BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 03-15
July 25, 2003

TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK AND TO DOMESTIC AND FOREIGN BANKING ORGANIZATIONS SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management

The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration (collectively, the Agencies) have issued the attached *Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management*. The interagency advisory presents information on the new Federal Reserve primary and secondary discount window programs and provides guidance on the appropriate use of primary credit in an effective liquidity management program to the directors, management, examiners and supervisors of depository institutions.

The advisory explains that the new primary credit program is designed to provide depository institutions with an additional tool for managing short-term liquidity risks through the extension of short-term credit to eligible institutions at a rate above the target federal funds rate. An important goal of the primary credit program is to reduce institutions' reluctance to use the window as a source of back-up, short-term liquidity. Since primary credit can serve as a viable source of back-up, short term funds, supervisors and examiners should view the occasional use of primary credit as appropriate and unexceptional.

The primary credit facility is only one of many tools that institutions may utilize in managing their liquidity risk profile. An institution's management should ensure that the institution maintains adequate access to a diversified array of funding sources, including liquid assets such as high-grade investment securities and a diversified mix of wholesale and retail borrowings.

If an institution incorporates discount window borrowings in its contingency plans, the plans should be updated in light of the new programs. Management also should occasionally test the institution's ability to borrow at the discount window to ensure that there are no unexpected impediments or complications should such lines need to be utilized.

Reserve Banks are asked to send a copy of this SR letter and the interagency advisory to senior management at domestic and foreign banking organizations supervised by the Federal Reserve. If you have any questions, please contact Jim Embersit, Assistant Director (202-

452-5249), or Mary Frances Monroe, Senior Supervisory Financial Analyst (202-452-5231), Market and Liquidity Risk Section.

Richard Spillenkothen
Director

Attachment: Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management (331 KB PDF)

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