

**Report Pursuant to Section 129 of the
Emergency Economic Stabilization Act of 2008:
Asset-Backed Commercial Paper Money Market Mutual Fund
Liquidity Facility**

Overview

On September 19, 2008, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members, approved under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343) the establishment of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) and authorized the Federal Reserve Bank of Boston (the Reserve Bank) to lend under that program. The AMLF provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds (MMMFs) under certain conditions. The program is intended to assist money funds that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the ABCP market and money markets more generally.

Background on the AMLF

The asset-backed commercial paper market is an important source of funding for many businesses. In particular, businesses can finance their receivables by selling them to an ABCP program. At the end of 2007, there was nearly \$840 billion in ABCP outstanding, including about \$285 billion held at MMMFs.

Open-end investment companies that are registered with the Securities and Exchange Commission (SEC) and operate as money market mutual funds under SEC Rule 2a-7 (17 C.F.R. § 270.2a-7) held \$3.4 trillion in assets as of October 1, 2008. These funds are major purchasers and holders of high quality short-term debt instruments, including highly rated commercial paper and ABCP. In September 2008, the ongoing strains in the financial markets placed severe liquidity pressures on many money market mutual funds as redemption requests by investors increased significantly.

In ordinary circumstances, MMMFs would have been able to meet these redemption demands by selling assets. At the time of the establishment of the

AMLF, however, many money markets were extremely illiquid, and the forced liquidation of assets by MMMFs was placing increasing stress on already strained financial markets. If they continued, such forced sales could depress the price of ABCP and other short-term debt instruments, resulting in further losses to MMMFs and even higher levels of redemptions and a weakening of investor confidence in MMMFs and the financial markets more generally.

In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the AMLF to help restore liquidity to the ABCP markets and to help MMMFs meet demands for redemption and to avoid the forced liquidation of ABCP and other short-term obligations into already strained financial markets.

Structure and Basic Terms

Eligible borrowers may borrow funds from the AMLF in order to fund the purchase of eligible ABCP from a MMMF under certain conditions. The AMLF is authorized under section 13(3) of the Federal Reserve Act, which permits the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations that are unable to obtain adequate credit accommodations from other banking institutions. It also is authorized under section 10B, which authorizes Reserve Banks to make advances to depository institutions. Lending under the AMLF commenced on September 22, 2008.

The following provides an overview of the terms and conditions that govern the AMLF. The Board and Reserve Bank continue to monitor the affected financial markets and to consult with market participants and, accordingly, the terms and conditions governing the facility may be modified in the future if appropriate.

Borrower Eligibility. All U.S. depository institutions, bank holding companies (parent companies or U.S. broker-dealer affiliates), and U.S. branches and agencies of foreign banks are eligible to borrow under this facility pursuant to the discretion of the Reserve Bank.

Advances. Each advance shall be in a principal amount equal to the amortized cost of the ABCP pledged to secure the advance. The maturity date of an advance will equal the maturity date of the eligible ABCP pledged to secure the advance. Prepayment in full or part is not allowed except in the event of

bankruptcy or receivership of the borrower. AMLF advances are made without recourse, provided the terms and conditions of the program are met. As of October 29, 2008, the outstanding amount of advances under the AMLF was \$96.0 billion. The collateral is the pledged ABCP, which is equal to the amount of the advances.

Collateral Eligibility and Valuation. Advances under the AMLF are secured by a pledge of eligible ABCP, which itself is an obligation backed by the assets of the ABCP conduit. ABCP eligible for pledging under the AMLF must be U.S. dollar denominated issues meeting the following criteria:

1. was purchased by the borrower on or after September 19, 2008, from an SEC-registered investment company that holds itself out as a money market mutual fund;
2. was purchased by the borrower at the MMMF's acquisition cost adjusted for amortization of premium or accretion of discount on the ABCP through the date of its purchase by the borrower;
3. is rated at the time pledged to the Reserve Bank not lower than A1, F1, or P1 by at least two major rating agencies or, if rated by only one major rating agency, the ABCP must have been rated within the top rating category by that agency;
4. was issued by an entity organized under the laws of the United States or a political subdivision thereof under a program that was in existence on September 18, 2008; and
5. has a stated maturity that does not exceed 120 days if the borrower is a bank or 270 days for non-bank borrowers.

Rate and Fees. Advances made under the AMLF are made at an interest rate equal to the primary credit rate in effect at the Federal Reserve Bank of Boston at the time the advance is made. There are no special fees associated with the facility.

Termination date. No new AMLF credit extensions will be made after January 30, 2009, unless the facility is extended by the Board.

Expected Costs. As AMLF credit is non-recourse to the borrower, the Federal Reserve—not the borrower—bears the risk of loss on the ABCP. To mitigate this risk, the program is limited to paper that receives the highest rating from a major credit-rating agency. Moreover, as noted above, ABCP is supported by the assets backing the paper, as well as a line of credit from a major financial

institution. As a result, the Board does not expect at this time that advances under the AMLF will result in any losses to the Federal Reserve or the taxpayer.