Banking and Finance Law Daily Wrap Up, FEDERAL RESERVE SYSTEM —Fed launches 'Money Market Mutual Fund Liquidity Facility', (Mar. 19, 2020)

Banking and Finance Law Daily Wrap Up

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By Nicole D. Prysby, J.D.

The Federal Reserve Board has established a Money Market Mutual Fund Liquidity Facility to enhance the liquidity of money markets and support the economy.

On March 18, 2020, the Federal Reserve Board announced the launch of the Money Market Mutual Fund Liquidity Facility (MMLF) to enhance the liquidity and functioning of money markets and to support the economy. On March 19, the Board also announced the release of an interim final rule to ensure that financial institutions will be able to effectively use the MMLF. The rule, which excludes the effects of purchasing assets through the MMLF from a banking organization's regulatory capital, is effective immediately and comments will be accepted for 45 days after its publication in the *Federal Register*. Further, on March 19, the Board announced the establishment of temporary U.S. dollar liquidity arrangements with several foreign banks, an action designed to help lessen strains in global U.S. dollar funding markets.

MMLF. Treasury Secretary Steven Mnuchin issued a statement about the establishment of the MMLF, pointing out that it will allow banks to immediately provide liquidity to Money Market Mutual Funds, which are important investment tools for American families and businesses.

Through the Board's launching of the MMLF, the Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds. The MMLF program will purchase a broader range of assets, but its structure is very similar to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility that operated from late 2008 to early 2010. The Department of the Treasury will provide $10 billion of credit protection to the Federal Reserve in connection with the MMLF from the Treasury's Exchange Stabilization Fund. The MMLF term sheet provides additional detail on eligibility, rates, fees, eligible collateral, and other details. For example, eligible collateral includes unsecured and secured commercial paper, agency securities, and Treasury securities.

Interim final rule. The Board, along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, released an interim final rule to ensure that financial institutions will be able to effectively use the MMLF. The interim final rule modifies the agencies' capital rules so that financial institutions receive credit for the low risk of their MMLF activities, reflecting the fact that institutions would be taking no credit or market risk in association with such activities. As the preamble to the rule explains, participation in the MMLF will affect a banking organization by potentially causing the organization to be subject to increased capital requirements. Because of the non-recourse nature of the Federal Reserve's extension of credit to the banking organization, the organization is not exposed to credit or market risk from the assets purchased by the banking organization and pledged to the Federal Reserve. Therefore, the agencies believe that it would be appropriate to exclude the effects of purchasing assets through the MMLF from a banking organization's regulatory capital. The interim final rule would permit banking organizations to exclude non- recourse exposures acquired as part of the MMLF from a banking organization's total leverage exposure, average total consolidated assets, advanced approaches-total risk-weighted assets, and standardized total risk-weighted assets.

The federal agencies seek comment on the following questions associated with the interim final rule: Discuss the advantages and disadvantages of neutralizing the effects of participating in the MMLF on regulatory capital requirements. How does the proposed approach support the objectives of the facility? What other steps could

be taken to support the objectives of the facility? How does the proposed approach sufficiently support the objectives of safety and soundness?

Temporary U.S. dollar liquidity. In addition, the Board has established temporary U.S. dollar liquidity arrangements with the Reserve Bank of Australia, the Banco Central do Brasil, the Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Norges Bank (Norway), the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden). The action is designed to help lessen strains in global U.S. dollar funding markets, thereby mitigating the effects of these strains on the supply of credit to households and businesses, both domestically and abroad. These arrangement will be in place for at least six months and will support the provision of U.S. dollar liquidity in amounts up to $60 billion each for the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Korea, the Banco de Mexico, the Monetary Authority of Singapore, and the Sveriges Riksbank and $30 billion each for the Danmarks Nationalbank, the Norges Bank, and the Reserve Bank of New Zealand.

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