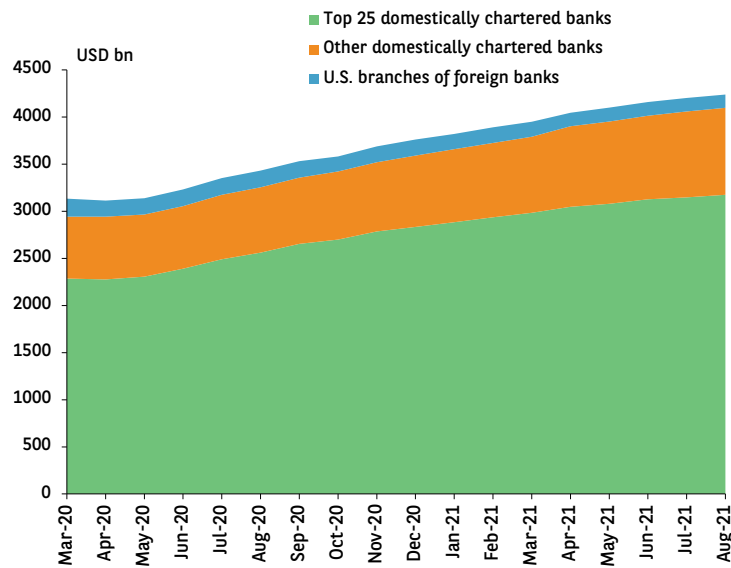


1<sup>st</sup> September 2021

## UNITED STATES: A NEW TOOL TO REDUCE THE PRESSURE ON MONEY-MARKET RATES

Céline Choulet

Treasuries and Agencies held by commercial banks in the United States



Source: Federal Reserve H.8

On 28 July, the US Federal Reserve (Fed) announced that it would establish a Standing Repo Facility (SRF). Each eligible counterparty\* will now be able to borrow, every business day and on an overnight basis, up to USD 120 billion of central-bank liquidity as part of the SRF\*\*. Operations will bear interest at the marginal lending facility rate (25bp) and be capped at USD 500 billion.

The SRF gives the Fed a new tool for detecting possible central-bank money shortages. In September 2019, the system was introduced on an emergency basis and temporarily, and helped to ease the repo markets crisis. However, no such system existed ahead of the shock, when regulatory liquidity constraints, made worse by the reduction in the Fed's balance sheet, prevented banks from responding to the demand for cash in the money markets. The possibility of converting securities into reserves at any time, without the stigma associated with the discount window, is of limited use in the current context of abundant liquidity but could prompt certain banks to increase their portfolios of Treasuries and Agencies. This could be the case for small banks that, unlike their very large peers, currently hold less securities than they could use considering their SRF limit.

\* Primary dealers and, from 1 October 2021, depository institutions with total assets of more than USD 30 billion or with a securities portfolio of over USD 5 billion at 30 June 2021. According to S&P Global Market Intelligence figures, 69 depository institutions could access the facility.

\*\* Through sales of Treasuries, debt securities and MBSs issued by mortgage guarantee agencies to the Fed on a repo basis.

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