

CORONAVIRUS: US FEDERAL RESERVE WIDENS AVAILABILITY OF ASSET-BASED FUNDING

On March 17, 2020, the Board of Governors of the Federal Reserve System launched the Primary Dealer Credit Facility (“PDCF”) to expand liquidity and available credit in response to the distressed economic conditions caused by the COVID-19 pandemic. The PDCF will function as a secured loan facility for primary dealers, similar to the Federal Reserve’s discount window for depository institutions. The PDCF will permit primary dealers to pledge a much broader range of collateral under repo transactions with the Federal Reserve Bank of New York (“FRBNY”) than the government-backed debt required for open-market operations.

The Federal Reserve previously implemented a similar primary dealer credit facility in March 2008 to support primary dealers during the 2008 financial crisis. That program was followed by the Term Asset-Backed Securities Loan Facility (“TALF”), a distinct funding facility that supported the issuance of asset-backed securities. The PDCF does not replicate the features of TALF.

While only primary dealers can participate directly in the PDCF, the program may increase dealers' capacity to acquire and fund securities based on eligible assets owned by non-dealers. This briefing summarizes the key features of the PDCF. Clifford Chance is developing structures to facilitate broad access to the program; please contact any of the individuals named below or your normal Clifford Chance contact for further information.

Key Features of the PDCF

The PDCF is essentially a repo program. Primary dealers can pledge securities to the FRBNY as collateral for a loan with a term of up to 90 days, unlike the 2008 primary dealer credit facility which offered only overnight loans. In the past, dealers have been able to refinance, or roll, the loans prior to their expiration to avoid a loss of funding until the program was wound down. The Federal Reserve Board released a term sheet (available [here](#)) describing the key features of the

PDCF and indicated that more detailed program terms and conditions will be subsequently published.

Borrower Eligibility

Only primary dealers of the FRBNY can participate directly in the PDCF. Primary dealers include the largest U.S. broker-dealers; a list of them is available [here](#).

Eligible Collateral

- Collateral eligible for pledge under the PDCF includes all collateral eligible for pledge in open market operations and Treasury strips, plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities and asset-backed securities, plus equity securities (other than exchange traded funds (ETFs), unit investment trusts, mutual funds, rights and warrants). Foreign currency-denominated securities are not eligible for pledge under the PDCF.

For the following securities types, only AAA-rated securities are accepted: commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), and collateralized debt obligations (CDOs). Other eligible securities as specified above are accepted if rated investment grade (such that BBB- securities and above). Specifically, investment grade commercial paper is accepted: commercial paper rated both A1/P1 and A2/P2.

- Collateral that is not priced by the clearing bank will not be eligible for pledge under the PDCF.
- Additional collateral may subsequently become eligible.

Term

Loans will be made available to primary dealers for a term of up to 90 days.

Rate

Loans made under the PDCF will be made at a rate equal to the primary credit rate in effect at the FRBNY offered to depository institutions via the Discount Window.

Prepayment

Borrowers may prepay loans at any time.

Time of Day

During Fedwire hours.

Custody Rules and Arrangement

- Primary dealers will communicate their demand for funding to their clearing bank. The clearing bank will verify that a sufficient amount of eligible collateral has been pledged by each primary dealer participating in the PDCF.

- Once the FRBNY receives notice that a sufficient amount of margin-adjusted eligible collateral has been assigned to the FRBNY's account, it will transfer the amount of the loan to the clearing bank for credit to the primary dealer.

Collateral Valuation

The pledged collateral will be valued by Bank of New York Mellon according to a schedule designed to be similar to the margin schedule for lending by the Discount Window, to the extent possible.

Loan Size

Loans will be limited to the amount of margin-adjusted eligible collateral pledged by the dealer and assigned to the FRBNY's account at the clearing bank.

Recourse

Loans made under the PDCF are made with recourse beyond the pledged collateral to the primary dealer entity.

Program Termination

The PDCF will remain available to primary dealers for at least six months.

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