

MEMO# 11266

September 24, 1999

INSTITUTE COMMENT LETTER ON FEDERAL RESERVE BANK OF NEW YORK'S TEMPORARY STANDBY FINANCING FACILITY

* See Federal Reserve Bank of New York, News Release, Sept. 8, 1999. [11266] September 24, 1999 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 13-99 RE: INSTITUTE COMMENT LETTER ON FEDERAL RESERVE BANK OF NEW YORK'S TEMPORARY STANDBY FINANCING FACILITY

_____ The Institute recently filed with the Federal Reserve Bank of New York the attached comment letter on their proposal to establish a temporary Standby Financing Facility ("Facility") that would provide greater liquidity in short-term funding markets around the turn of the century.* The letter supports the proposal and makes the following recommendations. First, in response to the Bank's specific request for comment, and in order to ensure that mutual funds can effectively utilize the repo market at year-end, the letter recommends that the Federal Reserve Bank of New York offer options on matched-sale purchase transactions in parallel with the Facility. The letter also recommends that the decision to exercise an option under the Facility should occur no earlier than 12:00 noon, eastern time, instead of the 8:30 a.m. time frame presently proposed, noting that this would provide dealers and money market funds more time to assess the actual cash flow patterns of mutual fund shareholders. Furthermore, the letter recommends that in order to promote greater competition, increase liquidity, and enable participation by those with the most need, the Facility should permit secondary trading of options. The letter also suggests that the Facility should provide options on term repos in order to facilitate the orderly investment of cash flows that funds may receive in December that may remain over the turn of the century. Finally, the letter expresses concern that the proposed strike prices at which the options can be exercised may be too high (i.e., 150, 200, and 250 basis points above the target Federal Funds rate) and urges the Federal Reserve Bank of New York to monitor the auctions and make appropriate changes as necessary consistent with the Facility's stated objectives. Barry E. Simmons Assistant Counsel Attachment