

COVID-19: THE FEDERAL RESERVE BOARD ESTABLISHES A MONEY MARKET MUTUAL FUND LIQUIDITY FACILITY

Date: 19 March 2020

U.S. Public Policy and Law Alert

By: Daniel F. C. Crowley, Karishma Shah Page, Bruce J. Heiman, William A. Kirk, Stephen M. Humenik, Dean A. Brazier, Daniel S. Cohen

The Federal Reserve is establishing a Money Market Mutual Fund Liquidity Facility ("MMFL Facility") for prime money market mutual funds to support "the flow of credit to households and business" in these current markets. To that end, the Federal Reserve Bank of Boston (the "Reserve Bank") will make nonrecourse loans available to eligible financial institutions secured by high-quality assets. Eligible institutions include all U.S. depository institutions, U.S. bank holding companies, and U.S. branches and agencies of foreign banks. Eligible collateral includes:

1. U.S. Treasuries & Fully Guaranteed Agencies;
2. Securities issued by U.S. Government Sponsored Entities;
3. Asset-backed commercial paper that is issued by a U.S. issuer, is rated at the time purchased from the Fund or pledged to the Reserve Bank not lower than A1, F1, or P1 by at least two major rating agencies or, if rated by only one major rating agency, is rated within the top rating category by that agency; and
4. Unsecured commercial paper that is issued by a U.S. issuer, is rated at the time purchased from the Fund or pledged to the Reserve Bank not lower than A1, F1, or P1 by at least two major rating agencies or, if rated by only one major rating agency, is rated within the top rating category by that agency.

Advances that are secured by U.S. Treasuries & Fully Guaranteed Agencies or securities of government-sponsored enterprises will have an interest rate equal to the Federal Reserve Bank of Boston's prime rate. All other advances will be charged that primary credit rate plus 100 basis points. As with the Commercial Paper Funding Facility ("CPF Facility") the Federal Reserve established a few days ago, the Department of the Treasury will provide \$10 billion of credit protection through the Treasury's Exchange Stabilization Fund. For more details on the MMFL Facility, see here for the term sheet.

The MMFL Facility is structured in a very similar manner to the Asset-backed Commercial Paper Money Market Mutual Fund Liquidity Facility the Federal Reserve operated during the financial crisis of 2007–08. However, the MMFL Facility will be able to purchase a wider range of assets.

To further facilitate the efficacy of the MMFL Facility, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have issued an interim final rule that would "modif[y] the agencies' capital rules so that financial institutions receive credit for the low risk of their MMFL activities, reflecting the fact that institutions would be taking no credit or market risk in association with such

K&L GATES HUB

activities." Specifically, the rule would "exclude non-recourse exposures acquired as part of the [MMFL] from a banking organization's total leverage exposure, average total consolidated assets, advanced approaches-total risk-weighted assets, and standardized total risk-weighted assets, as applicable." See here for a copy of the interim final rule.

As with its establishment of the CPF Facility and the Primary Dealer Credit Facility ("PDC Facility"), the Federal Reserve has established the MMFL Facility pursuant to its authority under Section 13(3) of the Federal Reserve Act. For further discussion of the CPF Facility and the PDC Facility, please see our prior alert here.

For more information about responding to COVID-19, please see K&L Gates' resource page here.

KEY CONTACTS



DANIEL F. CROWLEY
PARTNER
WASHINGTON DC
+1.202.778.9447
DAN.CROWLEY@KLGATES.COM



KARISHMA S. PAGE
PARTNER
WASHINGTON DC
+1.202.778.9128
KARISHMA.PAGE@KLGATES.COM



BRUCE J. HEIMAN
PARTNER
WASHINGTON DC
+1.202.661.3935
BRUCE.HEIMAN@KLGATES.COM



WILLIAM A. KIRK
PARTNER
WASHINGTON DC
+1.202.661.3814
WILLIAM.KIRK@KLGATES.COM



STEPHEN M. HUMENIK
PARTNER
WASHINGTON DC, CHICAGO
+1.202.778.9477
STEPHEN.HUMENIK@KLGATES.COM



DEAN A. BRAZIER
ASSOCIATE
WASHINGTON DC
+1.202.778.9177
DEAN.BRAZIER@KLGATES.COM



DANIEL S. COHEN
ASSOCIATE
WASHINGTON DC
+1.202.778.9020
DAN.COHEN@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.

K&L GATES HUB