FOMC, March 17, 2020
Press Release –
Establishment of a Primary Dealer Credit Facility (PDCF) to support the credit needs of Households and businesses

Summary

- COVID-19 has halted economic activity in many countries. Financial markets have experienced all-time high volatility and continue to be stressed. Lending to the primary dealers by the Federal Reserve is needed to maintain the orderly function of financial markets.
- Section 13(3) of the Federal Reserve Act permits emergency lending to bank and nonbank companies by the Federal Reserve with Treasury approval.
- On March 17, 2020, and Federal Reserve Bank of New York was authorized to lend under the PDCF program. The program begins March 20, 2020 and remains for at least 6-months.
- PDCF is a term loan facility that provides funding to primary dealers for up to 90-days in exchange for a broad range of collateral and is intended to foster the functioning of financial markets more generally. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.
- Collateral eligible for pledge under the PDCF includes
  - all collateral eligible for pledge in open market operations (OMOs);
  - investment grade corporate debt securities,
  - international agency securities,
  - commercial paper,
  - municipal securities,
  - mortgage-backed and asset-backed securities;[1] plus
  - equity securities.
- Foreign currency-denominated securities and collateral that is not priced by the clearing bank will <u>not</u> be eligible for pledge under the PDCF

[1] AAA-rated securities: commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), and collateralized debt obligations (CDOs). Other eligible securities as specified above are accepted if rated investment grade (such that BBB-securities and above). Specifically, investment grade commercial paper rated A1/P1 and A2/P2is accepted

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Press Release

March 17, 2020

Federal Reserve Board announces establishment of a Primary Dealer Credit Facility (PDCF) to support the credit needs of households and businesses

For release at 6:00 p.m. EDT

To support the credit needs of American households and businesses, the Federal Reserve Board on Tuesday announced that it will establish a Primary Dealer Credit Facility, or PDCF. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.

The PDCF will offer overnight and term funding with maturities up to 90 days and will be available on March 20, 2020. It will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

More detailed terms and conditions and an operational calendar will be subsequently released. The PDCF is established under Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary.

FAQs: Primary Dealer Credit Facility

March 30, 2020

What is the Federal Reserve's Primary Dealer Credit Facility (PDCF)? Why are we introducing the PDCF and what are some of its terms?

The Primary Dealer Credit Facility (PDCF) is a loan facility that will provide credit to primary dealers in exchange for a broad range of collateral for term funding with maturities up to 90 days. The PDCF is intended to support the credit needs of American households and businesses by fostering the functioning of financial markets more generally and to expand the ability of primary dealers to gain access to term funding.

How does the PDCF announced on March 17, 2020, differ from the facility operated between 2008 and 2010?

There are several differences between the facilities. Most notably, the recently announced PDCF offers term funding for up to 90 days, while the facility in operation between 2008 and 2010 offered only overnight loans.

Who can participate?

Eligible participants include the primary dealers. A list of the primary dealers is available here.

What are the terms of the PDCF loan?

PDCF loans will settle on the same business day and will mature up to 90 days after settlement. The rate paid on the loan (regardless of the duration of the loan) will be the same as the primary credit rate at the Federal Reserve Bank of New York in effect at the time the loan is made. Click here for the current primary credit rate.

Can borrowers prepay loans?

Yes. A primary dealer that wishes to prepay should contact the Bank of New York Mellon and request early termination, which will be communicated to the Federal Reserve Bank of New York for review and processing.

What collateral is eligible for pledging?

Eligible collateral includes a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. See the Term Sheet for Primary Credit Facility for additional detail.

What commercial paper is acceptable collateral for the PDCF? What happens if commercial paper that was originally accepted is downgraded?

Commercial paper must be rated investment grade, i.e. rated A2/P2/F2 or better by a major nationally recognized statistical rating organization (NRSRO). If rated by multiple NRSROs, the lowest rating will be used.

Should commercial paper collateralizing a term PDCF loan no longer meet the criteria described above (e.g., an NRSRO downgrade below A2/P2/F2 occurs), the primary dealer will need to replace the security with collateral that meets all applicable eligibility criteria to maintain full collateralization of the loan, or initiate an early termination of the loan. This is consistent with the treatment of other eligible collateral for a PDCF term loan that later fails to meet all applicable eligibility criteria over the life of the loan.

How can a primary dealer find out if a specific type of collateral is eligible for the PDCF?

Based on the broad collateral types indicated in the PDCF term sheet, a more detailed collateral schedule was provided by the Federal Reserve Bank of New York to the Bank of New York Mellon in keeping with the triparty setup process. This information was also shared with each primary dealer as a counterparty to the PDCF. Primary dealers can engage the Bank of New York Mellon should questions of additional granularity and eligibility arise.

How will collateral be valued?

The collateral will be subject to daily repricing by the Bank of New York Mellon according to a schedule designed to be similar to the margin schedule for lending by the Discount Window, to the extent possible. In the event the loan becomes under-collateralized, the borrower will need to pledge additional collateral to cover the shortfall or prepay the loan. The collateral schedule may be adjusted as conditions warrant and upon further analysis.

How do primary dealers initiate the loans?

Primary dealers should initiate transactions with their clearing bank for PDCF funds no later than 2:00 p.m. ET on business days. This time is subject to change.

Will there be tri-party fees assessed by the Bank of New York Mellon?

Yes, normal tri-party fees will apply.

Is there a frequency-based fee, as with the PDCF in operation between 2008 and 2010?

No.

How much can primary dealers borrow?

A primary dealer will be allowed to borrow up to the margin-adjusted collateral it can deliver to the Federal Reserve's account at the clearing bank.

How and when are the loans and collateral settled?

The loans will be made available to a primary dealer's clearing bank following the acknowledgment by the clearing bank that sufficient collateral has been placed in the Federal Reserve Bank of New York's tri-party account at the clearing bank. This will take place around 5:00 p.m. ET each day.

If a primary dealer requests a 90-day PDCF loan for which the maturity date would fall on a weekend or holiday, what happens?

If day ninety of a 90-day loan falls on a weekend or holiday, loans through the PDCF will mature on the next business day.

How do the primary dealers know that their requested borrowing has been fulfilled?

Each primary dealer should contact their clearing bank directly.

Is this lending with recourse?

Yes, loans to primary dealers made under the PDCF are made with recourse beyond the collateral to the primary dealer entity itself.

How is this different from discount window lending to depository institutions?

This facility differs from discount window lending to depository institutions in a number of ways. The PDCF is available to primary dealers while the discount window is available only to depository institutions. Also, the discount window does not accept equity securities as collateral for loans. In addition, credit under this facility is extended in the form of a repurchase agreement transaction.

Under what legal authority are PDCF loans made?

PDCF loans are made under Section 13(3) of the Federal Reserve Act.

If a dealer borrows from the PDCF, when will the individual dealer's borrowing activity be made known to the public?

Information on PDCF loans that includes individual borrower detail will be disclosed in accordance with Section 13(3) of the Federal Reserve Act.

How is funding provided through the PDCF treated in U.S. regulatory and supervisory purposes?

The Liquidity Coverage Ratio (LCR) rule does not require a firm to recognize an outflow for a secured funding transaction that matures more than 30 calendar days from the calculation date. As such, primary dealers that are affiliates of entities subject to the LCR rule would not recognize an outflow for so long as the maturity of the loan is not within 30 calendar days of a firm's calculation date. As the remaining maturity of the loan declines, the primary dealer may choose to pre-pay the loan and request a new loan up to 90 days.

How long will the PDCF be in operation?

The PDCF will remain available to primary dealers for at least six months, or longer if conditions warrant.

https://www.newyorkfed.org/markets/primary-dealer-credit-facility/primary-dealer-credit-facility-faq

Term Sheet for Primary Dealer Credit Facility (PDCF)

Borrower Eligibility

- Only primary dealers of the New York Fed are eligible to participate in the PDCF.

Eligible Collateral

- Collateral eligible for pledge under the PDCF includes all collateral eligible for pledge in open market operations (OMO);[2] plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities;[3] plus equity securities.[4] Foreign currency-denominated securities are not eligible for pledge under the PDCF at this time.
- Collateral that is not priced by the clearing bank will not be eligible for pledge under the PDCF.
- Additional collateral may become eligible at a later date upon further analysis.Term
- Loans will be made available to primary dealers for a term of up to 90 days.

Rate

- Loans made under the PDCF will be made at a rate equal to the primary credit rate in effect at the New York Fed offered to depository institutions via the Discount Window.

Prepayment

- Borrowers may prepay loans at any time.

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[2] An addition to OMO-eligible securities are Treasury strips.

[3] For the following securities types, only AAA-rated securities are accepted: commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), and collateralized debt obligations (CDOs). Other eligible securities as specified above are accepted if rated investment grade (such that BBB- securities and above). Specifically, investment grade commercial paper is accepted: commercial paper rated both A1/P1 and A2/P2.

[4] The following equities would not be eligible: exchange traded funds (ETFs), unitinvestment trusts, mutual funds, rights and warrants.

Time of Day

- During Fedwire hours

Custody Rules and Arrangement

- Dealers will communicate their demand for funding to their clearing bank. The clearing bank will verify that a sufficient amount of eligible collateral has been pledged by each primary dealer participating in the PDCF and notify the New York Fed accordingly.
- Once the New York Fed receives notice that a sufficient amount of margin-adjusted eligible collateral has been assigned to the New York Fed's account, the New York Fed will transfer the amount of the loan to the clearing bank for credit to the primary dealer.

Collateral Valuation

- The pledged collateral will be valued by Bank of New York Mellon according to a schedule designed to be similar to the margin schedule for lending by the Discount Window, to the extent possible.

Loan Size

- Loans will be limited to the amount of margin-adjusted eligible collateral pledged by the dealer and assigned to the New York Fed's account at the clearing bank.

Recourse

- Loans made under the PDCF are made with recourse beyond the pledged collateral to the primary dealer entity.

Program Termination

- The PDCF will remain available to primary dealers for at least six months, or longer if conditions warrant.

https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200317b1.pdf

Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act:

Primary Dealer Credit Facility

Overview

On March 17, 2020, the Board of Governors of the Federal Reserve System (Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, approved under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)) the establishment of the Primary Dealer Credit Facility (PDCF) and authorized the Federal Reserve Bank of New York (the Reserve Bank) to lend under that program. The PDCF is a term loan facility that provides funding to primary dealers in exchange for a broad range of collateral and is intended to foster the functioning of financial markets more generally. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.

Background and Details on the PDCF

Primary dealers are designated banks and securities broker-dealers with which the Reserve Bank trades U.S. government and select other securities and are the trading counterparties for the Federal Reserve in its execution of open market operations to carry out U.S. monetary policy.[5] In addition, the primary dealers serve a key role in providing liquidity in the market for government securities, which is in turn critical to the implementation of monetary policy.

Recent events have significantly and adversely impacted global financial markets. The spread of the Coronavirus Disease 2019 (COVID-19) has halted economic activity in many countries. Financial markets have experienced all-time high volatility and continue to be stressed, including the triparty repurchase agreement market in which primary dealers finance themselves.

In these circumstances, conditions indicated that lending to the primary dealers by the Federal Reserve was necessary to maintain the orderly function of financial markets. As a result, the Board determined that unusual and exigent circumstances existed and approved the establishment of the PDCF. In order to prevent disruptions in the financial markets from presenting a significant threat to the U.S. economy, the Board voted to authorize the Reserve Bank to establish the PDCF to provide term loans to primary dealers for up to 90 days. The PDCF will help

[5] A list of primary dealers can be found at https://www.newyorkfed.org/markets/primarydealers .

alleviate funding market strains by providing credit directly to primary dealers against a broad range of collateral for term.

Structure and Basic Terms

Under the PDCF, the Federal Reserve provides collateralized credit to primary dealers (credit is extended to primary dealers through their clearing banks) for a term of up to 90 days. The following provides an overview of the terms and conditions that govern the PDCF. The Board and Reserve Bank continue to monitor the affected financial markets and consult with market participants, and, accordingly, the terms and conditions governing the facility may be modified in the future, if appropriate.

Advances. Advances under the PDCF are for terms of up to 90 days. The lending rate is equal to the Discount Window primary credit rate in effect at the Reserve Bank. For the PDCF, dealers communicate their requests for funding to their clearing banks. The clearing bank verifies that a sufficient amount of eligible collateral has been pledged by each borrower and notifies the Reserve Bank accordingly. Once the Reserve Bank receives notice that a sufficient amount of margin-adjusted eligible collateral has been assigned to the Reserve Bank's account, the Reserve Bank transfers the amount of the loan to the clearing bank for credit to the primary dealer.

Collateral Eligibility and Valuation. Collateral eligible for pledge under the PDCF includes all collateral eligible for pledge in open market operations (OMOs);[6] plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities;[7] plus equity securities.[8] Foreign currency-denominated securities are not eligible for pledge under the PDCF at this time. Collateral that is not priced by the clearing bank will not be eligible for pledge under the PDCF.

Additional collateral may become eligible at a later date upon further analysis.

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[6] An addition to OMO-eligible securities are Treasury strips.

[7] For the following securities types, only AAA-rated securities are accepted: commercial mortgage-backed securities, collateralized loan obligations, and collateralized debt obligations. Other eligible securities as specified above are accepted if rated investment grade (such that BBB-securities and above). Specifically, investment grade commercial paper is accepted: commercial paper rated both A1/P1 and A2/P2.

[8] The following equities would not be eligible: exchange traded funds, unit investment trusts, mutual funds, and rights and warrants.

The pledged collateral will be valued by Bank of New York Mellon according to aschedule designed to be similar to the margin schedule for lending by the Discount Window, to the extent possible.

Termination Date. PDCF lending commenced on March 20, 2020, and will remain available for at least six months, or longer if conditions warrant.

Requirements Imposed on Recipients. The PDCF will not impose any new requirements on primary dealers with respect to employee compensation, distribution of dividends, or any other corporate decision in exchange for the assistance.

Expected Costs. The Board does not expect that lending under the PDCF will result in any losses to the Federal Reserve or the taxpayer. Such loans are made with recourse beyond the pledged collateral to the broker-dealer entity itself. While losses could occur in the event of a broker-dealer bankruptcy, the risk of loss is mitigated by haircuts on collateral value and daily revaluation of the collateral.

https://www.federalreserve.gov/publications/files/primary-dealer-credit-facility-3-25-20.pdf