Simpson Thacher

Memorandum

Federal Reserve Reestablishes Money Market Mutual Fund Liquidity Facility From the 2008 Financial Crisis and Temporary U.S. Dollar Liquidity Arrangements With Foreign Central Banks

March 19, 2020

Money Market Mutual Fund Liquidity Facility

On March 18, 2020, the Federal Reserve Board announced the establishment of a Money Market Mutual Fund Liquidity Facility ("MMLF") to make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from prime money market mutual funds. The MMLF will assist prime money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy. There is no aggregate limit on funding under this program.

The MMLF was established pursuant to section 13(3) of the Federal Reserve Act, which provides the Federal Reserve with emergency lending authority to companies other than depository institutions through broad-based programs and facilities that relieve liquidity pressures in financial markets. 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 program is structured similarly to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF") that the Federal Reserve operated during the Financial Crisis, except that a broader range of assets will be eligible for purchase under the MMLF.

The MMLF follows other recent actions by the Federal Reserve Board to support the U.S. economy, including lowering interest rates and bank reserve requirements, encouraging discount window borrowing, enhancing the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements with other major central banks, as well as the recent establishment of a commercial paper credit facility and a primary dealer credit facility. The MMLF is only available for purchases from prime money market funds. The MMLF is not available for purchases from U.S. federal government money market funds, which are permitted to maintain a stable net asset value under current law, or to money market funds that invest in securities issued by a single U.S. state or other tax-exempt money market funds.

MMLF Key Terms

The Federal Reserve Board released the following high-level description of the terms of the MMLF and indicated that more detailed program terms and conditions and an operational calendar will be subsequently published.

- Facility: To provide liquidity to Money Market Mutual Funds ("Funds"), the Federal Reserve Bank of Boston ("Reserve Bank") would lend to eligible borrowers, taking as collateral certain types of assets purchased by the borrower from Funds (i) concurrently with the borrowing; or (ii) on or after March 18, 2020, but before the opening of the MMLF.
- Borrower Eligibility: All U.S. depository institutions, U.S. bank holding companies and their U.S. broker-dealer subsidiaries, and U.S. branches and agencies of foreign banks are eligible to borrow under the MMLF.
- Funds: A Fund must identify itself as a prime money market fund under item A.10 of Securities and Exchange Commission Form N-MFP.
- Advance Maturity: The maturity date of an advance will equal the maturity date of the eligible collateral pledged to secure the advance made under the MMLF except in no case will the maturity date of an advance exceed 12 months.
- Eligible Collateral: Collateral that is eligible for pledge under the MMLF include the following:
    - U.S. Treasuries & Fully Guaranteed Agency Securities;
    - Securities issued by U.S. Government Sponsored Entities ("GSEs");
    - Asset-backed commercial paper that is (i) issued by a U.S. issuer and (ii) 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 rating agency; or
    - Unsecured commercial paper that is (i) issued by a U.S. issuer and (ii) 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 rating agency.

  In addition, the MMLF may accept receivables from certain repurchase agreements.
- Rate: Advances made under the MMLF that are secured by U.S. Treasuries & Fully Guaranteed Agency Securities or Securities issued by U.S. GSEs will be made at a rate equal to the primary credit rate in effect at the Reserve Bank that is offered to depository institutions at the time the advance is made.

  All other advances will be made at a rate equal to the primary credit rate in effect at the Reserve Bank that is offered to depository institutions at the time the advance is made plus 100 bps.
- Fees: There are no special fees associated with the MMLF.
- Collateral Valuation: The collateral valuation will either be amortized cost or fair value. For asset-backed and unsecured commercial paper, the valuation will be amortized cost.

- Credit Protection by Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, will provide $10 billion as credit protection to the Reserve Bank.
- Non-Recourse: Advances made under the MMLF are made without recourse to the Borrower, provided the requirements of the MMLF are met. For avoidance of doubt, borrowers under the MMLF will bear no credit risk.
- Program Termination: No new credit extensions will be made after September 30, 2020, unless the MMLF is extended by the Federal Reserve Board.

Regulatory Capital Treatment of the MMLF

Separately and consistent with the purposes of the MMLF, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued an interim final rule to neutralize the impact of a depository institution holding company or depository institution's participation in the MMLF for purposes of the agencies' regulatory capital requirements, including risk-based capital and leverage requirements (including the community bank leverage ratio).

Participation in the MMLF will affect the balance sheet of a banking organization because the banking organization must acquire and hold assets (that is, eligible collateral to be pledged to the Reserve Bank) on its balance sheet. As a result, a banking organization that participates in the MMLF could potentially be subject to increased capital requirements.

The interim final rule would permit banking organizations to exclude nonrecourse exposures acquired as part of the MMLF (including assets purchased beginning on March 19, 2020 and pledged to the Reserve Bank in connection with this facility) 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.

Temporary U.S. Dollar Liquidity Arrangements

On March 19, 2020, the Federal Reserve Board also announced the establishment of temporary U.S. dollar liquidity arrangements (swap lines) in amounts equaling $30 billion or $60 billion 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 swap lines are designed to help lessen strains in global U.S. dollar funding markets and will be in place for at least six months.

The Federal Reserve also has standing U.S. dollar liquidity swap lines with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank.

For more information regarding this memorandum, please contact any member of the Firm's Financial Institutions Group, including those listed below.

NEW YORK CITY

Lee A. Meyerson
+1-212-455-3675
lmeyerson@stblaw.com

Spencer A. Sloan
+1-212-455-7821
spencer.sloan@stblaw.com

WASHINGTON, D.C.

David W. Blass
+1-202-636-5863
david.blass@stblaw.com

Rajib Chanda
+1-202-636-5543
rajib.chanda@stblaw.com

Keith A. Noreika
+1-202-636-5864
keith.noreika@stblaw.com

Ryan Brizek
+1-202-636-5806
ryan.brizek@stblaw.com

Adam J. Cohen
+1-202-636-5578
adam.j.cohen@stblaw.com