COVID-19: THE FEDERAL RESERVE ESTABLISHES THE FIMA REPO FACILITY TO MAINTAIN STABILITY OF U.S. DOLLAR-DENOMINATED WHOLESALE FINANCIAL MARKETS

Date: 1 April 2020

U.S. Financial Services Policy Alert

By: Daniel F. C. Crowley, Anthony R.G. Nolan, Karishma Shah Page, Bruce J. Heiman, William A. Kirk, Daniel S. Nuñez Cohen, Dean A. Brazier

On March 31, the Federal Reserve Board ("FRB") announced the establishment of a temporary repurchase agreement facility for foreign and international monetary authorities, known as the "FIMA Repo Facility." This is the seventh liquidity facility established by the FRB to help the economy weather the financial crisis precipitated by the COVID-19 pandemic, including its effects on global U.S. dollar funding markets. The FIMA Repo Facility will allow foreign central banks and other international monetary authorities to temporarily exchange their U.S. Treasury securities held with the FRB for U.S. dollars. To access the facility, such institutions will use their accounts with the Federal Reserve Bank of New York. The sales will be conducted through the FRB's Open Market Account. The FIMA Repo Facility will commence on April 6 and will remain open for at least six months. Based on that timeline, the FIMA Repo Facility will close in early September, which is a few weeks prior to the projected closing date of the FRB's other liquidity facilities.

To provide additional details, the FRB has published an FAQ. According to the FAQs, the maturity of the repurchase agreements will be overnight but may be extended, and the interest rate will be the Interest on Excess Reserves plus 25 basis points. The interest rate is higher than private repo rates that would be offered in normal economic conditions; this reflects the economic challenges global financial markets are facing.

The FRB intends that the FIMA Repo Facility will support the U.S. Treasury securities market by providing an "alternative temporary source of U.S. dollars other than sales of securities in the open market." Moreover, by providing this alternative source of U.S. dollars for foreign central banks, the FRB has stated that it believes the FIMA Repo Facility can reduce the risks that international financial markets may pose to credit flows in the United States and protect the "international role of the dollar." As a result, the FIMA Repo Facility is expected to help maintain credit liquidity for U.S. households and businesses on a wholesale basis even though it is not directly targeted at those constituencies.

The FIMA Repo Facility complements actions the FRB took earlier this month, including its promise to "purchase Treasury securities…in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy," and its opening of U.S. dollar liquidity swap lines established to assist other central banks. Through the latter program, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank will increase the frequency of seven-day maturity operations from weekly to daily and will continue to hold weekly 84-day maturity operations.

For information about the pre-existing liquidity facilities established by the FRB, please see our prior client alerts:

For information about the Primary Market Corporate Credit, the Secondary Market Corporate Credit, and the Term Asset-Backed Securities Loan Facilities, please see here.

For information about the Money Market Mutual Fund Liquidity Facility, please see here and here.

For information about the Commercial Paper Funding and Primary Dealer Credit Facilities, please see here, here and here.

For information about the liquidity facilities to be established pursuant to the CARES Act, please see here.

For additional insights into these developments, please contact any of the authors.

KEY CONTACTS

DANIEL F. C. CROWLEY
PARTNER

WASHINGTON DC
+1.202.778.9447
DAN.CROWLEY@KLGATES.COM

ANTHONY R.G. NOLAN
PARTNER

NEW YORK
+1.212.536.4843
ANTHONY.NOLAN@KLGATES.COM

KARISHMA SHAH PAGE
PARTNER

WASHINGTON DC
+1.202.778.9128
KARISHMA.PAGE@KLGATES.COM

BRUCE J. HEIMAN
PARTNER

WASHINGTON DC
+1.202.661.3935
BRUCE.HEIMAN@KLGATES.COM

WILLIAM A. KIRK
PARTNER

WASHINGTON DC
+1.202.661.3814
WILLIAM.KIRK@KLGATES.COM

DANIEL S. NUÑEZ COHEN
ASSOCIATE

WASHINGTON DC
+1.202.778.9020
DAN.NUNEZCOHEN@KLGATES.COM