Journal of Financial Crises

Volume 5 | Issue 2

2023

Lessons Learned: Daleep Singh

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Yale Program on Financial Stability
Lessons Learned

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By Steven Kelly[1]

Daleep Singh served as head of the Markets Group at the Federal Reserve Bank of New York (FRBNY) from February 2020 to February 2021. In this leading role, he helped to formulate and effect the Fed's response to the COVID-19 crisis. He met with the Yale Program on Financial Stability (YPFS) to share insights related to the Fed's crisis responses during the pandemic. This Lessons Learned is based on an interview held with Singh on November 19, 2022; the full transcript may be accessed here.

Coordinated efforts, both across markets and across different crisis-fighting bodies, can improve the initial impact of a given crisis intervention.

Early in the pandemic, the Fed rolled out a number of emergency facilities to address domestic markets. In parallel, on March 15, 2020, the Fed eased the terms under its standing US dollar swap lines with five foreign central banks; on March 19, it effected temporary swap lines with nine other central banks; and on March 31, it established a repo facility open to foreign central banks and monetary authorities.[2] Singh said of the coordinated timing between responding to domestic and foreign dollar markets:

> What we wanted to do was to backstop both the domestic funding markets and the offshore dollar funding markets at the same time. As you know, there is a global market with demand for dollar liquidity. That's especially true during times of stress, since there are at least $10 trillion in dollar liabilities held offshore.

In addition to coordinating across markets, Singh noted there were benefits of strong coordination with the Treasury Department.[3] Many of the Fed's emergency lending programs leveraged funds provided by Treasury to take on more risk. Singh noted that the Fed took care to design its emergency lending facilities with Treasury coordination in mind. He said moving "in lockstep" with Treasury served as a "force multiplier."

Singh also noted, however, that the benefits of coordination must be balanced against the crisis-fighting advantages of retaining flexibility. He said that despite the stronger show of

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[2] For a complete examination of these facilities, see Hoffner, Ben. 2023. "United States: Central Bank Swaps to 14 Countries, 2020." Journal of Financial Crises 5, no. 1. https://elischolar.library.yale.edu/journal-of-financial-crises/vol5/iss1/21; and Kelly, Steven. 2023. "United States: FIMA Repo Facility, 2020. Journal of Financial Crises 5, no. 1. https://elischolar.library.yale.edu/journal-of-financial-crises/vol5/iss1/23
[3] Following the Global Financial Crisis (GFC), the Dodd-Frank Act of 2010 mandated that the Treasury secretary give prior authorization for the Fed's use of its Section 13(3) emergency liquidity authority. Even though this requirement did not exist during the GFC, the relationship between the Fed and Treasury was highly collaborative.

policy force, "the effort to coordinate may have slowed the pace of implementation and increased the complexity of execution."

Retaining flexibility in emergency intervention design is crucial. Building in flexibility across factors such as timing, eligibility, breadth, and governance can improve the nimbleness of crisis response.

Singh described the rollout of the various interventions as "iterative to preserve optionality for ramp-up or refinement" after assessing the impact and lessons of the previous iteration. Retaining this flexibility was important with respect to limiting any market fragmentation, Singh said. For instance, overly inflexible cutoffs for emergency assistance eligibility could risk fragmenting markets and unduly damaging those without access to the emergency backstops. Singh worried that any undue fragmentation could "reignite systemic risk or impair credit provision for key sectors of the economy."

He described the Fed as thinking critically about how to retain flexibility while balancing governance considerations. The Fed came up with several additional policy options, should they be needed, some of which could be executed unilaterally by the Fed, while others would require a term sheet change—and thus coordination with Treasury.

Among several examples, Singh described the Fed's contingency planning with respect to one of its corporate bond purchase programs, the Secondary Market Corporate Credit Facility (SMCCF)[4]:

> For the SMCCF, we could increase the pace of purchases—i.e., recalibrate the "market functioning" score—with no term sheet change needed. We could also scope in longer maturities (beyond five years) and/or riskier assets (lower credits), but these required a term sheet change.

He also described the importance of flexibility with respect to the breadth of the response, illustrating the importance of making sure the emergency assistance net was cast—and actually reached—wide enough while also being sensitive to sector-specific needs. On casting a wide enough net, Singh said:

> By routing liquidity and credit through multiple channels to multiple destinations—households, small/midsize/large businesses, state/local governments—facilities have appropriately sought to backstop a broad cross-section of the economy.

Yet, he also noted how sector-specific analysis could help fine-tune this operation and make for the most effective use of available firepower. He described how the Fed had considered adjusting intervention terms by sector. In a particularly salient example, for instance, the Fed excluded banks from eligibility for the SMCCF despite their large presence in the corporate

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[4] For an examination of the SMCCF, see: Leonard, Natalie. 2022. "United States: Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility." *Journal of Financial Crises* 4, no. 2. https://elischolar.library.yale.edu/journal-of-financial-crises/vol4/iss2/82

bond market (over 20% of the US investment grade bond market at the time). Singh described this decision:

> We wanted to concentrate our firepower where it was most needed. We had enough data with the banks to know their capital and liquidity positions were solid. We knew there wasn't a market functioning issue in their securities, as far as we could observe in terms of their ability to raise capital or for secondary market participants to trade their bonds.
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> Of course, we wanted the banks to make loans to the real economy and amplify the stimulus we were providing for that to occur. But flushing banks with even more liquidity when there wasn't a lot of credit demand was just pushing on a string. So, it was a better use of taxpayer resources to make targeted interventions directly into small businesses or municipalities.

Even in the heat of crisis, it is important to focus on staff development and expanding institutional expertise.

Singh noted how the Fed made a conscious effort to not just re-enlist the staff with crisis-fighting experience from the Global Financial Crisis of 2007–2009, but also to institutionalize crisis-fighting insights/capabilities both horizontally and vertically across the organizational structure. Singh said:

> Throughout the process [of standing up emergency intervention facilities], we had a philosophical preference to not just pull the same people who were involved in the '08, '09 facility execution, but also to train and breed a new generation of emergency facility firefighters.

In addition to this vertical training, Singh described the socialization of crisis-fighting knowledge across the Federal Reserve System:

> We also designed a rotation of personnel off the facilities so that we could train new people to come on board. That created redundancy in terms of people who could execute as the first wave needed time to recharge. We weren't trying to create a small group of crisis-fighting heroes who had all the information about what to do in their head. We tried to document and spread the knowledge as much as possible, both to the New York Fed as a whole and the Federal Reserve System more broadly by pulling personnel from other Reserve Banks. We spent a lot of time cross-training each other, and we tried to have people rotate from one facility to another so that almost everybody knew how to contribute on any of the facilities at any particular time.

Dated: August 2023

YPFS Lessons Learned No. 2022-56