5-26-2020

Money Market Mutual Fund Liquidity Facility FAQs

Federal Reserve System: Board of Governors

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 May 26, 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 Section 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 MMMF, 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 their 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.

C8. When must an eligible borrower pledge collateral? 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?

For all eligible collateral, the pledge process must be completed no later than settlement date +1. For example, if a Borrower purchases an instrument on t, and the instrument settles t +5, the pledge process must be completed no later than t+6.

Type of collateral	Purchased	Must be Pledged
U.S. Treasuries & Fully Guaranteed Agencies	On or after March 18, 2020, and before close of business on March 23, 2020	Expeditiously*
U.S. Treasuries & Fully Guaranteed Agencies	After March 23, 2020	Concurrently
Securities Issued by U.S. Government Sponsored Entities	On or after March 18, 2020, and before close of business on March 23, 2020	Expeditiously*
Securities Issued by U.S. Government Sponsored Entities	After March 23, 2020	Concurrently
ABCP and unsecured commercial paper	On or after March 18, 2020, and before close of business on March 23, 2020	Expeditiously*
ABCP and unsecured commercial paper	After March 23, 2020	Concurrently
Short-term municipal bonds	On or after March 20, 2020, and before close of business on March 23, 2020	Expeditiously*
Short-term municipal bonds	After March 23, 2020	Concurrently
VRDNs**	On or after March 23, 2020, and before close of business on March 25, 2020	Expeditiously, starting on March 25, 2020.*
VRDNs**	After March 25, 2020	Concurrently
NCDs**	On or after March 23, 2020, and before close of business on March 25, 2020	Expeditiously, starting on March 25, 2020.*
NCDs**	After March 25, 2020	Concurrently

*Collateral pledged by close of business on March 25, 2020, will be considered to have been pledged expeditiously.

**FRBB will not accept VRDNs and NCDs before March 25, 2020.

C9. 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.

C10. What are the instructions for pledging collateral?

To pledge collateral, the following steps must be completed by 3:30 p.m. on the day the collateral is pledged:

(i) Approved for pledging. 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) Transfer. Borrower transfers the securities as directed by the FRBB and the transfer shows as "made" at DTC at the official close of DTC on the day of transfer.

C11. Are Tender Option Bonds deemed to be acceptable collateral?

No.

C12. Are NCDs and CP issued *directly* by a foreign entity acceptable collateral?

No. However, NCDs and CP issued by the U.S. branch of a foreign bank are acceptable, subject to MMLF terms and conditions.

C13. 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.

C14. If the MMMF is a floating NAV fund and the funds book value differs from amortized cost, can the collateral purchase be made at book value instead?

No. Amortized cost is the valuation applied in determining the amount of credit extended from the MMLF. Terms will not vary based on the valuation method of the fund.

C15. Can a borrower pledge collateral for which it provides liquidity support and/or credit enhancement?

Yes.

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 and VRDNs 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 an advance will be the earlier of: (i) the maturity date of the eligible collateral pledged to secure the advance, and (ii) twelve months from the date of the advance. The maturity date of the eligible collateral is the earlier of the original stated maturity or any prepayment, permitted at the discretion of the Reserve Bank, in whole or in part, of the collateral (whether by acceleration, call, demand or otherwise, including at the option of the borrower or the issuer or any other party). Because the maturity on the advance will not exceed 12 months, for any eligible collateral with a longer maturity the borrower will need to repay the loan and either sell the collateral, request repayment of the security (e.g., VRDNs), or retain it on the borrower's balance sheet without nonrecourse treatment and capital relief.

D3. Can I exercise a demand feature on a pledged VRDN?

Yes, per the Letter of Agreement, the exercise of the demand feature would lead to an effective maturity of the collateral and thus repayment of the loan would be required.

D4. What if the issuer prepays the collateral?

If the issuer prepays on the underlying security, in whole or in part, the borrower is expected to repay the associated loan, in whole or in part, that corresponds to the collateral.

D5. Will the loan maturity match the nominal maturity date or the put feature on a VRDN?

The maturity date of the loan will match the VRDN's nominal maturity date up to a maximum of 12 months. If the nominal maturity date exceeds 12 months, the maturity date will be 12 months from the date the loan is extended.

D6. From which NRSROs will ratings be accepted?

The ratings criteria for the MMLF refer to ratings provided by major NRSROs. Major NRSROs include Fitch Ratings, Inc., Moody's Investors Service, Inc., and S&P Global Ratings. Major NRSROs also include DBRS, Inc., Kroll Bond Rating Agency, Inc., and A.M. Best Rating Services, Inc. (A.M. Best Rating Services, Inc. only with respect to insurance companies) to the extent that the collateral also has a qualifying rating from Fitch Ratings, Inc., Moody's Investors Service, Inc., or S&P Global Ratings.

D7. How are unsolicited credit ratings treated?

Unsolicited ratings are not considered in determining whether collateral is eligible under the MMLF.

E. Accounting and Regulatory Implications

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

Consistent with GAAP, the Federal Reserve would expect borrowers 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, as applicable. 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, 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.

E3. Does the Federal Reserve System report on lending activity under the MMLF?

The Federal Reserve may disclose information regarding the MMLF during the operation of the facility, including information regarding participants, costs, revenues, and other fees.

Balance sheet items related to the MMLF are reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve.

In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

Under section 11(s) of the Federal Reserve Act, the Federal Reserve also will disclose information concerning the facility 1 year after the effective date of the termination by the Board of the authorization of the facility. This disclosure will include names and identifying details of each participant in the facility, the amount borrowed, the interest rate or discount paid, and information concerning the types and amounts of collateral pledged or assets transferred in connection with participation in the facility.

E4. How should borrowings under the MMLF Lending Facility be reflected on regulatory reports?

Consistent with generally accepted accounting principles (GAAP), bank holding companies and depository institutions should report purchased eligible collateral as an investment security on their balance sheets. The Board, together with the FDIC and OCC, have issued supplemental instructions to the Consolidated Financial Statements for Holding Companies (FR Y-9C) and the Call Report forms to reflect the amendments to the regulatory capital rules described in E2. *See* https://www.federalreserve.gov/reportforms/supplemental/Final%201Q2020%20Capital%20Related%20IFRs%20Supplemental%20Instructions%20FR%20Y-9C.pdf, and https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_FFIEC051_suppinst_202003.pdf

Regarding the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), any eligible collateral purchased under this program would be reported, as appropriate, on the balance sheet. Similarly, assets purchased under the program would be included on the Banking Organization Systemic Risk Report (FR Y-15), as applicable (e.g., Schedule A). If assets are purchased by a non-bank subsidiary, these assets also would be included in the measure of nonbank assets reported by a bank holding company on the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP).

E5. How should transactions with the Money Market Mutual Fund Liquidity Facility (MMLF) be treated under the liquidity coverage ratio (LCR) rule (12 CFR part 249) and the Complex Institution Liquidity Monitoring Report (FR 2052a)?

On May 5, 2020, the federal banking agencies issued an interim final rule (Liquidity Coverage Ratio Rule: Treatment of Certain Emergency Facilities) to facilitate use of the MMLF, and to ensure that the effects of its use are consistent and predictable under the LCR rule. The interim final rule requires banking organizations to neutralize the effect under the LCR rule of participating in the MMLF. The interim final rule also makes conforming changes to the FR 2052a reporting form. *See* https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200505a.htm and https://www.federalreserve.gov/reportforms/forms/FR_2052a20200505_f.pdf.

F. Other

F1. Where should questions regarding the facility be directed?

Effective immediately, inquires 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.