
LETTER FROM THE PRESIDENT

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I am pleased to present the Federal Reserve Bank of New York's *2015 Annual Report*. This report provides an overview of our accounting policies, detailed information on our consolidated statement of condition (balance sheet), and our audited consolidated financial statements. In this letter, I will share with you some financial highlights of 2015, including changes in our balance sheet, our operational support for the policy directives of the Federal Open Market Committee (FOMC), completion of the Fedwire Securities modernization program, continued efforts to strengthen our control environment, our work on market and financial stability, and steps taken to foster discussion about bank culture. All these efforts are in support of the Federal Reserve's mission to promote financial stability, formulate and implement monetary policy, and provide safe and efficient financial services.

Changes in Our Balance Sheet

In recent years, the New York Fed's balance sheet has grown—a reflection of the measures taken by the Federal Reserve since the financial crisis to support the nation's economic recovery. In 2015, our balance sheet continued to change in response to FOMC policy directives and market conditions. In December 2015, the FOMC noted considerable improvement in economic conditions and raised the target range for the federal funds rate. As a result, reverse repo activity increased by \$115 billion from the prior year. Material changes in relative currency strength affected the valuation of foreign currency held by the Bank for operational and policy purposes. Congressional legislation also affected the Bank's balance sheet and statement of income through the Fixing America's Surface Transportation Act (FAST Act), which required the Federal Reserve

to reduce aggregate capital surplus to \$10 billion. As a result, the New York Fed had to reduce its retained surplus to no more than \$3.3 billion, resulting in an additional \$6.4 billion payment to the Treasury and a net operating loss for the fiscal year of \$5.6 billion.

Operational Support for the Normalization of Monetary Policy

For a number of years, the New York Fed has been working under the direction of the FOMC to develop the tools necessary for the normalization of monetary policy after a prolonged period of low interest rates. In 2015, the Bank continued to perform tests to create the capacity and flexibility needed to adapt its operational and analytical tools so that they remain effective in light of evolving market conditions. The tools developed were deployed in December with the FOMC's decision to raise the target federal funds rate, and since that time their performance has been consistent with our expectations.

Executing Fedwire Modernization

There were also key milestones for the Fedwire Modernization Program in 2015. The program brought the Fedwire Funds and Fedwire Securities Services onto modern technology platforms, which provide a nimbler, faster, and more resilient infrastructure. The successful completion of this modernization was a significant operational task of large scope and complexity. The program was also an important step in our work to support the Federal Reserve's objective of a safer, more efficient, and faster payment system.

Strengthening the Control Environment

In 2015, we continued to make progress on developing our internal processes and risk controls. We developed

a new process, risk, and control (PRC) taxonomy and implemented a new risk-reporting tool. The Bank also strengthened its planning and resource management practices, giving particular attention to capital planning and the application of effective project management discipline. This work is part of our continued commitment to ensure that we have the best frameworks and organizational capacity to support our public mission.

Market and Financial Stability

The New York Fed also made contributions to market and financial stability in 2015. Staff worked with partners to explore the evolving structure of the U.S. Treasury market, focusing on gaining a better understanding of the key factors underlying the development of its current structure and liquidity. The U.S. Treasury market is the deepest and most liquid government securities market in the world. Because of the Treasury market's unique role in the global economy, its liquidity and functioning are important for market and financial stability. In addition to conducting research and analysis on market liquidity, the Bank worked with other regulators to bring together industry leaders, academic experts, and representatives of the official sector to discuss the evolving structure of the market.

William C. Dudley

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Bank Culture

We also continued our work on bank culture and conduct with the aim of fostering discussion about the reform of culture and behavior in the financial services industry. This past year we held a number of events that explored what the financial industry is doing to proactively address this issue. We convened leaders and regulators to discuss best practices, challenges, and opportunities for further collaboration both within the industry and within the official sector. We also met with academics to learn what current research is revealing about the impact of culture on performance in the financial system. These events reinforced in my mind that there is much to do in this area and we will continue to support efforts to address culture and conduct.

A Look Ahead

These are some of the highlights from 2015—all of which supported our priorities to promote a healthy economy and a sound financial system. We will continue to make strides on all our current efforts and prepare for the work ahead.