

MEMO# 23003

October 21, 2008

Federal Reserve Announces New Liquidity Facility for Money Market Instruments

[23003]

October 21, 2008

TO: BOARD OF GOVERNORS No. 12-08

INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 31-08

MONEY MARKET FUNDS ADVISORY COMMITTEE No. 37-08

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SEC RULES MEMBERS No. 125-08 RE: FEDERAL RESERVE ANNOUNCES NEW LIQUIDITY FACILITY FOR MONEY MARKET INSTRUMENTS

The Federal Reserve Board has announced the creation of a new facility that will support a private sector initiative designed to provide liquidity to the U.S. money markets. [\[1\]](#) Under the new facility, called the Money Market Investor Funding Facility (MMIFF), the Federal Reserve Bank of New York (FRBNY) will finance the purchase of eligible assets from eligible investors via a series of private sector special purpose vehicles (PSPVs).

The new facility will complement the two other liquidity facilities for commercial paper recently announced by the Federal Reserve Board, the AMLF [\[2\]](#) and CPFF. [\[3\]](#) All three facilities are intended to improve liquidity in short-term debt markets and thereby increase the availability of credit.

The MMIFF term sheet, a copy of which is attached, provides the following details on the new facility:

- **Eligible Assets.** Eligible assets are limited to U.S. dollar denominated certificates of deposit, bank notes, and commercial paper having remaining maturities of 90 days or less. To be eligible, the instruments must have been issued by one of fifty specific financial institutions with a short-term debt rating of at least A-1/P-1/F1 from two or more major nationally recognized statistical rating organizations (NRSROs). Ten such institutions will be designated in each of the five PSPV's operational documents.
- **Eligible Investors.** Eligible investors include all U.S. money market mutual funds. The Federal Reserve Board's press release suggests that over time, other U.S. money market investors may be eligible to participate as well.
- **Purchases of Eligible Assets.** Eligible assets will be purchased at amortized cost. Each PSPV will finance its purchase of eligible assets through a combination of selling asset backed commercial paper (ABCP) and borrowing under the MMIFF. The PSPV will issue ABCP equal to 10 percent of the asset's purchase price. The ABCP will have a maturity equal to the maturity of the asset and will be rated at least A-1/P-1/F1 by two or more major NRSROs. The other 90 percent of the purchase price will be financed through FRBNY loans on an overnight basis at the primary credit rate. The loans will be senior to the ABCP, with recourse to the PSPV, and secured by all the assets of the PSPV.
- **Risk of Loss.** If the debt instruments of a financial institution held by a PSPV are downgraded, the PSPV will cease all asset purchases until all of the PSPV's assets issued by the same issuer have matured. If an asset defaults, the PSPV must cease all asset purchases and repayments on outstanding ABCP. Proceeds from maturation of the PSPV's assets will be used to repay the FRBNY and, upon maturation of all assets in the PSPV, any remaining available cash will then be used to repay principal and interest on the ABCP. This structure effectively ensures that the holder of the ABCP will bear the first loss on the assets held by the PSPV.
- **Termination.** The PSPVs will cease purchasing assets on April 30, 2009, unless the MMIFF is extended by the Federal Reserve Board.

For legal questions about the MMIFF, please contact Karrie McMillan at (202) 326-5815 or kmcmillan@ici.org. For operational questions, please contact Don Boteler at (202) 326-5845 or boteler@ici.org.

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[Attachment](#)

endnotes

[1] The Federal Reserve Board's press release announcing the MMIFF is available at <http://www.federalreserve.gov/newsevents/press/monetary/20081021a.htm>.

[2] The AMLF is the "Asset Backed Commercial Paper Money Market Fund Liquidity Facility." The AMLF enables depository institutions and bank holding companies to borrow

from the Federal Reserve Bank of Boston on a nonrecourse basis if they use the proceeds to purchase certain types of ABCP from money market funds at amortized cost. Eligible borrowers include all U.S. depository institutions, bank holding companies, or U.S. branches and agencies of foreign banks. More information about the AMLF is available at <http://www.frbdiscountwindow.org/mmmf.cfm?hdrID=14>.

[3] The CPFF is the “Commercial Paper Funding Facility.” The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle that will purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers. More information about the CPFF is available at <http://www.newyorkfed.org/markets/cpff.html>.

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