021, and 2020, respectively. The decrease in these SPV investments primarily stems from an aggregate of $86.1 billion of capital contributions that were returned to Treasury (except for $10.0 billion which was returned to the ESF) by the Federal Reserve in connection with interim and final distributions made pursuant to the amended SPV LLC Agreements (refer to Note 6 within the Financial Statements). Capital contributions to the SPVs totaling $112.5 billion were initially disbursed in FY 2020. Also returned to the ESF in FY 2021 was $1.5 billion of contributed capital that was previously disbursed in FY 2020 to a Federal Reserve liquidity facility, along with $134 million of accrued facility fee residual earnings.

Partially offsetting these declines in total assets in FY 2021 was an increase of $11.7 billion in nonmarketable U.S Treasury securities, reflecting the re-investment of those funds that were returned to the ESF by the Federal Reserve. The ESF initially used its nonmarketable investments in FY 2020 to fund capital contributions of $10.0 billion and $1.5 billion to the Commercial Paper Funding Facility and Money Market Mutual Fund Liquidity Facility, respectively. Total assets also increased by $112.8 billion in FY 2021 as a result of the IMF's General SDR Allocation.

Total Liabilities

Total liabilities of $194.8 billion at September 30, 2021, primarily included intragovernmental liabilities comprised of $24.0 billion of intra-governmental Debt and $3.3 billion of amounts due to the General Fund, as well as other-than-intra-governmental liabilities comprised of $161.8 billion of SDR allocations and related interest and $5.2 billion of SDR certificates issued to the Federal Reserve Banks. The $39.9 billion (or 25.8%) increase in total liabilities at the end of FY 2021 over the prior year primarily reflects a $112.8 billion increase in SDR Allocations resulting from the IMF's General SDR allocation.

Partially offsetting this increase was a decrease of $63.1 billion in intra-governmental debt, which was paid down in December 2020 and September 2021 upon the FRB's return of excess funds from four SPVs and the final dissolution of one SPV, partially offset by new borrowing to fund downward subsidy

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reestimates (see Note 11). Amounts due to the General Fund also decreased by $9.6 billion, reflecting a decrease in the downward subsidy accrual compared to FY 2020.

Net Position

The Net Position of $42.2 billion at September 30, 2021 represents the combined total of the ESF's unexpended appropriations and cumulative results of operations. The $479.3 billion (or 91.9%) decrease in FY 2021 was driven by the $478.8 billion rescission of CARES Act appropriated funds.

Net Cost of Operations

Total Net Cost of Operations as presented on the ESF's Statements of Net Costs represents the gross costs, net of earned revenues, the ESF incurred related to both its core exchange stabilization operations and economic recovery program operations. For FY 2021, the ESF reported net income from operations totaling $3.5 billion compared to a net cost of operations in the prior year of $4.4 billion. The $7.9 billion year-over-year reduction in net cost was attributable to a $9.9 billion reduction in net cost for the economic recovery program operations, partially offset by a $2.0 billion increase in net cost for the core ESF operations.

The Economic Recovery Program reported net income from operations of $4.3 billion for the fiscal year ended September 30, 2021, compared to a net cost of operations of $5.6 billion for the prior year. The $9.9 billion reduction in net cost in FY 2021 was primarily attributable to changes in the valuation of the program's assets which reflected $4.7 billion of gains on investments and credit program receivables in FY 2021 compared to losses of $4.8 billion in FY 2020.

The ESF core operations reported a net cost from operations of $725 million for the fiscal year ended September 30, 2021, compared to net income of $1.3 billion for the prior year. The $2.0 billion increased net cost in FY 2021 primarily reflects changes in the valuations of the ESF's foreign currency denominated investments which resulted in valuation losses of $690 million for FY 2021 compared to gains of $1.1 billion for FY 2020.

Statement of Budgetary Resources

Total budgetary resources of $172.7 billion in FY 2021 decreased $584.9 billion (or 77.2%) from budgetary resources which totaled $757.6 billion in FY 2020. During FY 2021, the *Consolidated Appropriations Act, 2021* (CAA) rescinded $478.8 billion of the $500.0 billion in appropriations the ESF received in FY 2020 pursuant to the CARES Act, which eliminated Treasury's authority through ESF to finance new economic recovery program loans and investments after January 9, 2021, and which prohibited the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through facilities established by the Federal Reserve. The rescission also reduced ESF's borrowing authority by $173.8 billion in FY 2021 related to finance certain economic recovery programs. Partially offsetting the reductions in budgetary resources were $112.8 billion of new resources obtained by the ESF's core program upon allocation to the ESF of new SDRs in response to the global economic stress caused by the COVID-19 pandemic.

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Agency Outlays, net

ESF reported net collections of $24.5 billion in FY 2021 compared to net outlays of $29.5 billion reported in FY 2020, a year-over-year change of $54.1 billion. During FY 2021, $11.5 billion of ESF core funds that were previously outlayed in FY 2020 to support two economic recovery programs were returned to the ESF in FY 2021. Additionally in FY 2021, $14.0 billion of downward reestimates pertaining to the revaluation of all the economic recovery program investments and receivables were recorded as budgetary receipts, partially offset by $1.1 billion in outlays for subsidies in support of additional direct loans that were funded in 2021. In FY 2020, $11.5 billion of ESF core funds were outlayed to fund support for two economic recovery programs, and $19.3 billion was distributed to fund the credit subsidies in support of the SPV and loans programs.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The ESF's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* provides the implementing guidance for FMFIA and defines management's responsibility for establishing and assessing internal controls. The Circular also requires federal agencies to adhere to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, and to evaluate and report on the effectiveness of the organization's internal controls to achieve the objectives of: (1) effective and efficient operations, (2) reliable reporting for internal and external use, and (3) compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (FMFIA Section 4).

The ESF's internal controls are assessed in accordance with the *Treasury Guide for Assessing Internal Control in Accordance with OMB Circular A-123 Appendix A: Management of Reporting and Data Integrity Risk*, which includes a comprehensive risk-based internal control evaluation plan. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to obtain reasonable assurance that the controls are designed, implemented, and operating effectively.

The ESF uses centralized financial management, budget formulation and performance management, and IT hosting services provided by the Bureau of the Fiscal Service's (Fiscal Service) Administrative Resource Center (ARC). The shared service approach enables the ESF to have access to core financial systems without having to maintain separate technical and system architectures. Using shared services reduces the need for the ESF to maintain duplicative financial management systems, thereby promoting efficiency and cost savings while enhancing the quality, timeliness, and accuracy of financial management processes.

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. As a component of the Department of the Treasury, the ESF assesses its financial management systems annually for conformance

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in accordance with OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. As we use ARC's financial management system as part of a shared service arrangement, we rely on ARC's Service Organization Control 1-Type 2 report and the Fiscal Service's FFMIA Assessment to conduct our review.

Based on the results of the assessments of internal controls and financial management systems referred to above, the ESF can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, the ESF's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2021. In addition, we can provide reasonable assurance that, as of September 30, 2021, our financial management systems are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA.

OUTLOOK FOR REMAINDER OF 2022

Given Treasury's limited use of the ESF since the 2000s for foreign currency intervention, Treasury sees minimal scope for the ESF for currency intervention to stabilize markets and currencies throughout the 2022 fiscal year unless market volatility increases substantially. Treasury will continue to purchase or sell SDRs, on a case-by-case basis, from other IMF members to promote an orderly system of exchange rates and to help provide liquidity support to our global partners. In the period from October 1, 2021, through March 4, 2022, Treasury, through the ESF, purchased SDR 1.1 billion of SDRs from other IMF participants (Ukraine, Paraguay, Jamaica, Serbia) in exchange for $1.6 billion. These purchases increased the ESF's SDR Holdings and decreased the ESF's Nonmarketable U.S. Treasury Securities, which were used to fund these purchases.

The COVID-19 pandemic continues to represent a risk to economic growth and recovery. While some of the CARES Act-appropriated funds, as well as CARES Act-authorized loans and investments, remained on the ESF's books as of September 30, 2021, Treasury no longer has authority to use these funds to make new loans and investments.

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Independent Auditors' Report

Deputy 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 balance sheets as of September 30, 2021 and 2020 and the related statements of net cost, changes in net position, and budgetary resources 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. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 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, 2021 and 2020, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2021, the ESF elected to present the financial statements and related notes to the financial statements in accordance with accounting and reporting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). Prior to October 1, 2020, the ESF presented the financial statements and related notes to the financial statements in accordance with accounting and reporting standards promulgated by the Financial Accounting Standards Board. The financial statements for the year ended September 30, 2020, were changed to be presented in accordance with accounting and reporting standards promulgated by the FASAB. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2021, we considered the 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 the ESF's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the ESF's financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. 21-04.

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 the ESF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
March 9, 2022

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
BALANCE SHEETS

(in thousands)	**As of September 30, 2021**	**2020**
ASSETS		
Intra-Governmental		
Fund Balance with Treasury (Note 2)	**$ 1,984,276**	$ 480,643,983
Nonmarketable U.S. Treasury Securities (Note 3)	**22,836,891**	11,169,942
Total Intra-Governmental	**24,821,167**	491,813,925
Other Than Intra-Governmental		
Foreign Currency and Other Monetary Assets		
Foreign Currency and Foreign Currency Denominated Assets (Note 4)	**15,669,159**	15,867,039
Special Drawing Right Holdings and Related Interest Receivable (Note 5)	**163,884,490**	51,740,204
Other Receivable (Note 6)	**462,467**	-
COVID-19 Investments, Receivables, and Other		
Investments, Net (Note 6)	**25,578,448**	107,946,003
Credit Program Receivables, Net (Note 7)	**1,310,966**	1,579,620
Other (Note 8)	**-**	1,618,699
Other Investments, Net (Note 9)	**5,265,234**	5,801,436
Total Other Than Intra-Governmental	**212,170,764**	184,553,001
Total Assets	**$ 236,991,931**	**$ 676,366,926**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
BALANCE SHEETS (Cont.)

	As of September 30,	
(in thousands)	**2021**	**2020**
LIABILITIES		
Intra-Governmental		
Debt (Note 11)	**$ 23,997,698**	$ 87,102,396
Due to the General Fund (Note 10)	**3,251,365**	12,834,861
Other Liabilities (Notes 6 and 7)	**482,935**	-
Total Intra-Governmental	**27,731,998**	99,937,257
Other Than Intra-Governmental		
Special Drawing Right Allocations and Related Interest Payable (Note 5)	**161,835,969**	49,716,537
Special Drawing Right Certificates Issued to Federal Reserve Banks (Note 5)	**5,200,000**	5,200,000
Other Liabilities	**640**	625
Total Other Than Intra-Governmental	**167,036,609**	54,917,162
Total Liabilities	**194,768,607**	154,854,419
Commitments and Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations		
Funds from Dedicated Collections (Combined) (Note 13)	**200,000**	200,000
Funds from Other than Dedicated Collections (Combined)	**1,603,868**	480,643,698
Total Unexpended Appropriations	**1,803,868**	480,843,698
Cumulative Results of Operations		
Funds from Dedicated Collections (Combined) (Note 13)	**40,419,805**	41,127,295
Funds from Other than Dedicated Collections (Combined)	**(349)**	(458,486)
Total Cumulative Results of Operations	**40,419,456**	40,668,809
Total Net Position	**42,223,324**	521,512,507
Total Liabilities and Net Position	**$ 236,991,931**	$ 676,366,926

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENTS OF NET COST

(in thousands)	For the Fiscal Years Ended September 30, 2021	2020
STRATEGIC GOAL 1: EXCHANGE STABILIZATION		
Gross Cost		
Interest Expense on Special Drawing Rights Allocations and Remuneration	**$ 39,270**	$ 182,356
Losses on Currency Valuation and Other:		
Special Drawing Right Holdings (Note 5)	**716,172**	-
Special Drawing Right Allocations (Note 5)	**-**	1,564,077
Other Investments (Note 9)	**689,611**	-
International Monetary Fund Annual Assessment and Other	**974**	711
Total Losses on Currency Valuation and Other	**1,406,757**	1,564,788
Total Gross Cost	**1,446,027**	1,747,144
Less Earned Revenue		
Interest Income:		
Nonmarketable U.S. Treasury Securities (Note 3)	**(7,055)**	(169,724)
Foreign Currency and Foreign Currency Denominated Assets (Note 4)	**8,923**	42,865
Special Drawing Right Holdings (Note 5)	**(40,631)**	(189,442)
Other Investments (Note 9)	**35,513**	(3,373)
Total Interest Income	**(3,250)**	(319,674)
Gains on Currency Valuation and Other:		
Special Drawing Right Holdings (Note 5)	**-**	(1,626,363)
Special Drawing Right Allocations (Note 5)	**(717,715)**	-
Other Investments (Note 9)	**-**	(1,062,161)
Total Gains on Currency Valuation and Other	**(717,715)**	(2,688,524)
Total Earned Revenue	**(720,965)**	(3,008,198)
Total Net Cost (Income) of Operations – Exchange Stabilization	**725,062**	(1,261,054)
STRATEGIC GOAL 2: ECONOMIC RECOVERY PROGRAM		
Gross Cost		
Interest Expense on Debt (Note 11)	**606,518**	3,106,564
Losses on Investments and Credit Program Receivables (Notes 6 and 7)	**-**	4,797,778
Administrative Expenses	**19,228**	5,102
Total Gross Cost – Economic Recovery Program	**625,746**	7,909,444
Less: Earned Revenue		
Interest Income on Uninvested Funds (Note 2)	**(130,334)**	(2,160,551)
Interest Income on Credit Program Receivables (Note 7)	**(71,573)**	(3,974)
Facility Fee Income (Note 8)	**(15,021)**	(118,699)
Gains on Investments and Credit Program Receivables (Notes 6 and 7)	**(4,665,198)**	-
Total Earned Revenue – Economic Recovery Program	**(4,882,126)**	(2,283,224)
Total Net Cost (Income) of Operations – Economic Recovery Program	**(4,256,380)**	5,626,220
Total Net Cost (Income) of Operations	**$ (3,531,318)**	$ 4,365,166

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF CHANGES IN NET POSITION

(in thousands)	For the Fiscal Year Ended September 30, 2021 Funds from Dedicated Collections (Consolidated)	Funds from Other than Dedicated Collections (Consolidated)	Consolidated Total
UNEXPENDED APPROPRIATIONS			
Beginning Balance	**$ 200,000**	**$ 480,643,698**	**$ 480,843,698**
Appropriations Received	**-**	**906,019**	**906,019**
Appropriations Rescinded (Notes 6 and 7)	**-**	**(478,796,257)**	**(478,796,257)**
Appropriations Used (Notes 6 and 7)	**-**	**(1,149,592)**	**(1,149,592)**
Net Change in Unexpended Appropriations	**-**	**(479,039,830)**	**(479,039,830)**
Ending Balance	**200,000**	**1,603,868**	**1,803,868**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	**41,127,295**	**(458,486)**	**40,668,809**
Appropriations Used (Notes 6 and 7)	**-**	**1,149,592**	**1,149,592**
Transfers Out without Reimbursement	**-**	**(483,605)**	**(483,605)**
Imputed Financing Sources	**-**	**134**	**134**
Transfers to the General Fund and Other	**-**	**(4,446,792)**	**(4,446,792)**
Total (Net Cost) Income of Operations	**(707,490)**	**4,238,808**	**3,531,318**
Net Change in Cumulative Results of Operations	**(707,490)**	**458,137**	**(249,353)**
Ending Balance	**40,419,805**	**(349)**	**40,419,456**
NET POSITION	**$ 40,619,805**	**$ 1,603,519**	**$ 42,223,324**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF CHANGES IN NET POSITION

(in thousands)	Funds from Dedicated Collections (Consolidated)	Funds from Other than Dedicated Collections (Consolidated)	Consolidated Total
	For the Fiscal Year Ended September 30, 2020		
UNEXPENDED APPROPRIATIONS			
Beginning Balance	$ 200,000	$ -	$ 200,000
Appropriations Received (Notes 6 and 7)	-	500,000,000	500,000,000
Appropriations Transferred Out	-	(25,000)	(25,000)
Appropriations Used (Notes 6 and 7)	-	(19,331,302)	(19,331,302)
Net Change in Unexpended Appropriations	-	480,643,698	480,643,698
Ending Balance	200,000	480,643,698	480,843,698
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	39,701,109	-	39,701,109
Appropriations Used (Notes 6 and 7)	-	19,331,302	19,331,302
Imputed Financing Sources	-	32	32
Transfers to the General Fund and Other	-	(13,998,468)	(13,998,468)
Total (Net Cost) Income of Operations	1,426,186	(5,791,352)	(4,365,166)
Net Change in Cumulative Results of Operations	1,426,186	(458,486)	967,700
Ending Balance	41,127,295	(458,486)	40,668,809
NET POSITION	$ 41,327,295	$ 480,185,212	$ 521,512,507

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF BUDGETARY RESOURCES

	For the Fiscal Year Ended September 30, 2021		
(in thousands)	**Budgetary**	**Non-Budgetary Credit Reform Financing Account**	**Total**
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, Net (discretionary and mandatory) (Note 14)	**$ 623,474,888**	**$ 12,289,484**	**$ 635,764,372**
Appropriations (discretionary and mandatory)	**(477,890,238)**	**-**	**(477,890,238)**
Borrowing authority (discretionary and mandatory)	**-**	**14,713,402**	**14,713,402**
Spending authority from offsetting collections (discretionary and mandatory)	**11,654,704**	**(11,582,981)**	**71,723**
Total Budgetary Resources	**$ 157,239,354**	**$ 15,419,905**	**$ 172,659,259**
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	**$ 115,083,681**	**$ 15,039,789**	**$ 130,123,470**
Unobligated balance, end of year:			
Apportioned, unexpired accounts	**1,591,044**	**-**	**1,591,044**
Unapportioned, unexpired accounts	**40,564,629**	**380,116**	**40,944,745**
Unobligated balance, end of year	**42,155,673**	**380,116**	**42,535,789**
Total Status of Budgetary Resources	**$ 157,239,354**	**$ 15,419,905**	**$ 172,659,259**
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	**$ (10,505,119)**	**$ -**	**$ (10,505,119)**
Distributed offsetting receipts	**(14,030,288)**	**-**	**(14,030,288)**
Agency Outlays, Net (Discretionary and Mandatory)	**$ (24,535,407)**	**$ -**	**$ (24,535,407)**
Disbursements, net (mandatory)		**$ (63,485,485)**	**$ (63,485,485)**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF BUDGETARY RESOURCES

(in thousands)	For the Fiscal Year Ended September 30, 2020 Budgetary	Non-Budgetary Credit Reform Financing Account	Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, Net (discretionary and mandatory) (Note 14)	$ 42,854,368	$ -	$ 42,854,368
Appropriations (discretionary and mandatory)	499,975,000	-	499,975,000
Borrowing authority (discretionary and mandatory)	-	188,523,874	188,523,874
Spending authority from offsetting collections (discretionary and mandatory)	139,144	26,101,218	26,240,362
Total Budgetary Resources	$ 542,968,512	$ 214,625,092	$ 757,593,604
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	$ 53,730,400	$ 214,625,092	$ 268,355,492
Unobligated balance, end of year:			
Apportioned, unexpired accounts	468,136,265	-	468,136,265
Unapportioned, unexpired accounts	21,101,847	-	21,101,847
Unobligated balance, end of year	489,238,112	-	489,238,112
Total Status of Budgetary Resources	$ 542,968,512	$ 214,625,092	$ 757,593,604
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 30,691,873	$ -	$ 30,691,873
Distributed offsetting receipts	(1,163,607)	-	(1,163,607)
Agency Outlays, Net (Discretionary and Mandatory)	$ 29,528,266	$ -	$ 29,528,266
Disbursements, net (mandatory)		$ 87,102,396	$ 87,102,396

The accompanying notes are an integral part of these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Exchange Stabilization Fund (ESF) was originally established by 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 of the U.S., 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 a new coronavirus disease (COVID-19) in early spring of 2020 resulted in a severe global health and economic crisis. In March 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) hereafter) authorizing the 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 and appropriating $500.0 billion to the ESF to carry out such authorities. The ESF played a critical role in supporting and implementing programs authorized by the Board and Congress. The ESF's financial statements for the fiscal years (FY) ended September 30, 2021 and 2020 were impacted by the effects of these transactions and reports them as either Economic Recovery Program or COVID-19.

Pursuant to Section 10 of the *Gold Reserve Act of 1934*, 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 authorized by the CARES Act. These authorized administrative expenses are reported on the

(continued)

Statements of Net Cost and include immaterial imputed costs related to services received from other federal entities (refer to Note 1L).

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared from ESF's accounting records in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body for the U.S. government. Certain presentations and disclosures may be modified, if needed, to prevent the disclosure of classified information.

These financial statements consist of the Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, and the Statements of Budgetary Resources. The statements and the related notes are prepared in a comparative form to present both fiscal years 2021 and 2020 information. These statements should be read with the understanding that they are for a component of the U.S. government, a sovereign entity.

Intra-governmental assets and liabilities are those due from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditures to other federal entities.

Changes in Financial Reporting

In fiscal year 2021, the ESF changed to accounting standards promulgated by the FASAB for federal agencies for purposes of ESF's financial accounting and reporting. Prior to October 1, 2020, the ESF presented the financial statements in accordance with the accounting standards published by the Financial Accounting Standards Board (FASB). Management decided to make this change to align with the form and content of the financial statements in the U.S. Treasury's Agency Financial Report and applied the change retrospectively.

Accounting standards published by FASAB require that the ESF present a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources as of and for each year ended and related notes to the financial statements. These replace the financial statements that ESF had previously prepared under accounting standards published by FASB, which includes the Statements of Financial Position, Statements of Operations and Comprehensive (Loss) Income, Statements of Changes in Equity, and Statements of Cash Flows as of and for each year ended. In accordance with the accounting standards published by FASAB, the ESF also added Note 10 – Due to the General Fund, Note 13 – Funds from Dedicated Collections, Note 14 – Statement of Budgetary Resources, and Note 15 – Reconciliation of Net Cost of Operations to Budgetary Outlays, and Required Supplementary Information, which includes the Management Discussion and Analysis and the Combining Statement of Budgetary Resources.

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Further, the change to accounting standards published by FASAB from accounting standards published by FASB resulted in changes in FCRA due to the general fund liabilities reported under FASAB but not under FASB, as reflected in the balance sheet as of September 30, 2020. The statements contain additional immaterial changes in the valuation of certain COVID-19 related direct loans and appropriations used to fund the subsidy costs of these assets, as reflected in the Statements of Net Cost and Statement of Changes in Net Position, respectively for the year ended September 30, 2020.

C. 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. The ESF does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements.

D. Nonmarketable U.S. Treasury Securities

The ESF may invest dollars in excess of its immediate needs in overnight, nonmarketable U.S. government securities issued by Treasury. Treasury uses the cash collected for general purposes and issues securities to the ESF as evidence of the receipts. The securities are assets of the ESF and liabilities of Treasury. These securities and related accrued interest receivable are reported as intra-governmental assets on the ESF's Balance Sheets at amounts that approximate their fair values. The interest rate earned on the investments is equal to the overnight repurchase agreement rate as established by the U.S. Treasury Bureau of the Fiscal Service (Fiscal Service). Interest income is added to the balance and available for repurchasing securities unless authorized by the Secretary/Congress for another purpose.

E. Foreign Currency and Foreign Currency Denominated Assets

Foreign Currency and Foreign Currency Denominated Assets (FCDAs) represent deposits and investments in foreign government securities denominated in both euro and yen that have original maturities of three months or less. They 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. Accordingly, these assets and related accrued interest receivable are reported on the Balance Sheets at amounts that approximate their fair values. The interest rate earned is based on the constant effective yield as determined by the FRBNY. Those FCDAs that have original maturities greater than three months are reported on the Balance Sheet as "Other Investments, Net" (refer to Notes 1(I) and 9).

F. Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset created by the IMF to supplement its member countries' official reserves. 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. Under its Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas. The SDR's value

(continued)

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 are revalued monthly, based on the SDR valuation rate calculated by the IMF, and unrealized gains or losses are recognized upon revaluation. Pursuant to the *Special Drawing Rights Act of 1968,* as amended, the ESF holds all SDRs allocated to or otherwise acquired by the U.S.

SDR Holdings and Related Interest Receivable, and SDR Allocations and Related Interest Payable

The ESF records the SDR holdings that are permanent resources to the U.S. as part of *"Foreign Currency and Other Monetary Assets,"* and records the SDR allocations as a liability within the *"Special Drawing Right Allocations and Related Interest Payable"* line on the Balance Sheets when the IMF allocates SDRs to the U.S. The SDR allocations are a liability to the ESF since the U.S. is obligated to repay the allocation amount to the IMF under the following circumstances: *(i)* withdrawal by the U.S. from the IMF membership or termination of its position in the SDR Department of the IMF; cancellation of the SDRs; or *(ii)* liquidation of the IMF or SDR Department of the IMF. SDR holdings primarily increase as a result of IMF SDR allocations. The ESF records SDR transactions as incurred, and includes acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government also receives remuneration in SDRs from the IMF based on claims on the IMF as represented by the U.S. Reserve Position in the IMF and loans receivable from the supplemental borrowing arrangement. The ESF pays the dollar equivalent to the U. S. Government's Treasury General Account (TGA) at an equivalent amount of dollars plus nominal interest.

SDRs and related accrued interest receivable or payable are revalued to reflect exchange rates in affect as of the reporting date. Gains or losses related to foreign currency revaluations are recognized in the period of the fluctuations and reported on the Statements of Net Cost as "*Gains on Currency Valuation and Other*" or *"Losses on Currency Valuation and Other,"* depending upon the net results of valuation by asset category.

SDR Certificates Issued to the Federal Reserve Banks

The *Special Drawing Rights Act of 1968,* as amended, authorizes the Secretary to issue certificates, not to exceed the value of SDRs held against the certificates, to the Federal Reserve Banks (FRBs) in return for dollar amounts equal to the face value of certificates issued. The ESF issues certificates to finance the acquisition of SDRs from other countries or to provide U.S. dollar resources to finance other ESF operations. Certificates issued are redeemed by the ESF at such times and in such amounts as the Secretary may determine, and do not bear interest. Certificates issued to the FRBs are reported on the Balance Sheets at their face value which approximates their carrying value since, under the terms of the arrangements with the Board, there is no set repayment date and no interest accrued while certificates remain outstanding.

G. COVID-19: Investments, Net

In FY 2020, 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. The ESF presents these non-federal investment holdings at their fair value within the *"COVID-19: Investments, Net"* line of the Balance Sheets. Subsequent changes in fair value are recognized as unrealized gains or losses on the Statements of Net Cost within the line item *"Gains on Investments and Credit Program Receivables"* or *"Losses on Investments and Credit Program Receivables,"* respectively. Refer to Note 6 for further discussion.

H. COVID-19: Credit Program Receivables, Net

COVID-19 credit program receivables relate to direct loans disbursed by the ESF as authorized by the CARES Act. These direct loans provide liquidity to eligible businesses which incurred losses as a result of COVID-19, including air carriers and other related businesses, as well as businesses critical to maintaining national security. The ESF accounts for the direct loans under the provisions of credit reform accounting pursuant to the *Federal Credit Reform Act of 1990* (FCRA). These direct loans are presented on the Balance Sheets as "*COVID-19: Credit Program Receivables, Net*" (refer to Note 7).

The ESF applies the accounting provisions of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended (SFFAS No. 2). SFFAS No. 2 requires measurement of the asset or liability at the net present value of the estimated future cash flows.

The primary purpose of the FCRA is to measure the cost of federal credit programs, and to place the cost of such credit programs on a basis equivalent with other federal spending. FCRA requires that the ultimate costs of a credit program be calculated and the budgetary resources be obtained before incurring the direct loan obligations. To accomplish this, the ESF first predicts or estimates the future performance of direct loans when preparing the annual budget. The ESF re-estimates the data used for these budgetary estimates at the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The re-estimated data reflects adjustments for market risks, asset performance, and other key variables and economic factors. The ESF then uses the re-estimated data to report the adjustment to the cost of the direct loans disbursed within "*Losses on Investments and Credit Program Receivables"* or "*Gains on Investments and Credit Program Receivables"* line on the Statements of Net Cost.

Cash flows associated with the ESF's credit programs generally include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from sales of instruments, borrowings from Treasury, negative subsidy, and the subsidy cost received from the program accounts. The ESF draws security-level data and assumptions used as the basis for cash flow model forecasts and program performance from widely available market sources, as well as information published by investees. The recorded subsidy cost associated with each of the credit programs represents the difference between disbursed amounts and the net present value of future cash flows the ESF anticipates receiving. The subsidy allowance, as initially established by the subsidy cost, takes into consideration projected repayments and defaults, and the projected cost of

(continued)

borrowings. The ESF amortizes the allowance to reflect the difference between projected and actual financing costs.

I. Other Investments, Net

Other Investments are FCDAs that have original maturities greater than three months and are classified as either trading or available-for-sale securities. These holdings are normally invested in interest-bearing securities issued or held through foreign governnents or monetary authories. The ESF's trading securities are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are those which are neither trading nor held-to-maturity. Both trading and available-for-sale securities are recorded at fair value with all realized and unrealized holding gains or losses reported on the Statements of Net Cost as "*Gains on Currency Valuation and Other - Other Investments*" or "*Losses on Currency Valuation and Other* **-** *Other Investments*" line, depending upon the net results by category. Realized gains and losses from the sale of trading securities are determined on a specific-identification basis.

Interest on investments, amortization of premiums, and accretion of discounts are recognized on an accrual basis as *"Interest Income* **-** *Other Investments"* on the Statements of Net Cost. 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.

J. Debt

Debt represents borrowings payable to the Fiscal Service that were incurred to finance, in part, the making of investments and loans (reported as credit program receivables), as authorized by the CARES Act. Interest costs accrue as an expense as incurred and are reported as entity costs on the Statements of Net Cost.

K. Commitments and Contingencies

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the ESF recognizes material contingent liabilities meeting the following criteria:

- A past event or exchange transaction has occurred;
- A future cash outflow is probable; and
- A future cash outflow is measurable

The estimated liability recorded is either a specific amount or within a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the ESF recognizes the minimum amount in the range, and discloses the range and a description of the nature of the contingency. The ESF follows this policy in recording a contingent liability, if any, related to amounts that could become payable to the Federal Old-Age and Survivors Insurance Trust Fund, pursuant to the CARES Act, in connection with ESF's COVID-19 related investments and credit program receivables that were financed by a combination of appropriations and Fiscal Service debt (refer to Notes 6 and 7), and other loss contingencies that could arise from claims, assessments, litigations, fines, penalties, and other sources.

If one or more, but not all, of the above criteria for recognition are met, and there is a reasonable possibility of loss, the ESF will disclose, if material, the nature of the contingent liability, along with a range of possible loss, if estimable, and a description of the nature of the contingency.

L. Revenue and Other Financing Sources

The ESF's core exchange stabilization program activities are primarily financed through exchange revenue the ESF receives from others, including interest received on Nonmarketable U.S. Treasury Securities, and Other Investments, SDRs. A portion of the core exchange stablization program, along with all of the ESF's economic recovery program, use financing sources such as appropriations provided by Congress and borrowings from Fiscal to finance these activities. The ESF recognizes exchange revenue when earned, i.e., goods are delivered or services are rendered. The ESF recognizes appropriations used as financing sources when related expenses are incurred or assets are purchased.

As a component entity of Treasury, the ESF receives goods and services from other federal entities or from other entities within Treasury at no cost or as a cost less than the full cost. The ESF recognizes these subsidized costs on the Statements of Net Cost, and recognizes the imputed financing for these costs on the Statements of Changes in Net Position. As a result, there is no effect on Net Position.

M. Net Position

Unexpended Appropriations

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. Appropriations remain available for upward or downward adjustment of obligations until canceled. The ESF reports adjustments related to unexpended appropriations, such as cancellations of expired funds or rescissions, on the Statements of Changes in Net Position.

Cumulative Results of Operations

Cumulative Results of Operations represents the net results of the ESF's operations not funded by appropriations or some other source, since inception through the end of the fiscal year. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations, earnings and assessments. These future funding requirements include, among others, credit reform cost re-estimates and expenses for contingent liabilities, if applicable.

N. Funds from Dedicated Collections

The ESF accounts for revenues and other financing sources for Funds from Dedicated Collections separately from other funds within ESF's financial statements. Such funds are financed by specifically identified revenues provided to the U.S. government by non-federal sources, often supplemented by federal and other financing sources, which remain available over time. Statute requires the use of these specifically identified revenues and other financing sources for designated activities, benefits, or purposes. (Refer to Note 13).

The federal government does not set aside assets to pay future benefits or other expenditures associated with the ESF's Funds from Dedicated Collections. The dedicated cash receipts from transactions with the public are deposited into Nonmarketable U.S. Treasury Securities held at the Fiscal Service, which uses the cash for general government purposes. Treasury securities are issued to the ESF as evidence of its receipts, and provide the ESF with authority to draw upon Treasury to make future expenditures. Treasury securities are an asset to the ESF and a liability to Treasury.

O. Appropriations and Other Budgetary Activity

The ESF records appropriations when authorized by legislation. Incurred obligations of appropriations are recorded when the ESF places orders or signs contracts for goods and services, or takes other actions that require the ESF to make payments to the public or another federal entity. Outlays are recorded when disbursements are made. As of September 30, 2021 and 2020, all liabilities are covered by budgetary resources except for the immaterial amounts related to unfunded accrued payroll and other benefits-related accruals.

With respect to credit programs executed in accordance with FCRA, the ESF also has permanent and indefinite appropriation authority to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process required by FCRA (refer to Note 1H above).

P. Tax-Exempt Status

As a component of Treasury, which is an agency of the U.S. government, the ESF is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government. Accordingly, no provision for income taxes is recorded.

Q. Fair Value Measurement

The ESF estimates certain of its financial instruments at fair value, a market-based measurement. For certain assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. However, the objective of a fair value measurement in both cases is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability between market participants at the measurement date occurs under current market conditions.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The fair value measurement of an asset or a liability is categorized with different levels of fair value hierarchy as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

The inputs or methodology used for valuing assets and liabilities are not necessarily indicative of the risks associated with those assets and liabilities.

Valuation of COVID-19 Investments, Net includes Level 3 inputs. Refer to Note 6 for further information about these financial assets, including changes in Level 3 financial assets and related fair value measurements.

The ESF's FCDAs and Other Investments, Net are Level 1 measurements since these financial assets are traded in active markets where quoted values are readily available. Refer to Notes 4 and 9.

R. 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 reporting purposes. The impairment is reported as a cost on the Statements of Net Cost, and the charge establishes a new cost basis for the investment. To determine whether an 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 that the cost of the investment is recoverable outweighs evidence to the contrary. The ESF regularly evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment that would require recognition in the financial statements.

S. 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 widely as a result of volatility in foreign currency markets and changes in real and perceived credit risk 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 certain 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. Transactions involving estimates principally include the ESF's holdings in FCDAs and Investment Securities, as well as the COVID-19 Investments, COVID-19 Credit Program Receivables and related subsidy costs (refer to Notes 1I and 1H).

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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.

T. Disclosure Entities and Related Parties

SFFAS No. 47, *Reporting Entity*, requires that the financial statements reflect the balances and activities of consolidation entities, including Treasury bureaus and other reporting entities, meeting the following "principles for inclusion" when considered as a whole: (i) the entity is included in the Budget of the U.S. (also known as the President's Budget), (ii) the U.S. government holds "majority ownership interest," (iii) the U.S. government has "control with risk of loss or expectation of benefit," or (iv) it would be misleading to exclude such entity. SFFAS No. 47 also provides guidance for assessing whether an organization meeting the inclusion principles is reported as a disclosure entity or related party.

A disclosure entity exists when the ESF determines that an entity meets any of the SFFAS No. 47 "principles for inclusion" with respect to the U.S. government but does not meet the characteristics of a "consolidation entity" included in its principal financial statements and footnotes.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties generally do not meet the SFFAS No. 47 inclusion principles; however, the ESF reports on any relationship that is of such significance that it would be misleading to exclude information about that entity.

Disclosure entities and related parties are not considered components of the ESF reporting entity and, thus, are only disclosed in the notes to the ESF financial statements. Using the principles prescribed in SFFAS No. 47, the ESF identified the following disclosure entity as of September 30, 2021 and 2020. There were no related parties.

FRB-Managed Special Purpose Vehicles – Liquidity Lending Facilities

In response to the COVID-19 pandemic, the ESF holds equity investments in SPVs established by the Board through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. The ESF's involvement in these programs represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, ESF's equity interests in these SPVs meet the SFFAS No. 47 criteria for classifying the SPV investments as disclosure entities. The value of these investments is presented within the "*COVID-19: Investments, Net*" line on the Balance Sheets (refer to Note 6).

NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balance is increased: (i) by receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations, and (ii) when transfers and reimbursements from other federal agencies are received. Fund Balance can also be increased by amounts borrowed from the Fiscal Service, and by amounts collected and credited to appropriation or fund accounts.

Fund Balance is reduced when: (i) disbursements are made to pay liabilities or to purchase assets, goods, and services; (ii) investments in U.S. securities (securities issued by Fiscal Service or other federal agencies); (iii) expired appropriations are canceled, or the ESF makes transfers and reimbursements to other federal entities, non-federal entities, or to the General Fund; and (iv) due to sequestration or rescission of appropriations.

Interest income on Fund Balance in the FCRA funds is reported within the *"Interest Income on Uninvested Funds"* line on the Statements of Net Cost and is received annually on September 30. For the fiscal years ended September 30, 2021 and 2020, the ESF recorded interest income totaling $130 million and $2.2 billion, respectively, related to these fund balances. The accrued interest income was collected in full on September 30, 2021 and 2020.

Fund balance activity for the fiscal years ended September 30, 2021 and 2020, and fund balance status as of September 30, 2021 and 2020 are presented below.

	Fiscal Year Ended	
(in thousands)	**September 30, 2021**	**September 30, 2020**
Balance, beginning of period	$ 480,643,983	$ -
Rescissions	(478,796,257)	-
Appropriations Received	906,018	500,000,000
Appropriations Transferred Out	-	(25,000)
Transfers to the General Fund	(14,030,287)	(1,163,528)
Borrowings from (Repayments to) Fiscal Service, Net	(63,104,698)	87,102,396
Disbursements for Loans and Investments	(857,984)	(104,320,000)
Return of Investment Capital and Collections of Loan Principal	77,670,801	-
Disbursements for Net Interest, Administrative Costs and Other	(447,300)	(949,885)
Balance, end of period	$ 1,984,276	$ 480,643,983

	As of	
(in thousands)	**September 30, 2021**	**September 30, 2020**
Unobligated Balance:		
Available	$ 1,591,044	$ 468,136,265
Unavailable	380,116	-
Obligated Balance Not Yet Disbursed	13,116	106,045,953
Non-Budgetary Fund Balance with Treasury:		
Borrowing Authority Not Yet Converted to Fund Balance	-	(93,538,235)
Total Status of Fund Balance with Treasury	$ 1,984,276	$ 480,643,983

The *Unobligated Balances*, both available and unavailable, decreased by a total of $466.2 billion year-over-year primarily due to the return of the fund balance prompted by the $478.8 billion of CARES Act appropriation authority that was rescinded pursuant to the *Consolidated Appropriations Act, 2021* (CAA). Partially offsetting this amount was a de-obligation of $12.3 billion that was to be used to fund the subsidy portion of obligated but undisbursed CARES Act investments and loans. The CAA also canceled $105.6 billion of *Obligated Balance Not Yet Disbursed* and led to the withdrawal of *Borrowing Authority Not Yet Converted to Fund Balance*. Other changes in these accounts represent FY 2021 activity in the remaining loans and investments. Refer to Notes 6 and 7

(continued)

and for additional details.

NOTE 3 - NONMARKETABLE U.S. TREASURY SECURITIES

The interest rate earned on the Nonmarketable U.S. Treasury Securities is equal to the overnight repurchase agreement rate as established by the Fiscal Service. These market-based investments had a cost/acquisition value of $22.8 billion and $11.2 billion at September 30, 2021 and 2020, respectively, which approximated their fair value.

The year-over-year increase in this balance is primarily a result of the return in FY 2021 of ESF core funds of $11.5 billion that were previously disbursed in FY 2020 to finance support for the Commercial Paper Funding Facility ($10.0 billion) and the Money Market Mutual Fund Liquidity Facility ($1.5 billion) established by the Board as emergency liquidity lending facilities as a result of the COVID-19 pandemic (refer to Notes 6 and 8).

Statutory Debt Limit

The statutory debt limit is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, with certain adjustments. The ESF's Nonmarketable U.S. Treasury Securities are part of the authorized debt. Treasury has statutory authority to take certain "extraordinary measures" in the event that the public debt nears the statutory debt limit and the statutory debt limit has not been raised or suspended or otherwise lifted. One such extraordinary measure is the suspension of new issuances of U.S. Treasury securities to the ESF. When Treasury discontinues its use of extraordinary measures, Treasury resumes normal debt management operations. While Treasury may restore the ESF, relevant statutes do not permit Treasury to pay the ESF interest lost during a period of delay. No suspension of new issuances to the ESF occurred in 2021 or 2020.

NOTE 4 – FOREIGN CURRENCY AND FOREIGN CURRENCY DENOMINATED ASSETS

Foreign currency and FCDAs represent foreign deposit accounts and securities with original maturities of three months or less which were valued at $15.7 billion and $15.9 billion as of September 30, 2021 and 2020, respectively. The totals were comprised of $9.5 billion of foreign currency and $6.2 billion of FCDAs for 2021 and $10.3 billion of foreign currency and $5.6 billion of FCDAs for 2020.

NOTE 5 - SPECIAL DRAWING RIGHTS

SDR Holdings and SDR Allocations are reported as an asset and liability respectively in the financial statements of the ESF. The ESF also issued certificates to the Federal Reserve valued at $5.2 billion which were reported as a liability on the Balance Sheets as of September 30, 2021 and 2020.

SDR Allocations

SDRs, once allocated to the U.S., 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 U.S. chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Due to the fact that the SDRs could be required to be repaid under the limited circumstances above, the ESF carries a liability related to such allocations.

Except for the payment of interest and charges on SDR Allocations to the U.S., the payment of ESF's liability related to the SDR Allocations is conditional on events listed above, in which the U.S. has a controlling vote or makes a unilateral determination. Allocations of SDRs were made during calendar years 1970, 1971, 1972, 1979, 1980, 1981, 2009, and 2021. As of September 30, 2021, and 2020, the value of SDR Allocations to the U.S., including related interest payable, was the equivalent of $161.8 billion and $49.7 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 U.S., are the resources (holdings) of the ESF. SDR Holdings represent SDRs held by the ESF resulting from these SDR activities, primarily the result of IMF allocations. Other transactions reported 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. The SDR Holdings and related net accrued interest receivable are revalued to reflect exchange rates in effect as of the reporting date.

On August 2, 2021, the Board of Governors of the IMF made a general allocation of SDRs, which included an allocation valued at $112.8 billion to the U.S. government, increasing the ESF's balance in SDR Holdings, and a corresponding increase in SDR Allocations, from $51.7 billion as of September 30, 2020 to $163.9 billion as of September 30, 2021. Of the $716 million loss reported within the *"Special Drawing Right Holdings"* line on the Statements of Net Cost, $764 million pertains to the loss in value of the general allocation from August 2, 2021 until September 30, 2021. This loss is offset by a corresponding $764 million gain included in the *"Special Drawing Right Allocations"* line on the Statements of Net Cost.

The following schedule reflects the activity related to SDR Holdings during fiscal years 2021 and 2020, by SDR and dollar equivalent:

(continued)

	As of September 30			
(SDRs in thousands)	**2021**		**2020**	
Balance, beginning of period	$	36,753,372	$	36,658,104
General/Special Allocations		79,546,208		-
Interest Credits on Holdings		26,311		189,322
Interest Charges on Allocations		(25,277)		(182,237)
Remuneration		16,017		88,652
IMF Annual Assessment		(593)		(469)
Balance, end of period	$	116,316,038	$	36,753,372

	As of September 30			
(Dollar Equivalent in thousands)	**2021**		**2020**	
Balance, beginning of period	$	51,732,943	$	49,976,358
General/Special Allocations		112,833,910		-
Interest Credits on Holdings		37,597		260,807
Interest Charges on Allocations		(36,120)		(251,046)
Remuneration		22,889		122,145
IMF Annual Assessment		(851)		(641)
Net Gain/(Loss) on Valuation of Holdings		(716,193)		1,625,320
Balance, end of period [(1)]	$	163,874,175	$	51,732,943

[(1)] *This amount excludes related interest receivable of $10.3 million and $7.3 million as of September 30, 2021 and 2020, respectively.*

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 related interest receivable balances between beginning and end of year.

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 fund 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 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 $651 and $79 thousand in fiscal years 2021 and 2020, 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 2021 and 2020.

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NOTE 6 - COVID-19: INVESTMENTS, NET

Investments Overview

In March 2020, 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, authorizing the Secretary to make certain loans, loan guarantees and other investments to provide liquidity to eligible businesses, states, and municipalities and appropriating funds to the ESF to carry out such authorities. The ESF utilized its core authority provided by Section 10 of the *Gold Reserve Act*, as amended, to support two of the Board's liquidity lending facilities.

In FY 2020, the CARES Act appropriated $500.0 billion to the ESF to primarily 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. The CARES Act authorized Treasury to make such 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 (refer to Note 7), 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 the Board established to provide liquidity to the financial system that supported lending to eligible businesses, states, or municipalities. Treasury executed its loans and investments 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 direct loans, respectively), which was financed with $19.3 billion of cash provided by the appropriation to fund the credit subsidy portion of the investments and direct loans, and $85.0 billion in borrowings from the Fiscal Service. 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).

In addition to the amounts disbursed during FY 2020, the ESF also had obligated but undisbursed amounts committed as of September 30, 2020, for future investment and direct loan disbursements totaling $106.0 billion (comprised of $92.5 billion and $13.5 billion, respectively). Accordingly, when factoring in the obligated but undisbursed amounts committed, ESF's unobligated budgetary resources available as of September 30, 2020, were $468.1 billion ($480.6 billion remaining appropriation less $12.5 billion of obligated but undisbursed subsidy).

The December 27, 2020 enactment of the CAA, among other things, eliminated the ESF's ability to make new loans and investments under the CARES Act effective January 9, 2021, and prohibited the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through all but one facility the Federal Reserve established under Section 13(3) in which the ESF made an investment pursuant to the CARES Act (and after January 8, 2021, for that one facility). Accordingly, on December 27, 2020, the CAA rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury (through the ESF). In accordance with the CAA, an additional $49.8 billion was rescinded on January 9, 2021. As of September 30, 2021, $1.6 billion of the

CARES Act appropriation remained and was reported in the Fund Balance with Treasury (refer to Note 2).

The tables below summarize the ESF's key budgetary resources and the status of those resources by program for the fiscal years ended September 30, 2021 and 2020, enacted in response to the COVID-19 pandemic:

	Fiscal Year Ended September 30, 2021			
(in thousands)	**Beginning Available Budgetary Resources**	**Rescissions and Other Adjustments[1]**	**Less: Obligations Incurred**	**Remaining Available Budgetary Resources**
Section 13(3) Federal Reserve Programs - Liquidity Facilities	$ 423,835,009	$ (423,835,009)	$ -	$ -
Direct Loans to Air Carriers and National Security Business	44,301,242	(42,692,474)	(17,725)	1,591,043
Total	$ 468,136,251	$ (466,527,483)	$ (17,725)	$ 1,591,043

[1]Rescissions and Other Adjustments primarily include a total of $478.8 billion of CARES Act appropriation authority that was rescinded pursuant to the CAA. Partially offsetting this amount was a de-obligation of $12.3 billion that was to be used to fund the subsidy portion of obligated but undisbursed CARES Act investments and loans.

	Fiscal Year Ended September 30, 2020			
(in thousands)	**Appropriations and Other Authority[1]**	**Borrowing Authority and Other Adjustments[2]**	**Less: Obligations Incurred**	**Remaining Available Budgetary Resources**
Section 13(3) Federal Reserve Programs - Liquidity Facilities	$ 454,000,000	$ 164,835,009	$ (195,000,000)	$ 423,835,009
Direct Loans to Air Carriers and National Security Business	46,000,000	13,656,242	(15,355,000)	44,301,242
Total	$ 500,000,000	$ 178,491,251	$ (210,355,000)	$ 468,136,251

[1]Appropriation and Other Authority includes appropriation authority provided by the CARES Act which, together with the ESF's core authority under the Gold Reserve Act, was used to finance emergency relief program.
[2]Appropriation Authority (first column) was used to finance the subsidy costs associated with making the investments and direct loans in accordance with the provisions of FCRA. Borrowing Authority (second column) was used to finance the remainder of the disbursed amounts via borrowings from Fiscal Service.

Section 13(3) Federal Reserve Programs

In FY 2020, the FRBNY and FRBB established emergency liquidity lending facilities to enhance the liquidity of the U.S. financial system as a result of the severe global health and economic crisis. The FRBNY and FRBB implemented certain of the facilities through SPVs governed by Limited Liability Company (LLC) agreements between Treasury and the applicable FRB. The FRBNY and FRBB established these SPVs for the purpose of making loans and purchasing debt and other commercial paper of eligible entities affected by COVID-19. The liquidity lending facilities established included the: (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), (v) Commercial Paper Funding Facility II LLC (CPFF), and (vi) Money Market Mutual Fund Liquidity Facility (MMLF).

The FRBNY and FRBB contributed $10.00 in cash to capitalize each SPV they established. Additionally, the FRBNY and FRBB made loans to the SPVs, on a recourse basis, to fund the SPVs' purchase of assets from, or loans to, eligible U.S. issuers and businesses with certain assets as

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collateral. As the managing member of each SPV, 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 ESF provided equity to each SPV in FY 2020 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 experience losses, ESF's preferred equity accounts absorb such losses up to the maximum amounts 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.

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 are deposited into the preferred equity account.

Under the terms of the LLC agreements, membership interests would not receive periodic or other distributions during the life of the SPV (except for the interim distribution that occurred on December 29, 2020 as further discussed below). Distribution of the SPV's assets would be made only upon dissolution of the facility, after liabilities and other interests were paid. Upon dissolution, the ESF 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 the other accounts of the SPV. The applicable FRB is entitled to 10 percent of the cash balance in all the other accounts of the SPV. The final distribution amount received by the ESF will be used to repay all costs associated with the preferred equity investment in the SPV, including the initial subsidy amounts funded by appropriation and all amounts borrowed from Fiscal Service. In accordance with 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.

During FY 2020, the ESF funded disbursements to all but two of the liquidity lending facilities using, in part, the $454.0 billion of funds appropriated to the ESF under the CARES Act to provide the subsidy amounts necessary for such disbursements in accordance with the provisions of FCRA. The ESF funded the remainder of the disbursed amounts by borrowings from Fiscal Service. For two of the liquidity facilities, CPFF and MMLF, the ESF used its core funds, which were previously invested in overnight, Nonmarketable U.S. Treasury Securities (refer to Note 3) and were available for use by the Secretary consistent with the relevant statutory requirements.

On December 29, 2020, consistent with the CAA, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements provided for the cancellation, on December 29, 2020, of the ESF's undisbursed investment commitments totaling an aggregate of $92.5 billion, and an interim distribution to the ESF, between December 31, 2020 and January 8, 2021, totaling an aggregate of $62.2 billion, to return funds disbursed by the ESF in excess of the purchase price of the assets, loans, and/or loan participations, as the case may be, within each facility at such time. The aggregate of $62.2 billion of 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. The ESF used this cash received to repay outstanding debt to the Fiscal Service that was used to finance the non-subsidized portion of these investment transactions. Further, the ESF's canceled commitments in the amount of $92.5 billion were de-obligated in FY 2021. The funds remaining in the SPVs funded under the CARES Act cannot be used for further lending, asset purchases, or extensions of credit.

During FY 2021, the FRBNY and FRBB dissolved several of the liquidity facilities. The FRBB dissolved the MMLF in April 2021, and the FRBNY dissolved the CPFF and CCF in June and September 2021, respectively. None of the facilities are available for future disbursements as of September 30, 2021. See below for further discussion of these transactions.

(in thousands)	**FY 2020 Original Commitment**	**FY 2020 Disbursements**	**Available for Future Disbursements 9/30/2020**	**FY 2021 Canceled Commitments**	**Available for Future Disbursement 9/30/2021**
Corporate Credit Facilities[1]	$ 75,000,000	$ (37,500,000)	$ 37,500,000	$ (37,500,000)	$ -
Main Street Facilities[1]	75,000,000	(37,500,000)	37,500,000	(37,500,000)	-
Municipal Liquidity Facility[1]	35,000,000	(17,500,000)	17,500,000	(17,500,000)	-
Term Asset-Backed Securities	10,000,000	(10,000,000)	-	-	-
Commercial Paper Funding Facility	10,000,000	(10,000,000)	-	-	-
Money Market Mutual Fund Liquidity Facility[2]	10,000,000	(1,500,000)	8,500,000	(8,500,000)	-
Total 13(3) Facilities	$ 215,000,000	$ (114,000,000)	$ 101,000,000	$(101,000,00)	$ -

[1] The undisbursed commitment amount for this facility as of September 30, 2020, was canceled on December 29, 2020 pursuant to the CAA.
[2] The undisbursed commitment amount as of September 30, 2020, was canceled pursuant to the April 12, 2021 dissolution of the MMLF facility.

(in thousands)	**FY 2020 Disbursements**	**Interim Distribution**	**Final Dissolution[1]**	**Remaining Outstanding Equity Contribution 9/30/21[2]**
Corporate Credit Facilities	$ 37,500,000	$ (23,618,984)	$ (13,881,016)	$ -
Main Street Facilities	37,500,000	(20,927,945)	-	16,572,055
Municipal Liquidity Facility	17,500,000	(11,223,776)	-	6,276,224
Term Asset-Backed Securities	10,000,000	(6,450,927)	-	3,549,073
Commercial Paper Funding Facility	10,000,000	-	(10,000,000)	-
Money Market Mutual Fund Liquidity Facility	1,500,000	-	(1,500,000)	-
Total 13(3) Facilities	$ 114,000,000	$ (62,221,632)	$ (25,381,016)	$ 26,397,352

[1] These amounts exclude residual amounts received in connection with the dissolution of these facilities.
[2] These amounts exclude cumulative 9/30/21 fair valuations associated with these assets. See table below for such fair valuations.

The following is a description of the liquidity lending facilities, with the exception of the MMLF discussed in Note 8.

Corporate Credit Facilities LLC

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 was intended to purchase qualified bonds from eligible issuers, and to purchase 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 COVID-19 caused. The SMCCF supported the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds.

Treasury had initially committed to contribute, through the ESF, up to a combined total of $75.0 billion in capital to the single common SPV supporting both programs. 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 FRBNY incurred in connection with this program. On December 29, 2020, the ESF's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $23.6 billion were returned to the ESF on January 5, 2021. The ESF used the proceeds to repay the outstanding debt to the Fiscal Service. The SPV ceased purchasing eligible notes on December 31, 2020. The FRBNY sold the credit holdings in the SPV and, on September 24, 2021, returned to the ESF its remaining outstanding equity contribution of $13.9 billion and $17 million of interest earnings on special nonmarketable Treasury securities invested within the SPV. Upon final dissolution of the CCF SPV on December 14, 2021, the ESF had received additional amounts totaling $463 million equal to 90 percent of the cash balance in all the other accounts of the SPV. This final dissolution amount was estimated at $462 million as of September 30, 2021, which is reported within the *"Other Receivable"* line on the Balance Sheets and *"Gains on Investments and Credit Program Receivables"* line on the Statements of Net Cost.

Main Street Facilities LLC

On May 18, 2020, the FRBB established the MSF SPV 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. Through loans from the FRBB, the SPV purchased 95 percent participations in loans originated by eligible lenders, while the lender retained five percent. 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.

Treasury had initially committed to contribute, through the ESF, up to $75.0 billion in capital to 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 MSF to cover potential losses incurred by the FRBB in connection with this program. On December 29, 2020, the ESF's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $20.9 billion were returned to the ESF on January 8, 2021. The SPV ceased purchasing loan participations on January 8, 2021.

Significant unobservable inputs used to estimate the value of ESF's preferred equity investments in the MSF are:

- Estimated credit ratings for MSF instruments
- Estimated default rates, recovery rates, market discount rates, prepayment rates, and floating interest rates
- Estimated SPV fees

Municipal Liquidity Facility LLC

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, on a recourse basis, to allow the facility to purchase short-term notes directly from eligible U.S. states (including the District of Columbia), counties and cities.

Treasury had initially committed to contribute, through the ESF, up to $35.0 billion in capital to 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. On December 29, 2020, the ESF's undisbursed investment commitment of $17.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $11.2 billion were returned to the ESF on January 5, 2021. The SPV ceased purchasing eligible notes on December 31, 2020.

Term Asset-Backed Securities Loan Facility LLC

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 backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, commercial mortgages, and certain other assets.

On June 16, 2020, 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. On January 5, 2021, excess funds of $6.5 billion were returned to the ESF pursuant to the amended SPV LLC agreement. No new credit extensions were made after December 31, 2020.

Commercial Paper Funding Facility LLC

On March 30, 2020, the FRBNY established the CPFF SPV to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. To cover potential losses incurred by FRBNY in connection with this program, on April 13, 2020, the ESF made a capital contribution in the CPFF SPV by transferring $10.0 billion of its core funds to the SPV in exchange for a preferred equity interest in the SPV. The SPV ceased purchasing commercial paper on March 31, 2021. Commencing June

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29, 2021 and concluding on July 7, 2021, the FRBNY made final distributions to the ESF of the $10.0 billion capital contribution, $5 million of interest earnings on special nonmarketable Treasury securities invested within the SPV, and $44 million of residual earnings equivalent to 90 percent of the cash balance in all the other accounts of the SPV. These cash proceeds were reinvested in overnight, Nonmarketable U.S. Treasury Securities. The CPFF SPV was terminated on July 8, 2021.

The following is financial information about the assets held in each of the remaining SPVs as of September 30, 2021 and 2020, which was obtained from the FRB's Combined Quarterly Financial Reports (unaudited):

	As of September 30, 2021		
(in thousands)	**Total Assets Excluding ESF's Equity Contribution**	**ESF's Equity Contribution[1]**	**Total Assets Including ESF's Equity Contribution**
Main Street Facilities	$ 13,865,573	$ 16,585,741	$ 30,451,314
Municipal Liquidity Facility	4,493,039	6,283,952	10,776,991
Term Asset-Backed Securities	1,490,650	3,552,944	5,043,594
Total	$ 19,849,262	$ 26,422,637	$ 46,271,899

[1] *Amounts include interest earnings on special, non-marketable Treasury securities.*

	As of September 30, 2020		
(in thousands)	**Total Assets Excluding ESF's Equity Contribution**	**ESF's Equity Contribution[1]**	**Total Assets Including ESF's Equity Contribution**
Corporate Credit Facilities	$ 13,100,000	$ 37,500,000	$ 50,600,000
Main Street Facilities	2,100,000	37,500,000	39,600,000
Municipal Liquidity Facility	1,700,000	17,500,000	19,200,000
Term Asset-Backed Securities	3,200,000	10,000,000	13,200,000
Commercial Paper Funding Facility	59,000	10,000,000	10,059,000
Total SPV Assets	$ 20,159,000	$ 112,500,000	$ 132,659,000

[1] *Amounts include interest earnings on special, non-marketable Treasury securities.*

The following section entitled "*COVID-19: Investments, Net*" is a discussion of the ESF's accounting for the credit support provided to the FRBs' liquidity lending facilities, with the exception of the MMLF facility, which is discussed in Note 8.

COVID-19: Investments, Net

As of September 30, 2021 and 2020, the preferred equity investments in the SPVs were valued as follows:

	As of September 30, 2021					
(in thousands)		**Gross Investment**		**Cumulative Valuation Gain/(Loss)**		**Fair Value**
Main Street Facilities[1]	$	16,572,055	$	(998,749)	$	15,573,306
Municipal Liquidity Facility[1]		6,276,224		176,823		6,453,047
Term Asset-Backed Securities[1]		3,549,073		3,022		3,552,095
Total COVID-19 Investments in SPVs	$	26,397,352	$	(818,904)	$	25,578,448

(1) *In January 2021, ESF's investment in excess of amounts equivalent to the purchase price of the assets held within these SPVs was returned to the ESF.*

	As of September 30, 2020					
(in thousands)		**Gross Investment**		**Cumulative Valuation 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 COVID-19 Investments in SPVs[1]	$	112,500,000	$	(4,553,997)	$	107,946,003

(1) The *$1.5 billion funded credit support to the MMLF is included in Other Assets rather than as an investment (refer to Note 8 for further details).*

Budgetary vs. Proprietary Accounting Treatment of SPVs

The CARES Act stipulated that the SPV investment transactions, to the extent they involved the use of the CARES Act appropriation, be funded in accordance with the provisions of FCRA. The CARES Act provided up to $454.0 billion of the $500.0 billion in appropriation to finance the subsidy portion of these transactions, and to borrow from the Fiscal Service for the remainder of the financing. During FY 2020, the ESF disbursed an aggregate total of $102.5 billion to acquire equity interests in the SPVs, of which $19.1 billion represented the subsidy portion funded by the CARES Act appropriation, and the remaining $83.4 billion was funded by Fiscal Service borrowings. The ESF reported the $500.0 billion of subsidy financing made available pursuant to the CARES Act less the $19.1 billion, or $480.9 billion, within the *"Fund Balance with Treasury"* line of the Balance Sheets as of September 30, 2020. In FY 2021, the CAA rescinded $478.8 billion of the $480.9 billion September 30, 2020 appropriation balance. Of the remaining $2.1 billion, $500 million was used to fund subsidy costs related to direct loan disbursements and administrative expenses incurred, leaving $1.6 billion of this appropriation within the *"Fund Balance with Treasury"* line as of September 30, 2021. The ESF reported these CAA rescissions within the line item *"Appropriations Rescinded"* on the Statement of Changes in Net Position for the fiscal year ending September 30, 2021. Additionally, in FY 2021, Treasury and the Federal Reserve amended four of the SPV agreements governing the SPVs executing the emergency credit facilities, which resulted in a return of capital totaling an aggregate of $62.2 billion. The ESF used these proceeds to repay outstanding borrowings used to finance the non-subsidized portion of these investments. For budgetary accounting purposes, the ESF accounted for the initial investment financing in FY 2020 and subsequent activity in FY 2021 related to these investments pursuant to FCRA guidelines in accordance with Section 185 of Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget.*

For proprietary accounting purposes, the ESF accounted for all SPV investments as equity investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2. Accordingly, the ESF records changes in the fair value of these investments as realized or unrealized fair value gains or losses within either the "*Gains on Investments and Credit Program Receivables"* or the *"Losses on Investments and Credit Program Receivables"* line item of the Statements of Net Cost. The budgetary subsidy cost allowance is based on cash flows discounted using a Treasury rate to determine the subsidy cost and the proprietary fair value adjustment is based on market interest rates to discount projected cash flows. For the fiscal years ended September 30, 2021 and 2020, the ESF recorded an unrealized fair value net loss of $819 million and $4.6 billion related to these investments, respectively.

Fair Value Estimation Factors

In determining the fair value of the SPV equity investments, the ESF uses available market pricing data, market pricing of floating interest-rate swaps, expected loss rates, and contractual instrument terms to estimate scenario-specific, expected cash flows for the SPVs. For market pricing data, the ESF specifically uses: (i) active market prices for the TALF where public securities serve as collateral for loans made by the TALF program, (ii) Bloomberg estimated prices for securities owned by the MLF program, in which Treasury has made an equity investment, 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 uses contractual instrument terms, active market prices, expected loss rates and, where applicable, market pricing of floating interest-rate swaps to estimate scenario-specific, expected cash flows, which are discounted using market-based discount rates.

In deriving the fair value of the SPV investments, 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 Treasury's equity investments into TALF, MSF, and MLF are not publicly traded, there is no comparable trading information available. The fair valuations rely on Level 3 inputs that reflect assumptions about the expectations that market participants would use in pricing Treasury's equity investments into these SPVs.

Transfer of Proceeds Upon Dissolution of SPVs

For those SPVs that were funded through a combination of CARES Act appropriation and Fiscal Service borrowings in accordance with FCRA guidelines, all proceeds that the ESF realizes from these investments upon the dissolution of the SPVs are transferred to the ESF to repay all borrowings and other funding costs incurred from these investments. In accordance with the CARES Act, the ESF must transfer any remaining excess residual proceeds to the Federal Old-Age and Survivors Insurance Trust Fund. To the extent that the fair value of the SPV equity investment assets also incorporate anticipated realization of excess residual proceeds, the ESF records a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. The ESF recorded a liability of $222 million as of September 30, 2021 within the *"Intra-Governmental: Other Liabilities"* line of the Balance Sheets; there was no liability recorded as of September 30, 2020.

Entity vs. Non-Entity Exchange Transactions.

The SPV preferred equity investments are treated as exchange transactions in that the ESF received a preferred equity interest in the SPVs in exchange for its capital funding of the liquidity facilities. All SPV investment assets funded through a combination of CARES Act appropriation and Fiscal Service borrowings, along with any related income or loss associated with these assets, are treated as entity transactions, with the exception of that portion of the assets and related income or loss representing the excess residual proceeds that will be remitted to the Federal Old-Age and Survivors Insurance Trust Fund, which are treated as non-entity transactions. The SPV equity investment and MMLF credit support that were funded using the ESF's core funds, and any related income or loss associated with these assets, are treated as entity transactions.

NOTE 7 – COVID-19: CREDIT PROGRAM RECEIVABLES, NET

The CARES Act authorized Treasury, through the ESF, 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. Treasury chose to make only direct loans under this authorization. Of the $500.0 billion appropriation provided under the CARES Act, up to $46.0 billion was authorized to be used to fund the subsidy costs associated with making these loans. The CARES Act stipulated that the direct loans were to be made in accordance with the provisions of FCRA; accordingly, the ESF funded the direct loans using a combination of the $46.0 billion in authorized appropriations and borrowings from Fiscal Service. The ESF finalized loan agreements for up to $7.0 billion and $15.4 billion during fiscal years 2021 and 2020, respectively, for which the ESF disbursed an aggregate total of $858 million and $1.8 billion during fiscal years 2021 and 2020, respectively. As of September 30, 2021, there were no remaining loan commitments for which future borrowings could be made under the CARES Act.

The CARES Act specified that the Secretary determines the terms and conditions of the loans and stated that the duration of the loans will be no longer than five years. It also mandated 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." As "financial protection of the Government," the CARES Act also mandated that the ESF obtains certain financial instruments including, but not limited to, common stock in the eligible business for the benefit of taxpayers. The following is a discussion of the ESF's accounting related to the direct loans.

The ESF presents the direct loans as credit program receivables on the Balance Sheets. As of September 30, 2021, the net credit program receivables of the passenger airlines and other related businesses (which includes national security businesses, air cargo carriers, ticket agents, and maintenance and repair firms) programs of $594 million and $717 million, respectively, included a negative subsidy allowance of $213 million and a positive subsidy allowance of $56 million, respectively. As of September 30, 2020, the net credit program receivables of the passenger airlines and other related businesses of $1.4 billion and $163 million, included a positive subsidy allowance of $159 million and $85 million, respectively. The negative or positive subsidies at the end of 2021 and 2020 reflect the ESF's projection as of those dates that these programs would result in net earnings or net cost to the ESF, respectively, after accounting for principal loan repayments, interest, and fees. Included in these receivables are the projected cash flows associated with the common stock warrants, common stock shares, and senior debt instruments received in

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connection with making these direct loans.

The ESF performed a financial statement re-estimate of these credit programs costs. The re-estimates performed as of September 30, 2021 resulted in a downward re-estimate or decrease of $415 million and $268 million in the cost of the passenger airline programs and other related businesses programs, respectively. The FY 2021 re-estimates recorded by the ESF included the expected Federal Old-Age and Survivors Insurance Trust Fund liabilities for passenger airlines and other related businesses. These re-estimate results stemmed from lower expected losses for the outstanding investments and collections received during FY 2021, which included several large prepayments. The re-estimates performed as of September 30, 2020, resulted in an upward re-estimate, or increase in the cost of the passenger airlines program, of $12 million, and resulted in a downward re-estimate, or decrease in the cost of the single other related business program cost, of $29 million. These re-estimate results stemmed primarily from the September 30, 2020, market prices which implied higher or lower loss rates than those the ESF initially estimated in the budget formulation estimate for these programs.

The net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales, are treated as entity exchange transactions since all such future proceeds realized by the ESF from the net credit program receivables will be used to repay all of its borrowing and other funding costs incurred from these direct loans. In accordance with the CARES Act, the ESF must transfer any remaining excess residual proceeds to the Federal Old-Age and Survivors Insurance Trust Fund. Accordingly, to the extent that the net credit program receivables also incorporate anticipated realization of excess residual proceeds, the ESF records a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. Hence, the ESF's net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales are treated as entity transactions, with the exception of any excess residual amounts owed to this trust fund, which are treated as non-entity transactions. As of September 30, 2021, the ESF recorded a liability of $261 million due to the Federal Old-Age and Survivors Insurance Trust Fund within the *"Intra-Governmental: Other Liabilities"* line on the Balance Sheets. As of September 30, 2020, the ESF did not record a liability as there was a combined net positive subsidy cost of $244 million associated with the passenger airline and national security business loans, indicating that the ESF had not yet recovered its costs.

NOTE 8 – COVID-19: OTHER ASSETS

Money Market Mutual Fund Liquidity Facility

The FRBB launched the MMLF on March 23, 2020 to make loans available to eligible financial institutions, on a non-recourse basis, secured by high-quality assets purchased by the financial institution from money mutual funds. The ESF committed to provide $10.0 billion of credit support to the MMLF. On May 20, 2020, the ESF transferred an initial $1.5 billion of the $10.0 billion of committed funds from its core funds. The FRBB agreed to pay the ESF a "facility fee" for the use of the MMLF credit support based on the amount of interest owed by the borrower on each MMLF loan. The FRBB did not make new credit extensions after March 31, 2021, and FRBB terminated the MMLF. On April 12, 2021, the FRBB returned to the ESF its $1.5 billion of contributed capital, along with $134 million of accrued facility fee residual earnings. The undisbursed credit support commitment of $8.5 billion was also canceled on April 12, 2021.

The ESF's participation in the MMLF program involved transferring in FY 2020, $1.5 billion (which was previously invested by the ESF in overnight federal investments) to a separate deposit account maintained by the FRBNY in the name of the FRBB (MMLF Account) for the purpose of providing credit support of the MMLF program. 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 *"COVID-19: Other"* line of the Balance Sheets as of September 30, 2020. In connection with the April 2021 termination of this program in which the ESF received a return of $1.5 billion that the ESF had made available as credit support, the ESF also received $134 million of accrued facility fee residual earnings. The Statements of Net Cost reflect accrued facility fee earnings of $15 million and $119 million for the fiscal years ended September 30, 2021 and 2020, respectively.

NOTE 9 - OTHER INVESTMENTS, NET

Other Investments, Net include foreign currency holdings that the ESF typically invests in interest-bearing securities issued or held through foreign governments or monetary authorities. Of the total $5.2 billion fair value of foreign investments (excluding related interest receivable) held at September 30, 2021 $0.8 billion will mature within one year, $2.4 billion will mature after one year but before five years, and $2.0 billion will mature after five years but before ten years. The fair value of the available-for-sale and trading investment securities is determined using Level 1 inputs.

As of September 30, 2021, and 2020, Other Investments, Net consisted of the following:

(in thousands)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/2021 Net Investment	Unrealized Gain/(Loss)	9/30/2021 Fair Value
Investment Type:						
Foreign Investments:						
Euro Bonds & Notes	$ 4,713,632	$ 288,916	$ 45,174	$ 5,047,722	$ 211,220	$ 5,258,942
Japanese Government Bonds	6,531	18	-	6,549	(257)	6,292
Total	$4,720,163	$ 288,934	$ 45,174	$5,054,271	$ 210,963	$ 5,265,234
Investment Classification:						
Available for Sale						
Debt securities	$ 717,508	$ 25,900	$ 10,524	$ 753,932	$ 48,421	$ 802,353
Trading						
Debt securities	4,002,655	263,034	34,650	4,300,339	162,542	4,462,881
Total Non-Federal	$ 4,720,163	$ 288,934	$ 45,174	$ 5,054,271	$ 210,963	$ 5,265,234

(continued)

(in thousands)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/2020 Net Investment	Unrealized Gain/(Loss)	9/30/2020 Fair Value
Investment Type:						
Foreign Investments:						
Euro Bonds & Notes	$ 4,503,460	$ 289,785	$ 53,251	$ 4,846,496	$ 437,442	$ 5,283,938
Japanese Government Bonds	333,736	121	105	333,962	41,425	375,387
French Time Deposits	142,201	-	(88)	142,113	(2)	142,111
Total	$ 4,979,397	$ 289,906	$ 53,268	$ 5,322,571	$ 478,865	$ 5,801,436
Investment Classification:						
Available for Sale						
Debt securities	$ 1,306,561	$ 46,528	$ 15,266	$ 1,368,355	$ 127,789	$ 1,496,144
Trading						
Debt securities	3,672,836	243,378	38,002	3,954,216	351,076	4,305,292
Total Non-Federal	$ 4,979,397	$ 289,906	$ 53,268	$ 5,322,571	$ 478,865	$ 5,801,436

The following table provides a reconciliation of ESF's investment activity for the fiscal year ended September 30, 2021:

(in thousands)	For the Year Ended September 30, 2021
Balance, beginning of period	$ 5,801,436
Valuation Adjustments	(267,902)
Gain/Loss on Sales/ Dispositions	(245,077)
Acquisition of Investments	9,185,047
Sale/Repayment of Investments	(9,199,200)
Change in Interest Income/Other	(9,070)
Balance, end of period	$ 5,265,234

NOTE 10 – DUE TO THE GENERAL FUND

The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S government, as a whole. It also includes accounts used in the management of the Budget of the U.S. Government.

The ESF's *Due to the General Fund* liability at September 30, 2021 and 2020 of $3.3 billion and $12.8 billion, respectively, represents the amount of accrued downward subsidy re-estimates to be returned to the General Fund. These re-estimates reflect changes in the valuation of assets budgeted under FCRA and reported as COVID-19: Investments (refer to Note 6) and COVID-19: Credit Program Receivables (refer to Note 7) on the Balance Sheets. (See table below.) The change in the net cost of the investments and receivables is reported within "*Gains on Investments and Credit Program Receivables"* or *"Losses on Investments and Credit Program Receivables"* on the

Statements of Net Cost.

(in millions)		**2021**		**2020**
Credit Reform Downward Subsidy Re-estimates for COVID-19 Investments		**(2,859,532)**		(12,805,622)
Credit Reform Downward Subsidy Re-estimates for Credit Programs Receivable		**(391,833)**		(29,239)
Total	**$**	**(3,251,365)**	$	(12,834,861)

NOTE 11 - DEBT

During FY 2021, the ESF disbursed $858 million for direct loans under CARES Act authority which the ESF financed with $642 million of Fiscal Service borrowings and the remainder with the CARES Act appropriated funding. During FY 2020, the ESF disbursed $102.5 billion and $1.8 billion for investments and direct 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 $14.0 billion needed to finance the actual amount of the downward subsidy re-estimates, of which $12.8 billion was accrued based on estimates at the end of FY 2020 (refer to Note 10). ESF also borrowed $290 million and $945 million during fiscal years 2021 and 2020, respectively, to finance the scheduled payment of interest due to the Fiscal Service on outstanding principal borrowings.

The maturity dates for the debt payable to the Fiscal Service range from September 30, 2024 to September 30, 2026. Effective interest rates range from 0.80 percent to 1.71 percent. In January 2021, the FRB returned an aggregate of $62.2 billion of excess funds to Treasury (through the ESF) from four SPV credit facilities (refer to Note 6). The ESF used the cash received to repay outstanding debt to the Fiscal Service initially incurred under the CARES Act authority. In September 2021, the FRB returned an additional $13.9 billion of the remaining equity contributions for one of these SPV credit facilities, of which $13.6 billion was used to repay its remaining outstanding debt. All debt and related interest costs are intra-governmental and covered by budgetary resources. See additional details on borrowing authority in Note 14.

Interest expense on the outstanding debt is accrued and reported within the *"Economic Recovery Program - Interest Expense on Debt"* line on the Statements of Net Cost and paid annually on September 30. For the fiscal years ended September 30, 2021 and 2020, the ESF recorded interest expense totaling $607 million and $3.1 billion, respectively, related to this debt. The accrued interest expense was paid in full on September 30, 2021 and 2020.

The following table presents a summary of debt payable to the Fiscal Service as of September 30, 2021 and 2020, as issued in connection with each of the liquidity lending facilities and loan programs:

(continued)

(in thousands)	FY 2020 Ending Balance (1)	FY 2021 Net Borrowing/(Repayment) (2)	FY 2021 Ending Balance
SPV Investment-Related Borrowing:			
Corporate Credit Facilities	$ 36,906,000	$ (36,906,000)	$ -
Main Street Facilities	20,938,545	(7,396,726)	13,541,819
Municipal Liquidity Facility	17,723,079	(11,602,739)	6,120,340
Term Asset-Backed Securities	9,972,297	(6,504,573)	3,467,724
Direct Loans-Related Borrowing:			
Passenger Air Carriers	1,428,716	(1,025,621)	403,095
National Security Businesses and Cargo Air Carriers	133,759	330,961	464,720
Total Intra-Governmental Debt	$ 87,102,396	$ (63,104,698)	$ 23,997,698

(1) The FY 2020 ending balance represents net borrowings made in FY 2020. Downward subsidy re-estimates accrued for in FY 2020 were funded in FY 2021. (2) Inclusive of $14.0 billion in borrowing needed to finance the actual amount of the downward subsidy re-estimates.

NOTE 12 - 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, 2021 and 2020.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), which was signed in 1994 and is renewed annually, is implemented by Treasury through the Exchange Stabilization Agreement (ESA) with Mexico. Treasury, through 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, 2022 and December 12, 2022, respectively. There were no drawings outstanding on the ESF swap line as of September 30, 2021, and 2020.

NOTE 13 – FUNDS FROM DEDICATED COLLECTIONS

Pursuant to Section 10 of the *Gold Reserve Act of 1934*, as amended, the Secretary, with the approval of the President, through the ESF, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary, consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates.

(continued)

The ESF core exchange stabilization program (Treasury Account Symbol 020X4444) accounts for and reports its holdings to the Fiscal Service on the Standard Form 224, *"Statement of Transactions,"* and provides other reports to Congress. Interest on SDRs in the IMF, investments in Treasury securities, and investments in foreign currency assets are the ESF's primary sources of revenue. The ESF's earnings and realized gains, or losses, on SDRs and foreign currency assets represent resources, or uses, to the U.S. government. In FY 2020, the ESF used $11.5 billion of its existing balance in Treasury securities to support the COVID-19 programs by investing $10.0 billion in the CPFF SPV and $1.5 billion in the MMLF (refer to Notes 6 and 8, respectively). In FY 2021, the Board returned these funds to the ESF, including related earnings residuals

The tables below reflect condensed total assets, total liabilities, net cost of operations and net position of the core fund established to support the ESF's core exchange stabilization program activities:

BALANCE SHEETS

	As of September 30,	
(in thousands)	**2021**	**2020**
ASSETS		
Nonmarketable U.S. Treasury Securities	**$ 22,836,891**	$ 11,169,942
Foreign Currency and Other Monetary Assets	**179,553,649**	67,607,243
COVID-19 Investments and Other	**-**	11,665,211
Other Investments, Net	**5,265,234**	5,801,436
Total Assets	**$ 207,655,774**	$ 96,243,832
LIABILITIES AND NET POSITION		
LIABILITIES		
Special Drawing Right Allocations and Related Interest Payable	**$ 161,835,969**	$ 49,716,537
Special Drawing Right Certificates Issued to Federal Reserve Banks	**5,200,000**	5,200,000
Total Liabilities	**167,035,969**	54,916,537
NET POSITION		
Total Unexpended Appropriations	**200,000**	200,000
Total Cumulative Results of Operations	**40,419,805**	41,127,295
Total Net Position	**40,619,805**	41,327,295
Total Liabilities and Net Position	**$ 207,655,774**	$ 96,243,832

(continued)

STATEMENTS OF NET COST

(in thousands)	Fiscal Year Ended September 30, 2021		2020	
Gross Cost of Operations	**$**	**1,446,027**	$	1,747,144
Earned Revenue		**(738,537)**		(3,173,330)
Net Cost of (Net Income from) Operations	**$**	**707,490**	$	(1,426,186)

STATEMENTS OF CHANGES IN NET POSITION

(in thousands)	Fiscal Year Ended September 30, 2021		2020	
UNEXPENDED APPROPRIATIONS	**$**	**200,000**	$	200,000
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance		**41,127,295**		39,701,109
(Net Cost) Net Income of Operations		**(707,490)**		1,426,186
Total Cumulative Result of Operations		**40,419,805**		41,127,295
NET POSITION	**$**	**40,619,805**	$	41,327,295

NOTE 14 - STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) presents information about total budgetary resources available to the ESF and the status of those resources.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance, brought forward, October 1 as of September 30, 2021 and 2020 consisted of the following:

(in thousands)	As of September 30, 2021		September 30, 2020	
Unobligated Balance, Brought Forward From Prior Year	$	489,238,112	$	39,773,406
Adjustments to Budgetary Resources Made During Current Year				
Downward Adjustments of Prior Year Undelivered Orders		126,369,654		-
Borrowing Authority Withdrawn		(93,290,516)		-
General Allocation of SDRs		112,833,910		-
Downward Adjustments of Prior Year Delivered Orders		2,019,612		396,320
Other Adjustments		(1,406,400)		2,684,642
Unobligated Balance From Prior Year Budgetary Authority, Net (Discretionary and Mandatory)	$	635,764,372	$	42,854,368

The increase in *Unobligated Balance, Brought Forward From Prior Year* is primarily the result of the carryforward into FY 2021 of the unobligated portion of the $500.0 billion CARES Act appropriation received in FY 2020. The increase in *Downward Adjustments of Prior Year Undelivered Orders* is

(continued)

driven by undisbursed SPV investment and direct loan commitments which were de-obligated pursuant to the CAA in December 2020 (refer to Notes 6 and 7), as well as direct loan repayments and commitment expirations in FY 2021. The decrease in *Borrowing Authority Withdrawn* reflects the reduction in resources that are no longer needed for the SPV investments and direct loan commitments which were de-obligated pursuant to the CAA (refer to Notes 6 and 7). The increase in *General Allocation of SDRs* reflects a general allocation of SDRs to the U.S. government by the IMF valued at $112.8 billion, increasing the ESF's balance in SDR Holdings, and a corresponding increase in SDR Allocations (refer to Note 5).

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which the ESF has paid in advance, but for which delivery or performance has not yet occurred. Undelivered orders totaling $13 million as of September 30, 2021 were all unpaid, of which $2 million and $11 million involved federal and non-federal entities, respectively. Undelivered orders totaling $127.0 billion as of September 30, 2020 were all unpaid, of which $12.5 billion and $114.5 billion involved federal and non-federal entities, respectively. The decrease in *Undelivered Orders – Unpaid* as of September 30, 2021, primarily resulted from the de-obligation on December 27, 2020 of undisbursed but previously committed CARES Act funds totaling $106.0 billion (refer to Note 6).

Terms of Borrowing Authority Used

The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. OMB Circular No. A-11 defines repayment requirements. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed borrowings earn interest at the same rate as the financing account pays on its debt owed to the Fiscal Service. In the event that principal and interest collections exceed the interest expense due, the ESF receives the excess payment. If principal and interest do not exceed interest expense due, the ESF will borrow the difference. The ESF makes periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings is due on September 30. Interest rates on FCRA borrowings range from 0.80 percent to 1.71 percent. No borrowing authority remained as of September 30, 2021, as resources are no longer needed for the SPV investments and direct loan commitments which were de-obligated pursuant to the CAA (refer to Notes 6 and 7). The related borrowing authority was $93.5 billion as of September 30, 2020.

Reconciliation of the President's Budget

The FY 2023 Budget of the U.S. (also known as the President's Budget), with actual numbers for FY 2021, was not published at the time that these financial statements were issued. The FY 2023 President's Budget is expected to be published by OMB in late-March 2022, and will be available from the U.S. Government Publishing Office. The FY 2022 President's Budget was reconciled to the ESF's SBR amounts reported for FY 2020. The only differences between the two documents were due to rounding.

(continued)

Legal Arrangements Affecting Use of Unobligated Balances

The use of the ESF's unobligated balances made available to the ESF by the CARES Act is governed by Section 1003(a)(2)(C) of the CAA, which provides that such funds may be used (i) to pay costs for modifications and the exercise of existing rights, as well administrative expenses, associated with existing loans, loan guarantees, and other investments authorized by the CARES Act, (ii) for the Office of the Special Inspector General for Pandemic Recovery to carry out the purposes of the CARES Act, and (iii) for reimbursement of certain expenses of the Congressional Oversight Commission under the CARES Act. Any such funds remaining on January 1, 2026 will be transferred to the General Fund to be used for deficit reduction.

The rest of the ESF's unobligated balances is governed by Section 10 of the *Gold Reserve Act of 1934*, as amended, codified at 31 U.S.C. 5302, except that (i) pursuant to the CARES Act, as amended, the ESF may not be used for any program or facility established under Section 13(3) of the Federal Reserve Act that is the same as any such program or facility in which the Secretary made an investment pursuant to the CARES Act other than the TALF SPV and (ii) pursuant to the *Emergency Economic Stabilization Act of 2008*, the ESF may not be used to establish future guarantee programs for the U.S. money market mutual fund industry. The ESF's unobligated balances governed by Section 10 is the dollar value of cash and cash equivalents, investment securities and SDR Holdings in amounts that are not encumbered by any existing obligations of the ESF, are available for use by the Secretary consistent with the relevant statutory requirements and are available without fiscal year limitation.

NOTE 15 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGETARY OUTLAYS, NET

The Reconciliation of Net Cost of the ESF's Operations to the ESF's Outlays, Net (referred to as "Net Outlays" for purposes of this note) depicts the difference between proprietary information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP, which includes the recognition of assets and liabilities for which collections and payments, respectively, have or have not been made. In contrast, budgetary accounting information is used for planning and control purposes, and includes net outlays that reflect both the receipt and use of cash, as well as reporting of the federal deficit. The reconciliation of Net Cost (presented on an accrual basis) and Net Outlays (presented on a budgetary basis) reflects the relationship between proprietary accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary accounting.

For the fiscal years ended September 30, 2021 and 2020, the Reconciliation of Net Cost of the ESF's Operations to the ESF's Outlays, Net consisted of the following:

	Fiscal Year Ended September 30, 2021		
(in thousands)	**Intra-Governmental**	**Other Than Intra-Governmental**	**2021 Total**
Total Net Cost (Income) of ESF Operations	**$ 474,132**	**$ (4,005,450)**	**$ (3,531,318)**
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Unrealized Valuation (Loss) on Investments (Notes 6 and 9)	-	(314,415)	(314,415)
Unrealized Valuation Gain on Special Drawing Rights (Note 5)	-	1,540	1,540
Year-end Credit Reform Subsidy Accrual Re-Estimates	-	(9,125,350)	(9,125,350)
Increase/(Decrease) in Assets:			
Special Drawing Rights Holdings and Related Interest Receivable (Note 5)	-	112,836,965	112,836,965
COVID-19 Other (Note 8)	-	(118,699)	(118,699)
Other Investments, Net (Note 9)	-	(9,071)	(9,071)
(Increase)/Decrease in Liabilities:			
Special Drawing Right Allocations and Related Interest Payable (Note 5)	-	(112,837,165)	(112,837,165)
Other Liabilities	(482,903)	(48)	(482,951)
Other Financing Sources:			
Imputed Costs	(134)	-	(134)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	**(483,037)**	**(9,566,243)**	**(10,049,280)**
Components of Budgetary Outlays That Are Not Part of Net Cost			
Sale of COVID Investments (Note 6)	-	(10,000,000)	(10,000,000)
Sale of COVID-19 Other (Note 8)	-	(1,500,000)	(1,500,000)
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	483,605	-	483,605
Total Components of Budgetary Outlays That Are Not Part of Net Cost	**483,605**	**(11,500,000)**	**(11,016,395)**
Other Reconciling Items			
Other Reconciling Items	-	61,586	61,586
Total Other Reconciling Items	**-**	**61,586**	**61,586**
Agency Outlays, Net	**$ 474,700**	**$ (25,010,107)**	**$ (24,535,407)**

(continued)

	Fiscal Year Ended September 30, 2020		
(in thousands)	**Intra-Governmental**	**Other Than Intra-Governmental**	**2020 Total**
Total Net Cost of ESF Operations	**$ 779,672**	**$ 3,585,494**	**$ 4,365,166**
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Unrealized Valuation Gain on Investments (Notes 6 and 9)	-	1,108,674	1,108,674
Unrealized Valuation Gain on Special Drawing Rights (Note 5)	-	62,248	62,248
Year-end Credit Reform Subsidy Accrual Re-Estimates	-	12,376,715	12,376,715
Increase/(Decrease) in Assets:			
Special Drawing Rights Holdings and Related Interest Receivable (Note 5)	-	(70,321)	(70,321)
COVID-19 Other (Note 8)	-	118,699	118,699
Other Investments, Net	-	(80,202)	(80,202)
(Increase)/Decrease in Liabilities:			
Special Drawing Right Allocations and Related Interest Payable (Note 5)	-	67,497	67,497
Other Liabilities	-	(399)	(399)
Other Financing Sources:			
Imputed Costs	(32)	-	(32)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	**(32)**	**13,582,911**	**13,582,879**
Components of Budgetary Outlays That Are Not Part of Net Cost			
Purchase of COVID Investments (Note 6)	-	10,000,000	10,000,000
Purchase of COVID-19 Other (Note 8)	-	1,500,000	1,500,000
Total Components of Budgetary Outlays That Are Not Part of Net Cost	**-**	**11,500,000**	**11,500,000**
Other Reconciling Items			
Other Reconciling Items	-	80,221	80,221
Total Other Reconciling Items	**-**	**80,221**	**80,221**
Agency Outlays, Net	**$ 779,640**	**$ 28,748,626**	**$ 29,528,266**

NOTE 16 – SUBSEQUENT EVENTS

The following event transpired after September 30, 2021 but prior to the issuance date of this report:

In November 2021, Treasury and the respective Federal Reserve Banks amended the limited liability company agreements for MSLP, TALF, and MLF to provide for periodic interim distributions of "excess equity." For MSLP and MLF, this means the excess of Treasury's remaining equity contribution (including investment earnings thereon) over the purchase price of all participations held by the facility. For TALF, this means the excess of Treasury's remaining equity contribution (including investment earnings thereon) over the aggregate principal amount of all outstanding facility loans. Treasury received the first such distributions, totaling $5.14 billion, on November 19, 2021. Future distributions will take place at six-month intervals, provided that MSLP is not required to make any further interim distributions if the remaining amount of Treasury's equity contribution is $1 billion or less.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Combining Statement of Budgetary Resources by Major Budget Account

The Statement of Budgetary Resources as of September 30, 2021 and 2020 presents total budgetary resources and the status of resources by each major budget account within the ESF: (i) the fund reporting Dedicated Collections (refer to Note 13) that supports Exchange Stabilization, (ii) the program fund for FCRA-budgeted COVID-19 Investments (refer to Note 6) and Credit Program Receivables (refer to Note 7), and (iii) the non-budgetary financing account for FCRA-budgeted COVID-19 Investments and Credit Program Receivables.

	For the Year Ended September 30, 2021			
(in thousands)	**Exchange Stabilization Program Budgetary Account**	**COVID-19 Budgetary Account**	**COVID-19 Non-Budgetary Financing Account**	**Total**
BUDGETARY RESOURCES				
Unobligated balance from prior year budget authority, Net (discretionary and mandatory) (Note 14)	$ 143,048,969	$ 480,425,919	$ 12,289,484	$ 635,764,372
Appropriations (discretionary and mandatory)	-	(477,890,238)	-	(477,890,238)
Borrowing authority (discretionary and mandatory)	-	-	14,713,402	14,713,402
Spending authority from offsetting collections (discretionary and mandatory)	11,654,704	-	(11,582,981)	71,723
Total Budgetary Resources	$ 154,703,673	$ 2,535,681	$ 15,419,905	$ 172,659,259
STATUS OF BUDGETARY RESOURCES				
New obligations and upward adjustments	$ 114,139,044	$ 944,637	$ 15,039,789	$ 130,123,470
Unobligated balance, end of year:				
Apportioned, unexpired accounts	-	1,591,044	-	1,591,044
Unapportioned, unexpired accounts	40,564,629	-	380,116	40,944,745
Unobligated balance, end of year	40,564,629	1,591,044	380,116	42,535,789
Total Status of Budgetary Resources	$ 154,703,673	$ 2,535,681	$ 15,419,905	$ 172,659,259
OUTLAYS, NET, AND DISBURSEMENTS, NET				
Outlays, net (discretionary and mandatory)	$ (11,654,704)	$ 1,149,585	$ -	$ (10,505,119)
Distributed offsetting receipts	(1)	(14,030,287)	-	(14,030,288)
Agency Outlays, Net (Discretionary and Mandatory)	$ (11,654,705)	$ (12,880,702)	$ -	$ (24,535,407)
Disbursements, net (mandatory)			$ (63,485,485)	$ (63,485,485)

(continued)

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

	For the Year Ended September 30, 2020			
(in thousands)	**Exchange Stabilization Program Budgetary Account**	**COVID-19 Budgetary Account**	**COVID-19 Non-Budgetary Financing Account**	**Total**
BUDGETARY RESOURCES				
Unobligated balance from prior year budget authority, Net (discretionary and mandatory) (Note 14)	$ 42,854,368	$ -	$ -	$ 42,854,368
Appropriations (discretionary and mandatory)	-	499,975,000	-	499,975,000
Borrowing authority (discretionary and mandatory)	-	-	188,523,874	188,523,874
Spending authority from offsetting collections (discretionary and mandatory)	139,144	-	26,101,218	26,240,362
Total Budgetary Resources	$ 42,993,512	$ 499,975,000	$ 214,625,092	$ 757,593,604
STATUS OF BUDGETARY RESOURCES				
New obligations and upward adjustments	$ 21,891,665	$ 31,838,735	$ 214,625,092	$ 268,355,492
Unobligated balance, end of year:				
Apportioned, unexpired accounts	-	468,136,265	-	468,136,265
Unapportioned, unexpired accounts	21,101,847	-	-	21,101,847
Unobligated balance, end of year	21,101,847	468,136,265	-	489,238,112
Total Status of Budgetary Resources	$ 42,993,512	$ 499,975,000	$ 214,625,092	$ 757,593,604
OUTLAYS, NET, AND DISBURSEMENTS, NET				
Outlays, net (discretionary and mandatory)	$ 11,360,856	$ 19,331,017	$ -	$ 30,691,873
Distributed offsetting receipts	(79)	(1,163,528)	-	(1,163,607)
Agency Outlays, Net (Discretionary and Mandatory)	$ 11,360,777	$ 18,167,489	$ -	$ 29,528,266
Disbursements, net (mandatory)			$ 87,102,396	$ 87,102,396

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