

Flash Comment

US: Fed extends liquidity facilities

- The Federal Reserve issued a press release yesterday evening announcing extensions and some modifications to a number of its liquidity facilities.
- In general, the interest for taking out liquidity through the various facilities has been on a downward trend. By extending the most popular of the facilities to 1 February 2010, the Fed is ensuring that there will not be an abrupt stop that could disrupt markets.
- The Fed made it clear in the announcement that it does not expect there will be a need to make new extensions to the facilities beyond 1 February 2010. The announcement is thus a first step in the direction of phasing out the extraordinary facilities.

Details:

Below are extracts of the most important parts of the announcement. For further details, please see the full press release [here](#). For an overview of the different liquidity facilities, see the Fed fact sheet [here](#).

Specifically, the Board of Governors approved an extension to 1 February 2010 of the following:

- Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)
- Commercial Paper Funding Facility (CPFF)
- Primary Dealer Credit Facility (PDCF)
- Term Securities Lending Facility (TSLF).

The expiration date for the Term Asset-Backed Securities Loan Facility (TALF) remains set at December 31, 2009. The Term Auction Facility (TAF) does not have a fixed expiration date.

In addition, the temporary reciprocal currency arrangements (swap lines) between the Federal Reserve and other central banks have been extended to February 1.

The Federal Reserve also announced changes to certain liquidity programs in light of the improvement in financial conditions and the associated reduction in usage of some facilities. Specifically, the Federal Reserve trimmed the size of upcoming TAF auctions, because the amount of credit extended under that facility has been well below the offered amount. In view of very weak demand at TSLF Schedule 1 auctions and TSLF Options Program auctions over recent months, auctions under these programs will be suspended. The frequency of Schedule 2 TSLF auctions will be reduced to one every four weeks and the offered amount will be reduced.

The authorization for the Money Market Investor Funding Facility (MMIFF) was not extended, and an additional administrative criterion was established for use of the AMLF. If necessary in view of evolving market conditions, the Federal Reserve will increase the size of TAF auctions and resume TSLF operations that have been suspended.

Should the recent improvements in market conditions continue, the Board and the FOMC currently anticipate that a number of these facilities may not need to be extended beyond February 1. However, if financial stresses do not moderate as expected, the Board and the FOMC are prepared to extend the terms of some or all of the facilities as needed to promote financial stability and economic growth. The public will receive timely notice of planned extensions, discontinuations, or modifications of Federal Reserve programs.

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Disclosure

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