FOMC, March 18, 2020
Press Release –
Money Market Liquidity Facility (MMLF)

Summary

- Established a Money Market Mutual Fund Liquidity Facility (MMLF) in support for the flow of credit to households and businesses by enhancing the liquidity and functioning of crucial money markets.
- MMLF is expected to be extended through September 30, 2020.
- MMLF intends to meet demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy.
- Federal Reserve Bank of Boston ("Reserve Bank") would lend to eligible borrowers, taking as collateral the following types of assets purchased by the borrower from Funds
    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 A1, F1, or P1 r better; or
    4. Unsecured commercial paper that is issued by a U.S. issuer, is rated not lower than A1, F1, or P1

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Press Release

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Federal Reserve Board broadens program of support for the flow of credit to households and businesses by establishing a Money Market Mutual Fund Liquidity Facility (MMLF)

For release at 11:30 p.m. EDT

The Federal Reserve Board on Wednesday broadened its program of support for the flow of credit to households and businesses by taking steps to enhance the liquidity and functioning of crucial money markets. Through the establishment of a Money Market Mutual Fund Liquidity Facility, or 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.

Money market funds are common investment tools for families, businesses, and a range of companies. The MMLF will assist money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy.

The attached term sheet details the types of assets, including unsecured and secured commercial paper, agency securities, and Treasury securities, that are eligible, as well as additional information. 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, or AMLF, that operated from late 2008 to early 2010. The MMLF is established by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary. 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.

Money Market Mutual Fund Liquidity Facility FAQs

The following is intended to address questions about the Money Market Mutual Fund Liquidity Facility (MMLF or Facility). The Federal Reserve may periodically update these FAQs and, therefore, please check this website for new FAQs or revisions to a previously issued FAQ.

Effective March 21, 2020. Amended April 10, 2020

A. Purpose and Design

A1. How will this program support money market mutual funds (MMMFs)?

In the days prior to the initiation of the program, some MMMFs experienced significant demands for redemptions by investors. Under ordinary circumstances, they would have been able to meet those demands by selling assets. Recently, however, many money markets have become extremely illiquid due to uncertainty related to the coronavirus outbreak.

Pursuant to Section 13(3) of the Federal Reserve Act, and with prior approval of the Secretary of the Treasury, the Board of Governors of the Federal Reserve System (Board) authorized the Federal Reserve Bank of Boston (FRBB) to establish the MMLF. In addition, the Secretary of the Treasury, using the Exchange Stabilization Fund, will provide $10 billion of credit protection to FRBB. The MMLF will assist MMMFs in meeting demands for redemptions by households and other investors, enhancing overall market functioning and the provision of credit to households, businesses and municipalities.

A2. How does the program work?

Under the MMLF, the FRBB will provide a non-recourse advance to an eligible borrower to purchase certain types of assets from an eligible MMMF. The MMMF must be a fund that identifies itself as a Prime, Single State, or Other Tax Exempt money market fund under item A.10 of Securities and Exchange Commission Form N-MFP. The assets are pledged to the FRBB as collateral (eligible collateral). See FAQ C1 for further details on eligible collateral under the program.

A3. When will the program begin?

The program opened on March 23, 2020.

A4. How long is this program in effect?

This program was established to respond to uncertainty related to the coronavirus and is authorized through September 30, 2020. No new credit extensions will be made after September 30, 2020, unless the MMLF is extended by the Board. Terms of the program may be adjusted before that time as market conditions warrant.

A5. How will the Federal Reserve administer this program?

It will be administered by the FRBB, which is authorized to make loans under this facility to eligible borrowers in any of the twelve Federal Reserve districts.

A6. Where can I find updates regarding the terms of the program and any operating documents?

The terms of the program are available on the Board's website, and will be updated to reflect modifications. Program documents can be found at https://www.federalreserve.gov/monetarypolicy/mmlf.htm

B. Borrower Information

B1. Who is eligible to participate in this program?

Eligible borrowers include all U.S. depository institutions, U.S. bank holding companies (parent companies incorporated in the United States or their U.S. broker-dealer subsidiaries), or U.S. branches and agencies of foreign banks. Eligible borrowers must provide the FRBB with necessary certifications, which include a certification that both the borrower and the MMMF from which the collateral is purchased are not insolvent.

B2. Is it necessary to have a master account with the Federal Reserve Bank of Boston or any Federal Reserve Bank to borrow under this facility?

No. If an eligible borrower has an account with any Federal Reserve Bank, the loan will settle through the existing account. Non-accountholders may borrow through a correspondent.

B3. What borrowing documents are needed to obtain a loan under this facility?

The documents are posted at www.frbdiscountwindow.org.

Prior to receiving an advance, a borrower must execute a Letter of Agreement and provide certain written certifications, including a certification that it and the MMMF are not insolvent. See section 201(d)(5)(iii) of the Board's Regulation A. The Letter of Agreement must be executed by someone granted authority under the borrower's Authorizing Resolutions for Borrowers. The certifications must be made by the chief executive officer or other authorized person. A borrower must notify FRBB immediately if any information in the certifications changes.

A borrower that does not currently have OC-10 documentation on file with its local Reserve Bank or any Reserve Bank must complete Authorizing Resolutions for Borrowers adopted by the borrower's board of directors (or equivalent governing body) and signed by a certifying official. The name and/or title of the individual signing the Letter of Agreement should be referenced in provision 2 of the Authorizing Resolutions for Borrowers.

A borrower that does not have a master account at a Federal Reserve Bank (such as an eligible

U.S. bank holding company or broker-dealer subsidiary) must also identify a correspondent bank to accept MMLF advances on its behalf and submit a completed agreement by the correspondent to be bound by the terms of the Correspondent Credit and Payment Agent Agreement (see Appendix 5 of Operating Circular 10). The signature page to be executed by the correspondent is contained at the back of the file containing the Letter of Agreement.

A scanned copy of properly executed documents must be delivered via e-mail to MMLF@bos.frb.org, prior to any extension of credit under the MMLF. The original executed documents should then be delivered or mailed to the address specified in the documents.

B3a. Can solvency certifications be based on representations provided to the Borrower by the MMMF?

Yes.

B3b. Does a Borrower need to re-execute the FRBB's Letter of Agreement if an update FRBB Letter of Agreement is published?

No. Any such updates, amendments, restatements, supplement or other modifications will be published by the Reserve Bank and constitute notification to the Borrower for purposes of ection 15.0 of the Circular.

B3c. Can an MMMF file a solvency certification directly with the FRBB?

No. Under the MMLF program, the FRBB's relationship is with the Borrower, not the MMF, therefore the solvency certification must come from the Borrower.

B4. Can the eligible borrower pledge commercial paper bought from proprietary funds under this facility?

Yes. For example, if eligible borrower "XYZ" manages a qualified MMMF, "Blue Ribbon Fund," XYZ may fund the purchase of CP from Blue Ribbon Fund under this Facility, so long as the transaction does not otherwise violate banking laws, securities laws or any other laws.

B5. Can the borrower buy from a qualified fund ABCP that was issued by an ABCP program for which the borrower serves as the sponsor and pledge that paper under this Facility?

Yes. A qualified borrower may pledge ABCP from one of its own programs. For example, if qualified borrower "XYZ" sponsors ABCP "Blue Ribbon Funding Trust IV," which is held by a qualified MMMF, XYZ may fund the purchase of ABCP from the fund and pledge it to secure a loan under this Facility.

B6. If a broker-dealer is participating in the Primary Dealer Credit Facility, can the authorizing resolution filed by the broker-dealer in conjunction with that program satisfy the resolution requirements for the MMLF?

No. A separate authorizing resolution is required.

B7. How will borrowers be notified of loan amounts and terms?

The FRBB will send via email a report of loan amounts and terms on the day following the borrowing to the individuals designated by the borrower on the Letter of Agreement.

B8. Are there other account-related steps that need to be taken prior to borrowing?

Yes. Each borrowing entity needs to establish a new Federal Reserve issued customer identification number or “pseudo ABA” at least 24 hours in advance of requesting a loan. Please send any related inquiries or requests for pseudo ABAs to MMLF@bos.frb.org.

B9. Can the borrower buy from a qualified fund CP or NCDs that were issued by the borrower and pledge that paper under this Facility?

Yes.

B10. Can the borrower buy from a qualified fund Variable Rate Demand Notes (VRDNs) that are liquidity or credit enhanced by the borrower and pledge that paper under this Facility?

Yes.

B11. How does the Borrower repay principal and interest of the loans under the MMLF?

At opening of business on the morning of the loan’s maturity date, which corresponds to the maturity date of the underlying collateral (or a maximum of 12 months from the date the loan was extended), the Borrower should request that FRBB release the collateral and ensure that the collateral is promptly withdrawn through DTC, and FRBB will debit the Borrower’s account at the Federal Reserve for the full amount of the loan plus accrued interest.

B12. How will MMLF loans appear on the Account Management Information (AMI®) statements?

MMLF loans are issued to the borrower’s newly created Federal Reserve issued customer identification numbers or “pseudo ABAs.” This is done in order to segregate these loans from other types of FRBB advances. The FRBB has defined these pseudo ABAs to settle all of the transactions associated with these loans to the borrowing institution’s master account, or to heir designated correspondent’s master account. The loan activity will appear on the master account’s Statement of Account in the respondent detail section. These entries may also be viewed real-time in the AMI® application by drilling down on Account Balance, requesting the

Single Respondent account view, and choosing the applicable pseudo ABA.

B13. What happens if the eligible collateral defaults?

As indicated in the Letter of Agreement, Borrowers may exercise the non-recourse provisions of the MMLF on the maturity date. To receive credit for the portion of the loan amount and accrued interest associated with the collateral that defaulted on the maturity date, the Borrower must email to FRBB at MMLF@bos.frb.org a signed Notice of Default Letter and evidence of default before the close of DTC on the business day following the maturity date and instruct DTC to transfer the defaulted collateral as directed by FRBB. If the Notice of Default Letter is received by FRBB before 6 p.m. on the day of default and FRBB is able to confirm the default before the close of Fedwire, credit will be given on a same-day basis.

C. Collateral Requirements

C1. Which forms of collateral are eligible?

At this time, the collateral that is eligible for pledge under the Facility must be one of the following types:

1. U.S. Treasuries & Fully Guaranteed Agencies;
2. Securities issued by U.S. Government Sponsored Entities;
3. Asset-backed commercial paper (ABCP), unsecured commercial paper, or a negotiable certificate of deposit (NCD) that is issued by a U.S. issuer, and that has a short-term rating at the time purchased from the Fund or pledged to the Reserve Bank in the top rating category (e.g., not lower than A1, F1, or P1, as applicable) from at least two major nationally recognized statistical rating organizations (NRSRO) or, if rated by only one major NRSRO, is rated within the top rating category by that NRSRO;
4. U.S. municipal short-term debt (excluding variable rate demand notes) that:
    a. Has a maturity that does not exceed 12 months; and
    b. At the time purchased from the Fund or pledged to the Reserve Bank:
        i. Is rated in the top short-term rating category (e.g., rated SP1, MIG1, or F1, as applicable) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top rating category by that NRSRO; or
        ii. If not rated in a short-term rating category, is rated in one of the top two long-term rating categories (e.g., AA or equivalent, including AA-, or above) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top two rating categories by that NRSRO.
5. Variable rate demand note (VRDN) that:
    a. Has a demand feature that allows holders to tender the note at their option within 12 months; and
    b. At the time purchased from the Fund or pledged to the Reserve Bank:
        i. Is rated in the top short-term rating category (e.g., rated SP1, VMIG1, or F1, as applicable) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top rating category by that NRSRO; or
        ii. If not rated in a short-term rating category, is rated in one of the top two long-term rating categories (e.g., AA, including AA-, or equivalent or above) by at least two major NRSROs or if rated by only one major NRSRO, is rated within the top two rating categories by that NRSRO.

Please see the responses to questions below (e.g., C8) for additional limitations and clarifications on collateral eligibility and pledging of collateral.

C2. How is "U.S. Issuer" defined for purposes of collateral eligibility?

A U.S. issuer is an entity organized under the laws of the United States or a political subdivision or territory thereof, or is a U.S. branch of a foreign bank.

C3. At what price must the banking organization purchase the eligible collateral from the Money Market Mutual Fund?

To be eligible collateral, it must be purchased at a price consistent with the collateral valuation. The collateral valuation will either be the seller's amortized cost or the fair value. For ABCP, unsecured commercial paper, NCDs, U.S. municipal short-term debt, and VRDNs, the valuation will be the seller's amortized cost.

C4. The Letter of Agreement requires a borrower to represent and warrant that certain collateral types (e.g., commercial paper, negotiable CDs, VRDNs) pledged to the Reserve Bank under the MMLF were purchased at amortized cost. Does that mean that assets a borrower purchased or will purchase at fair market value pursuant to an exemption from Section 23A of the Federal Reserve Act and the Board's Regulation W issued by the Federal Reserve would be ineligible for pledge under the facility?

No, the assets are eligible for pledge as collateral. For the purposes of the Letter of Agreement only, unless and until otherwise notified by the Reserve Bank in its sole discretion, eligible collateral purchased by a borrower at fair market value pursuant to and in compliance with an exemption from Section 23A of the Federal Reserve Act and the Board's Regulation W issued by the Federal Reserve shall be treated as having been purchased at amortized cost. The borrower must otherwise comply with all the terms and conditions in the Letter of Agreement, including other requirements on eligible collateral.

C.5 Does eligible collateral include programs in which there are co-issuers?

If one of the co-issuers of commercial paper is a U.S. issuer of commercial paper and the issuer meets all other program terms and conditions, the commercial paper will be considered eligible. However, as with all eligibility requirements, the FRBB reserves the right to limit or prohibit participation in the MMLF.

C6. Are floating rate instruments deemed to be acceptable collateral?

Yes. Floating rate instruments that qualify as eligible collateral may be posted to the MMLF as collateral under the same fixed-rate terms and purchase price as other loans. Accordingly, interest rate risk will be borne by the borrower.

C7. Under the program, can an eligible borrower borrow against collateral that it had owned prior to creation of the program?

No. It can only borrow against eligible collateral purchased from a MMMF on or after March 18, 2020, for U.S. Treasuries and Fully Guaranteed Agencies, Securities Issued by U.S Government Sponsored Entities, and ABCP and unsecured commercial paper; on or after March 20, 2020 for short-term municipal bonds; and on or after March 23, 2020 for VRDNs and NCDs.