

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).

Effective March 21, 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 will open on March 23, 2020, and will accept as collateral certain types of assets purchased by the borrower from MMMFs (i) concurrently with the borrowing or (ii) on or after March 18, 2020, but before the opening of the Facility.

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 of Governors of the Federal Reserve. 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.

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 solvent.

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 will be posted at [www.frbdiscountwindow.org]. A Borrower that does not currently have OC-10 documentation on file with their local Reserve Bank must complete Authorizing Resolutions for Borrowers adopted by the Borrower's board of directors and signed by a certifying official. An official authorized under that resolution must sign the FRBB's Letter of Agreement governing the program. Prior to receiving an advance, a borrower must provide written certifications that it and the MMMF are not insolvent, as the term is used in the Board's Regulation A. 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 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.

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?

Presently, the FRBB is using a recorded telephone call to the authorized borrower as the mechanism to confirm the loan amounts and terms transferred to the borrower.

C. Collateral Requirements

C1. Which forms of collateral are eligible?

Assets must be concurrently¹ purchased and pledged as collateral in order to secure an Advance under MMLF; provided that an eligible borrower may purchase assets between March 18, 2020, and the date that the program begins so long as the assets purchased in such time period are expeditiously pledged to the FRBB following the date that the program begins. All advances under the MMLF must be secured by a pledge of eligible collateral. Specifically, eligible collateral for pledge under the MMLF includes:

- U.S. Treasuries & Fully Guaranteed Agencies;
- Securities issued by U.S. Government Sponsored Entities;
- Asset-backed commercial paper that is issued by a U.S. issuer, is U.S. dollar denominated, and on the date purchased is rated 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;
- Unsecured commercial paper that is issued by a U.S. issuer, is U.S. dollar denominated, and on the date purchased is rated 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; or
- U.S. municipal short-term debt that:
 - Has a maturity that does not exceed 12 months; and
 - On the date purchased:

¹ Concurrently means only time sufficient for prompt settlement.

- If rated in the short-term rating category, is rated in the top short-term rating category (e.g., rated SP1, MIG1, or F1, as applicable) 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; or
 - If not rated in the short-term rating category, is rated in the top long-term rating category (e.g., AA or above) 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.
- In addition, the facility may accept receivables from certain repurchase agreements. The facility at this time will not take variable rate demand notes or tender option bonds, but the feasibility of adding these and other asset classes to the facility will be considered in the future.

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 asset-backed commercial paper, unsecured commercial paper and U.S. municipal short-term debt, the valuation will be the seller’s amortized cost.

C4. 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.

C5. 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.

C6. Under the program, is it necessary for the eligible borrower to pledge and borrow against the eligible collateral on the same day that it purchases such collateral from a MMMF?

Yes, except for collateral purchased between March 18, 2020 and the date that the program begins, which must be pledged expeditiously following the start of the program.

C7. Can CP with an extendable maturity be pledged to the MMLF?

No. If the CP has an extendable feature such that the CP maturity date can be extended under certain conditions, the CP is not eligible to be pledged to the MMLF.

C8. What are the instructions for pledging collateral?

The pledge must be completed by 3:30 p.m. on the day of pledge through completion of the following steps:

- (i) the securities have been approved for pledging, i.e., the FRBB has directed the Borrower to transfer the securities to the FRBB's Pledgee 600 account at DTC under the pseudo ABA number assigned to the Borrower by FRBB pursuant to the MMLF; and
- (ii) the securities have been transferred as directed by the FRBB and the transfer shows as "made" at DTC at the official close of DTC on the day of transfer.

C9. What is the specific collateral information required to be provided when requesting a loan and how will I know if I qualify?

There is a standard Excel spreadsheet titled "MMLF Liquidity Facility Request Form." A borrower will file a consolidated spreadsheet showing all collateral being pledged. All fields should be completed and the spreadsheet e-mailed to MMLF@bos.frb.org no later than 12:00 p.m. Eastern Time of the day a loan will be requested.

C10. When does the risk associated with the eligible collateral that the Borrower has purchased under the MMLF transfer to FRBB?

For collateral purchased between March 18, 2020, and the date that the program begins, the credit risk associated with the collateral transfers to the FRBB on the date of purchase. For collateral purchased on or after the date that the program begins, the credit risk associated with the collateral transfers to the FRBB on the day of concurrent purchase and pledge of the collateral to the FRBB.

D. Other Terms

D1. At what rate will loans under this facility be extended?

Loans made under the Facility that are secured by U.S. Treasuries and Fully Guaranteed Agencies or Securities issued by U.S. Government Sponsored Entities will be made at a rate equal to the primary credit rate in effect at the FRBB that is offered to depository institutions at the time the loan is made. Loans made under the Facility that are secured by U.S. municipal short-term debt will be made at a rate equal to the primary credit rate in effect at the FRBB that is offered to depository institutions *plus* 25 basis points. All other loans will be made at a rate equal to the primary credit rate in effect at the FRBB that is offered to depository institutions at

the time the loan is made, *plus* 100 basis points. That rate will be fixed for the term of the loan. There are no special fees associated with the Facility.

D2. What will be the maturity of the loans?

The maturity date of the loan will equal the maturity date of the eligible collateral pledged to secure the loan made under the MMLF, except in no case will the maturity date of an advance exceed 12 months. Prepayment in full or part is not allowed except in the event of bankruptcy or receivership of the borrower, or as otherwise permitted in the sole discretion of the FRBB.

E. Accounting and Regulatory Implications

E1. How should the eligible borrower account for the facility?

Consistent with GAAP, the Federal Reserve would expect such organizations to report purchased eligible collateral as an investment security (i.e., held-to-maturity or available-for-sale) on their balance sheets. These assets would be reflected at the time of purchase at the amortized cost or fair value. The non-recourse nature of the transaction would impact the valuation of the liability to the Federal Reserve. After reflecting any appropriate discounts on the assets and associated liabilities, organizations are not expected to report any material net gains or losses (if any) at the time of purchase. Any discounts generally would be accreted over time into income and expense. The Federal Reserve staff, in connection with providing the above guidance, has consulted with staff of the SEC's Office of the Chief Accountant.☐

E2. What capital charge will be assessed against a banking organization that received these loans from the Federal Reserve?

On March 19, 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued an interim final rule to allow banking organizations to neutralize the effects of purchasing assets through the program on risk-based and leveraged capital ratios. *See* <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200319a1.pdf>.

F. Other

F1. Where should questions regarding the facility be directed?

Effective immediately, inquiries can be emailed to MMLF@bos.frb.org. Eligible borrowers interested in the MMLF should call the FRBB at 800-322-0580 starting at 8:00 am Eastern Time on Monday, March 23, 2020. Eligible borrowers should direct supervisory policy questions (e.g., regulatory capital, accounting, section 23A of the Federal Reserve Act) to Arthur W. Lindo, Deputy Director, (202) 452-2695, Anna Lee Hewko, Associate Director, (202) 530-6260, and Molly Mahar, Associate Director, (202) 973-7360, Division of Supervision and Regulation, or Asad Kudiya, Senior Counsel, (202) 475-6358, and Mary Watkins, Senior Attorney, (202) 452-3722, Legal Division.