

# U.S. DEPARTMENT OF THE TREASURY

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## Finances and Operations

### **ESF ASSETS AND LIABILITIES**

The following lists show the types of assets and liabilities that are on the ESF's balance sheet. These balance sheet items are described below. The latest ESF financial statements are also available.

- [ESF Monthly Financial Statement](#)

### **ASSETS**

- Special Drawing Rights
- U.S. Government Securities
- Euros
- Yen

### **LIABILITIES**

- SDR Allocations
- SDR Certificates

### **US GOVERNMENT SECURITIES**

Under current Treasury policy, the ESF's dollar funds are invested in one-day, non-marketable US Treasury securities, redeemable on demand, bearing interest at a market-related overnight rate of return.

## **SDRS**

US holdings of SDRs and transactions in SDRs are for the ESF's account. Currency payments for purchases of SDRs, payments of charges and assessments and receipts of interest on SDR balances are also for the ESF's account.

## **YEN AND EUROS**

The ESF's foreign currency assets are invested in foreign central bank deposit accounts and marketable investments in foreign government securities. Currently, these deposits and securities are only yen- and euro-denominated.

The ESF's foreign currency portfolio includes cash accounts at official institutions, securities issued by foreign governments, and, in the case of euros, investments through repurchase agreements in foreign government securities.

## **SDRCS**

Under the Special Drawing Rights Act of 1968, the Secretary of the Treasury is authorized to issue SDRCs to the Federal Reserve in return for dollars. The dollars received increase the ESF's assets, but with a corresponding increase in liabilities in the form of the SDRCs that are issued. Treasury has a written understanding with the Fed that the SDRCs will be redeemed when ESF dollar holdings appear to be in excess of foreseeable requirements. Treasury does not pay interest on SDRCs.

## **SDR ALLOCATIONS**

SDR allocations are a liability of the ESF. However, the ESF would have to repay them only if the IMF decided to cancel allocations, the US withdrew from participating in the SDR Department, or the IMF itself was dissolved. Members of the SDR Department are charged interest on their SDR allocations and receive interest on their SDR holdings. Because the ESF's SDR holdings are greater than allocations, the ESF receives net interest on its SDR position.

The ESF's SDR holdings came to exceed its SDR allocations primarily as a result of net acquisitions of SDRs by the ESF in transactions with other IMF members over the years. These issues are further discussed in [Treasury's quarterly report to Congress](#) on the cost of US participation in the IMF

## HOW THE ESF OPERATES

The ESF can undertake three main types of operations -- the purchase or sale of foreign currency, the acquisition or use of SDRs, and loans or credits to foreign governments or entities. Also, the ESF can also enter into "warehouse" swaps with the Federal Reserve System, but there have been no warehouse swaps outstanding since 1992. Each of the types of operations is described below.

## PURCHASE OR SALE OF FOREIGN CURRENCY

When the Secretary of the Treasury authorizes intervention in the foreign exchange market, the ESF enters the market to purchase or sell foreign currencies against dollars. As fiscal agent of the ESF, the Federal Reserve Bank of New York (FRBNY) executes the actual trading of foreign currencies and dollars for the account of the ESF, handles the "back office" documentation of the trades, and invests ESF foreign currency balances. The foreign currency assets of the ESF are invested by FRBNY either in marketable foreign government securities or in demand and time deposit instruments provided by foreign central banks. Dollars held by the ESF are invested in non-marketplace Treasury securities by Treasury's Bureau of Public Debt.

## ACQUISITION OR USE OF SPECIAL DRAWING RIGHTS

The SDR holdings of the United States are resources of the ESF. From time to time, the ESF may sell SDRs to or buy SDRs from other IMF member countries; usually, these transactions are arranged by the IMF. Also, SDRs have been used in paying the reserve asset portion of some past IMF quota increases. Treasury may issue SDRCs to the Federal Reserve, against the ESF holdings of SDRs, in return for dollars for purposes of financing SDR acquisitions or exchange stabilization operations.

## LOANS OR CREDITS

The ESF can make loans or credits through temporary swap lines pre-negotiated with a prospective borrower. The ESF maintains a standing \$3 billion short-term swap line, the

Exchange Stabilization Agreement, with Mexico under the 1994 North American Framework Agreement.

When a loan in the form of a "swap agreement" is drawn upon by the borrower, an agreed amount of ESF dollars is exchanged for an equivalent amount of the borrower's currency at an agreed exchange rate (generally, the current spot exchange rate) with a commitment to reverse the transaction at the same exchange rate at maturity. Treasury has the right at any time to terminate the swap agreement and require immediate repayment of the total amount drawn.

From the mid-1970s to the early 1990s, almost all ESF credits were swap agreements providing "bridge" loans, i.e., short-term in maturity and expressly linked to, and repaid by a scheduled disbursement from an IFI (usually the IMF). However, the rationale for classic bridge loans diminished at the end of the 1990s, when the IMF and World Bank developed procedures allowing for more rapid disbursement of resources. When the ESF provided financial support for Mexico in 1995, it was through a medium-term credit. More recently, medium-term support was provided in 1998 through the ESF's participation in a multilateral guarantee of a Bank for International Settlements credit facility for Brazil.

Under the ESF statute, "a[n ESF] loan or credit to a foreign entity or government of a foreign country may be made for more than 6 months in any 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." Such notifications were provided regarding ESF credit exposure to Mexico in 1982, to Mexico in 1995, and to Brazil in 1998.

## **WAREHOUSING**

The Federal Open Market Committee of the Federal Reserve can permit the Treasury to "warehouse" some amount of foreign currency, if needed and appropriate, with the Federal Reserve System for the purposes of making more dollar resources available for ESF operations. Warehousing arrangements have only been used in a few specific instances.

In a warehousing transaction, the ESF makes a spot sale of foreign currency to the Federal Reserve System and simultaneously commits to repurchase the currency at a market-determined forward price on a specific future maturity date. Authorization to conduct warehousing operations has been renewed annually by the FOMC as a part of its foreign currency directive to the Federal Reserve Bank of New York for the System Open Market Account. The limit on warehousing is \$5 billion, but this limit was temporarily raised to \$10

billion in 1989 and \$20 billion in 1995. The last use of the warehousing arrangement was during the period 1988-1992.