COVID-19: The U.S. Government and its Response

Financial Stability Actions

ICE Benchmark Administration

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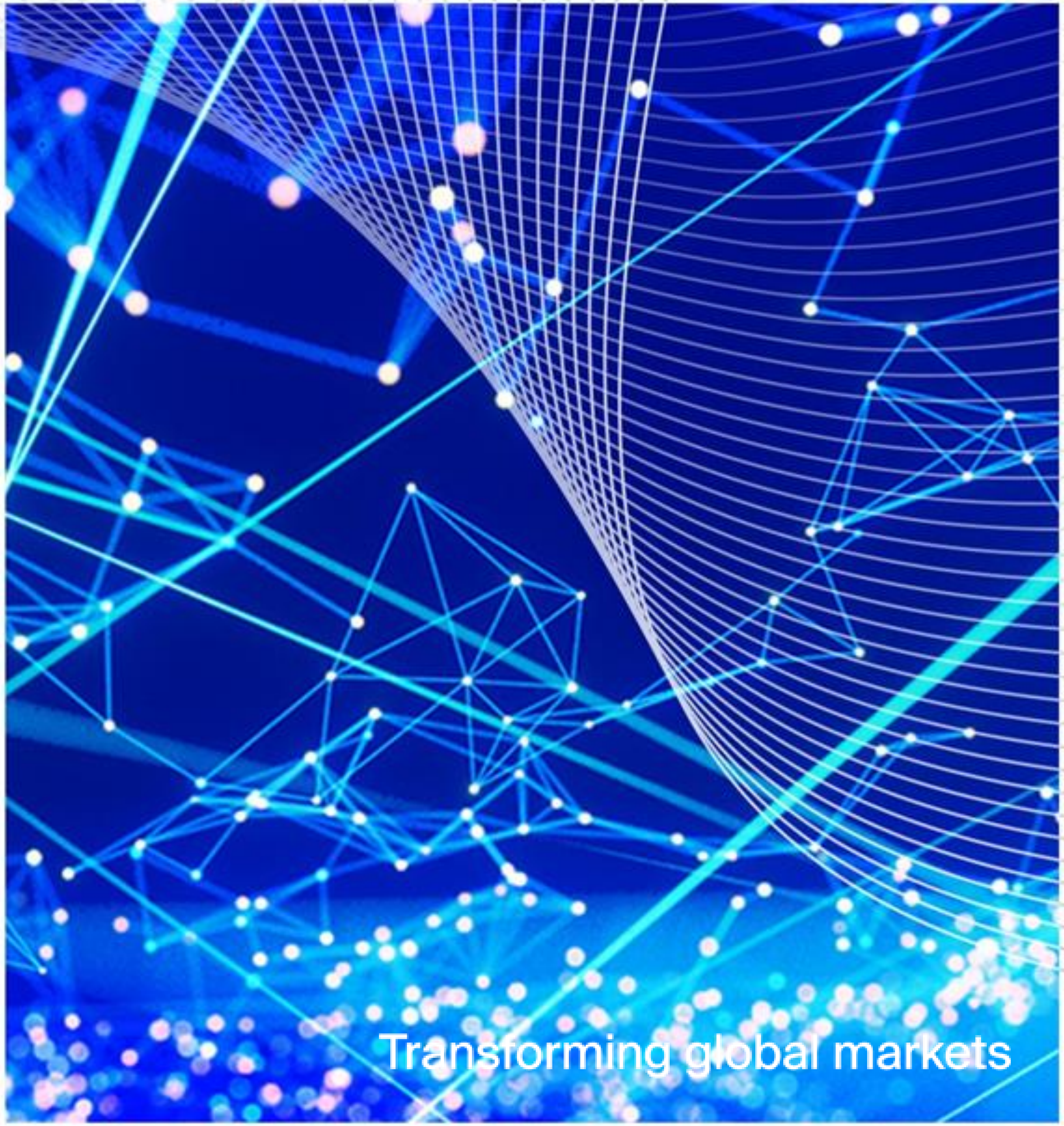

Agenda

Key themes of U.S. Federal Government response to the COVID-19 crisis

Overview of CARES Act and the tools it provides the U.S. Government

Leveraging Treasury's fiscal resources to promote market stability

Program review for key parts of the financial system:

- **Money markets**
- **Bond markets**
- **Securitization markets**
- **Loan markets**

Key themes of U.S. Federal Government response

Big, broad and flexible

- **Direct relief to households**
- **Relief to small and large businesses**
- **Expansion of U.S. Treasury's resources and flexibility to deploy them across the financial system and real economy**
- **Leveraging the Federal Reserve's emergency authorities and balance sheet to support the financial system and provide liquidity to large and small businesses**
- **Expansive guarantees of bank liabilities through the FDIC**
- **Relief for banks as they work with their clients who are impacted by the crisis**

Significantly enhanced toolkit to fight this crisis compared to 2008

Key aspects of the legislation supporting markets and business

Significant fiscal action combined with enhanced authorities for U.S. Agencies

U.S. Treasury

- $500B added to the Exchange Stabilization Fund (ESF) to make system wide investments
- Targeted tax relief to help businesses cash flow

Small Business Administration

- Expedited small business lending program
- Debt forgiveness if employees are maintained

Promote market stability and provide liquidity to the real economy

The Federal Reserve

- Congressional support to work with the U.S. Treasury on crisis response programs
- Act endorses the use of Treasury funds to increase Fed lending

FDIC, OCC and Fed

- Expanded guarantees for bank deposits and unsecured bank debt
- Regulatory relief for Trouble Debt Restructurings (TDRs)

The Exchange Stabilization Fund (ESF)

Treasury's $500B source of capital to fight the COVID-19 crisis

What is the ESF?

- An emergency fund managed by the U.S. Secretary of the Treasury (The Secretary) that holds U.S. dollars, foreign currency and Special Drawing Rights[1] assets.
- The purpose of the ESF is to allow the Secretary to protect the U.S. dollar and help ensure a stable system of exchange rates by dealing "in gold, foreign exchange, and other instruments of credit and securities".
- The Secretary has significant legal flexibility in the use of the ESF.
- The ESF was used in the financial crisis to support money funds and in the 1994 Mexican Peso crisis.

Why is it important?

- Material source of funds that can be used across a broad set of financial instruments. *With the passage of the CARES Act, the ESF can be used to support the liquidity programs established by the Federal Reserve.*
- Funds can be deployed quickly as they do not require Congressional approval for disbursement.
- Significant flexibility in how the funds can be used allows for a dynamic approach to market and/or economic challenges.

[1] Special Drawing Rights are an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. So far SDR 204.2 billion (equivalent to about US$281 billion) have been allocated to IMF members. The value of the SDR is based on a basket of five currencies: the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

Treasury's resources enhancing the Federal Reserves'

Example of how Treasury's resources can be levered to create massive firepower under 13(3) [1]

$3.0T of liquidity support
<u>through various Fed programs</u>

<u>Asset purchases & financing support</u>

Senior funding

$2,750B of funding by the Federal Reserve to be used across multiple buying and/or lending programs

Capital from ESF funds

$250B of equity to support Fed lending

Primary and secondary money markets

Primary and secondary corporate bond markets

ABS market

Mid-sized and SME lending markets

Example – Treasury capital from the ESF could be levered 12:1, *equivalent to a well capitalized bank*, across Fed sponsored programs to create overwhelming buying power

[1] Section 13(3) of the Federal Reserve Act give the Federal Reserve System the authority to provide liquidity to banks and non-banks in unusual and exigent circumstances.

Appendix

Supporting the money markets

Federal Reserve

Money Market Mutual Fund Liquidity Facility

(MMLF)

- The MMLF will operate through a SPV established by the Federal Reserve and buy money market securities from eligible money market funds (MMFs)[1] that are experiencing high redemption demands.
- The SPV is supported by non-recourse lending from the Federal Reserve system and benefits from a Treasury backstop from the ESF.
- Will help ensure that MMFs can meet investor redemption requests on a daily basis.

Federal Reserve

Commercial Paper Funding Facility

(CPFF)

- The CPFF will operate through a SPV establish by the Federal Reserve and buy Commercial Paper from highly rated issuers who were active in the market prior to the crisis.
- The SPV is supported by lending from the Federal Reserve system and benefits from a Treasury backstop from the ESF.
- Will help ensure CP is rolled over at attractive levels and that CP issuers do not face a liquidity "trap".

Treasury

Ability to "guarantee" money funds $1.0 NAV through ESF

- Congress "re-authorized" the U.S. Treasury to use the ESF to guarantee money fund values at par (NAV = $1.0), if necessary.
  - This use of the ESF by Treasury was prohibited by the Dodd Frank Act, after the U.S. Treasury used the ESF in 2008 to backstop the U.S. money fund complex at that time.

[1] Prime, Single State, or Other Tax Exempt money market fund under item A.10 of Securities and Exchange Commission Form N-MFP

Supporting the financial and non-financial corporate debt markets

Federal Reserve

Primary Market Corporate Credit Facility **(PMCCF)**

- The PMCCF will operate through a SPV established by the Federal Reserve and buy newly issued bonds and loans originated by U.S. investment grade companies.
- The SPV is supported by lending from the Federal Reserve system and benefits from a Treasury backstop from the ESF.
- Will help ensure that corporations can obtain funding during this period and will help reduce debt "roll-over" risk for companies that have near term maturities.

Federal Reserve

Secondary Market Corporate Credit Facility **(SMCCF)**

- The SMCCF will operate through a SPV established by the Federal Reserve and will purchase in the secondary market U.S. high grade corporate bonds and *U.S.-listed exchange-traded funds* focused on investment grade corporate bonds.
- The SPV is supported by lending from the Federal Reserve system and benefits from a Treasury backstop from the ESF.
- Purpose is to add liquidity to the secondary bond markets and reduce spread premiums.

Supporting the ABS markets

Federal Reserve

Term Asset –Backed Securities Loan Facility **(TALF)**

- Under the TALF, the Federal Reserve will lend on a non-recourse basis to buyers of certain AAA-rated Asset Back Securities (ABS) issued *after March 23, 2020*.
- The ABS must be backed by recently originated consumer and small business loans.
- The Federal Reserve will lend an amount equal to the market value of the ABS, less a haircut, and will be secured by the underlying ABS purchased.
- Treasury, using the ESF, will also make an equity investment in the SPV to support the program.
- The TALF was successfully used in the 2008/2009 financial crisis to reinvigorate the new issue ABS market.

Supporting the loan markets

Federal Reserve

Main Street Business Lending Program

- The Federal Reserve expects to announce in the near future the establishment of a Main Street Business Lending Program to support lending to eligible small-and-medium sized businesses.
- The Program is expected to complement efforts by the SBA under the Pay-check Protection lending Program (PPP) created by the CARES ACT.

Treasury

Direct Lending Program

- Congress authorized the U.S. Treasury to make direct loans to participants in industries most impacted by the Covid-19 crisis (air carriers, aerospace companies, etc) and other entities as the Secretary determines necessary.
- Direct loans will have more restrictions and operating mandates embedded in them than funding sourced from other government sponsored programs (share buy back and dividend restrictions, employee compensation limitations, etc).

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