

Fed launches new plan to help money market funds



By Mark Felsenthal
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WASHINGTON (Reuters) – The U.S. Federal Reserve on Tuesday launched a new program to fund purchases of \$600 billion worth of money market mutual fund assets in the latest step to provide liquidity to strained financial markets.

The initiative "should improve the liquidity position of money market investors, thus increasing their ability to meet any further redemption requests and their willingness to invest in money market instruments," the Fed said in a statement.

The U.S. central bank's latest move is the third step it has taken to ease strains among money market mutual funds, which came under pressure in mid-September when one fund could not maintain the \$1 net asset value threshold that is critical to the viability of such funds.

Breaking the buck led to a torrent of redemptions from other money market mutual funds. Funds became anxious about their liquidity and have been reluctant to provide term funding. The Fed facility is aimed at unfreezing these markets, Fed officials told reporters.

The Fed could lend as much as \$540 billion to five "special purpose vehicles" set up to buy certificates of deposit and commercial paper from highly rated institutions, the officials said. The Fed will provide senior secured funding of up to 90 percent to buy the assets from U.S. money market mutual funds and others.

"This is going to help commercial paper," said Laurence Fink, chairman, and chief executive of Blackrock Inc, on the company's earnings conference call. "This is the first thawing that I really see in terms of helping the commercial paper market unravel itself."

JPMorgan Chase is the sponsor and manager of the conduits, an official said. Each special purpose vehicle will buy assets from 10 designated financial institutions.

Eligible assets include dollar-denominated CDs and commercial paper issued by highly rated financial institutions and having remaining maturities of 90 days or less, the Fed said. Eligible investors include U.S. money market mutual funds but may over time include other U.S. money market investors.

Despite earlier efforts by the Fed to ease short-term funding strains, money market funds have still been anxious about liquidity pressures. The Fed expanded liquidity offerings in response to requests from the industry, officials said.

There have been \$500 billion in outflows from prime money market mutual funds since the end of August, a Fed official said. While funds have stabilized in terms of outflows, they do not have a large liquidity buffers remaining, the official said.

The facility is aimed at taxable money market mutual funds, not tax-exempt funds, officials said.

The Fed intends to announce the start date of the facility by the end of the week.

(Reporting by Mark Felsenthal; Editing by Neil Stempleman)

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