

DSG UPDATE: COVID-19 RESPONSE

OVERVIEW

For questions on the note below, please contact [Scott Parsons](#) or [Daniel Austin](#) at 202-547-3035.

In response to the COVID-19 pandemic, several federal and global financial regulators and legislative bodies have taken actions to mitigate the virus's impact on financial markets, businesses, and households. Below are a few actions taken by the various federal and global regulators (CFTC, SEC, Federal Reserve, and others) and legislative bodies ***as of 4 p.m. May 1.***¹ We will update this list as things evolve and ***highlight new items in each update.***

SUMMARY

U.S. Congressional Actions

Paycheck Protection Program

On April 24, President Trump signed a \$484 billion relief package of new pandemic funds, which includes \$320 billion for the Paycheck Protection Program designed to help struggling small businesses keep their workers on the payroll. The latest relief package moved through Congress comes after the \$2 trillion package enacted last month and follows tens of billions of dollars in an earlier measure passed in response to the pandemic.

Stimulus Package

On March 27, President Trump signed the \$2 trillion aid package to help the public and the economy in the midst of the COVID-19 pandemic. The bill provides help to individuals, businesses, hospitals, and state and local governments. Below are some of the bill's key provisions:

- About \$500 billion can be used to back loans and assistance to companies, including \$50 billion for loans to U.S. airlines, as well as state and local governments.
- More than \$350 billion to aid small businesses.
- A \$150 billion boost for hospitals and other health-care providers for equipment and supplies.
- Direct payments to lower- and middle-income Americans of \$1,200 for each adult, as well as \$500 for each child. Senate Minority Leader Chuck Schumer said checks would be cut April 6.
- Unemployment insurance extension to four months, bolstered by \$600 weekly. Eligibility would be expanded to cover more workers.
- Any company receiving a government loan would be subject to a ban on stock buybacks through the term of the loan plus one additional year. They also would have to limit executive bonuses and take steps to protect workers.
- The Treasury Department would have to disclose the terms of loans or other aid to companies, and a new Treasury inspector general would oversee the lending program.

CFTC No-Action Letters and Other Updates

¹ The previous update was distributed at 4 p.m. April 24.

Ag Advisory Committee Meeting

On April 22, the CFTC's Ag Advisory Committee held a [meeting](#) to hear from USDA Secretary Sonny Perdue on the COVID-19 pandemic and its impact on ag commodity markets. Below are a few key takeaways from the meeting:

- Secretary Perdue discussed the COVID-19 pandemic's impact on ag markets and their supply chains. He said USDA has been working to realign supply and demand for ag products because of the incredible decline in demand from restaurants and industrial users. He called transparent and reliable futures markets incredibly critical now more than ever as many ag and energy market participants look to manage risk in these volatile markets.
- Derek Sammann, CME Group, explained that over the past year, the exchange has consistently seen convergence effectively occur in the cattle markets. He said liquidity in the live cattle contracts has improved over the past several years because, in part, of the exchange's coordination and work with its customers.
- David Farrell, ICE Futures US, and Sammann commented on the possibility of negative prices for ag contracts. Both agreed that negative prices in ag contracts are possible, but highly unlikely. Farrell said that if such an event were to occur, it would probably be restricted to regional prices and very temporary.
- USDA staff discussed their work with other federal departments/agencies to provide relief and support to the ag industry. The department is also working to ensure that whatever federal policies are put in place, those policies consider the ag sector's interests as well.

Open Meeting

On April 14, the CFTC unanimously approved the following items: (1) [Proposed Rule](#): Amendments to Part 190 Bankruptcy Regulations; (2) [Proposed Rule](#): Amendments to Compliance Requirements for Commodity Pool Operators (CPOs) on Form CPO-PQR; (3) [Proposed Rule](#): Amendments to Part 50 Clearing Requirements for Central Banks, Sovereigns, International Financial Institutions (IFIs), Bank Holding Companies (BHCs), and Community Development Financial Institutions (CDFIs); (4) [Final Rule](#): Amendments to Part 23 Margin Requirements for the European Stability Mechanism (ESM); and (5) [Final Rule](#): Amendment to Part 160 Consumer Financial Information Privacy Regulation. Below are a few key takeaways from the meeting:

- The Part 190 proposed rule would classify FCM customers into several categories and also denominate account classes. It would maintain pro rata distribution, which is essential to an efficient bankruptcy proceeding, and foster policy preferences for transferring instead of liquidating positions. The bankruptcy of a clearing organization would be categorized by three concepts: (1) the trustee should follow, to the extent practicable, the DCO's recovery and winddown plans; (2) a DCO's resources should flow to its clearing members; and (3) it would incorporate parts of the FCM bankruptcy process.
- The bankruptcy proposal also clarifies how letters of credit can be used as collateral during regular business and during bankruptcy. Additionally, the proposed rule would: (1) update Part 190 in light of the regulatory framework established over the past several decades; (2) recognize changes from paper-based to electronic communications and other technological developments; and (3)

clarify existing regulations that have complicated past bankruptcies.

- The amendments to form CPO-PQR would result in a revised form comprised of the current schedule A and pooled investments in schedule B. The proposal also would require CPOs with legal entity identifiers (LEIs) to provide them on the revised form. Commission staff explained that the inclusion of LEIs and other data fields will allow the Commission to make better use of the data it already has and combine it with new data.

EEMAC Meeting

On March 24, the CFTC's Energy and Environmental Markets Advisory Committee (EEMAC) held a meeting to hear from the agency's Market Intelligence Branch (MIB), which is a part of the Division of Market Oversight (DMO), on recent developments in the financial and energy derivative markets. Below are a few key takeaways from the meeting:

- CFTC Chairman Heath Tarbert said the agency will continue to grant targeted regulatory relief where appropriate so that the CFTC's regulations are not a burden on market participants during these difficult times. He said the comment period for the position limits rulemaking will close April 29 as scheduled.
- MIB explained that the combination of the COVID-19 pandemic and the Russia/Saudi Arabia oil production dispute has led to some of the largest moves in the WTI crude contract in decades, with the price dropping about 50 percent over the past several weeks. Meanwhile, gasoline prices have declined substantially, and December prices are now at a premium over summer gasoline. Natural gas volatility has doubled in the past two months, but this has not matched peak volatility of past events.
- Rob Creamer, on behalf of FIA PTG, said principal trading firms are still very active and are providing liquidity throughout the day. He also encouraged the Commission to work with the banking regulators to provide relief on bank capital rules and whether a transition from CEM to SA-CCR could happen sooner than scheduled.

No-Action Letters

Division of Swap Dealer and Intermediary Oversight (DSIO)

- [Staff Letter No. 20-16 – Additional Relief for Persons Required to Submit Fingerprints](#)
 - Relief to registrants listing new principals and to applicants for registration as APs from the requirement to submit a fingerprint card for any such principal or AP registrant applicant.
 - The relief will last through July 23, 2020, or until the NFA notifies the public that it has resumed processing fingerprints, whichever is earlier; provided that:
 - The registrant or applicant for registration listing such principal, or sponsoring such applicant for AP registration, causes a criminal history background check of such principal or applicant for AP registration to be performed;
 - The criminal history background check is of a type that would reveal matters constituting statutory disqualification from registration, and it does not reveal any such matters, other than those disclosed in the person's Form 8-R;
 - A person with authority to bind the registrant or applicant for registration listing such principal, or sponsoring such applicant for AP registration, signs and submits

a certification that the background check was completed and that it did not disclose any matters that constitute a statutory disqualification; and

- The registrant or applicant for registration listing such principal, or sponsoring such applicant for AP registration, maintains records documenting the completion and the results of the criminal history background check in accordance with Regulation 1.31.
- [Staff Letter No. 20-15 – Additional Relief for FCMs and IBs](#)
 - Relief to permit eligible FCMs and IBs taking advantage of covered loans under the Paycheck Protection Program to add back to capital certain amounts under covered loans that are forgivable in accordance with Regulation 1.17.
 - Relief to IBs and FCMs who are permitted by FINRA to add-back for capital purposes accrued FINRA annual assessment fees.
- [Staff Letter No. 20-12 – Relief for Certain Foreign Affiliates of FCMs](#)
 - Relief to permit certain affiliates of FCMs that are exempt from registration with the Commission by CFTC Regulation 30.5 to accept orders from U.S. persons for execution on U.S. contract markets in the event an affiliated FCM's U.S. personnel are unable to handle the order flow of U.S. customers due to their absence from normal business sites.
 - The relief expires September 30, 2020.
- [Staff Letter No. 20-10 – Relief for an Insured Depository Institution \(IDI\) Permitting Certain Commodity Swaps to be Excluded in the MSP Registration Threshold Calculation](#)
 - Relief to an IDI from considering energy-related commodity swaps in determining whether such institution must register with the CFTC as an MSP.
 - Due to the nature of the IDI's lending and risk management business with energy exploration and production customers, the volatility and low oil prices associated with these events have led to an increase in the IDI's measures relevant to the MSP registration threshold.
- [Staff Letter No. 20-11 – Relief for CPOs](#)
 - Relief to CPOs from certain reporting requirements. The relief pertains to the filing deadlines for Form CPO-PQR, Pool Annual Reports, and Pool Periodic Account Statements.
- [Staff Letter No. 20-03 – Relief for FCMs and IBs](#)
 - Relief to FCMs and IBs from CFTC regulations requiring recording of oral communications related to voice trading and other telephonic communications as well as time-stamping requirements when located in remote, socially-distanced locations.
 - Thirty days of no-action relief to FCMs from the requirement to furnish annual compliance reports to the CFTC.
- [Staff Letter No. 20-06 – Relief for SDs](#)
 - Relief to SDs from CFTC regulations requiring recording of oral communications related to voice trading and other telephonic communications as well as time-stamping requirements when located in remote, socially-distanced locations.
 - Thirty days of no-action relief to SDs from the requirement to furnish annual compliance reports to the CFTC.

- [Staff Letter No. 20-05 – Relief for Retail FX Dealers](#)
 - Relief to retail FX dealers from CFTC regulations requiring recording of oral communications related to voice trading and other telephonic communications as well as time-stamping requirements when located in remote, socially-distanced locations.
- [Staff Letter No. 20-04 – Relief for Floor Brokers](#)
 - Relief to floor brokers from CFTC regulations requiring recording of oral communications related to voice trading and other telephonic communications as well as time-stamping requirements when located in remote, socially-distanced locations.
 - Relief from the requirement to be located on the premises of a DCM and to register as IBs, which might otherwise have been triggered in connection with trading activities undertaken at remote, socially-distanced locations.
- [Staff Letter No. 20-02 – Relief for Members of DCMs and SEFs](#)
 - Relief to members of DCMs and SEFs from time-stamping requirements when located in remote, socially-distanced locations.

Division of Market Oversight (DMO)

- [Staff Letters No. 20-07 and 20-08 – Relief for SEFs](#)
 - Relief to SEFs from CFTC regulations requiring recording of oral communications related to voice trading and other telephonic communications that will make them unable to comply with certain audit trail requirements, recordkeeping requirements related to maintaining a complete audit trail, and monitoring requirements related to audit trail reconstruction.
 - Expires on June 30, 2020.
 - Because SEFs have reprioritized and reallocated personnel that otherwise would have been involved in the preparation and submission of reports such as the annual compliance report, DMO will provide an extension of the time to submit filings in order to allow SEFs to continue to focus on supporting orderly and resilient markets while implementing recommended practices to curtail the spread of COVID-19.
- [Staff Letter No. 20-09 – Relief for DCMs](#)
 - Relief to certain DCMs from audit trail and related requirements. This relief was necessary due to the displacement of market participants, such as floor brokers, from trading floors and other designated premises from which they may enter orders.
 - Expires on June 30, 2020.

Initial Margin Requirements

- On March 17, the Commission [voted unanimously](#) to finalize a one-year extension of the initial margin compliance deadline for market participants with the smallest uncleared swaps portfolios.
- Phase five of the CFTC’s initial margin requirements would have covered three percent of the U.S. market and expanded the number of in-scope entities from 40 to over 700, while requiring documenting and operationalizing nearly 7,000 initial margin relationships.

Federal Reserve and SEC Actions

SEC Initiatives and Actions

- Modernized Framework for Fund Valuation Practices
 - On April 21, the SEC [announced](#) that it has voted to [propose a new rule](#) that would establish a framework for fund valuation practices. The rule is designed to clarify how fund boards can satisfy their valuation obligations in light of market developments, including an increase in the variety of asset classes held by funds and an increase in both the volume and type of data used in valuation determinations.
 - The proposed rule would establish requirements for satisfying a fund board's obligation to determine fair value in good faith for purposes of the Investment Company Act of 1940. The rule would require a board to assess and manage material risks associated with fair value determinations; select, apply and test fair value methodologies; oversee and evaluate any pricing services used; adopt and implement policies and procedures; and maintain certain records.
 - The proposed rule would permit a fund's board to assign the determination of fair value of the fund's investment adviser, subject to additional conditions and oversight requirements.
- Phased CAT Broker-Dealer (BDs) Reporting Timelines
 - On April 20, the SEC announced that it has voted to issue two exemptive orders to move Consolidated Audit Trail (CAT) implementation forward: (1) establishing a phase CAT reporting timeline for BDs; and (2) permitting introducing brokers (IBs) that meet certain requirements to follow the small BD reporting timeline.
 - The [first exemptive order](#) allows for a delayed start to CAT reporting conditioned upon compliance with certain other obligations, including milestones related to testing and releases of CAT functionality. The [second order](#) provides exemptive relief permitting IBs, that meet the net capital requirements for small BDs but fail to qualify as small BDs, to follow the CAT reporting timeline applicable to smaller BDs.
- Enhancements to Standards for Critical Market Infrastructure
 - On April 9, the SEC [adopted amendments](#) to its rules for securities clearing agencies to apply enhanced standards to all SEC-registered CCPs and central securities depositories. The amendments build on 2016 rules to establish enhanced standards for the operation and governance of securities clearing agencies deemed systemically important and those that are CCPs for security-based swaps.
 - The adopted rules will become effective 60 days after publication in the Federal Register.
- Rule Amendments for BDCs and Registered Closed-End Funds
 - On April 8, the SEC [adopted rule amendments](#) to implement certain provisions of the Small Business Credit Availability Act and the Economic Growth, Regulatory Relief, and Consumer Protection Act relating to business development companies (BDCs) and other closed-end funds.
 - The rules will allow BDCs and other closed-end funds to use the securities offering rules that are already available to operating companies and streamline the registration, offering, and investor communication processes for BDCs and other-closed end funds.
 - The reforms will allow eligible funds to engage in streamlined registration process that has long been available to operating companies, including modernized communications

- and prospectus delivery procedures and requirements.
- Most of the amendments will become effective August 1, 2020.
- SEC Extends Conditional Exemptions from Reporting and Proxy Delivery Requirements
 - On March 25, the SEC [announced](#) that it is extending the filing periods covered by its previously enacted conditional reporting relief for certain public company filing obligations. The Commission is also extending regulatory relief previously provided to funds and investment advisers whose operations may be affected by COVID-19.
- SEC Permits Funds to Use Additional Funding and Other Tools to Manage Their Portfolios
 - On March 23, the SEC [announced temporary flexibility](#) for registered funds affected by recent market developments to borrow funds from certain affiliates and to enter into certain other lending arrangements. The relief is designed to provide funds with additional tools to manage their portfolios for the benefit of all shareholders as investors may seek to rebalance their investments.
 - The order provides the temporary exemptive relief from the Investment Company Act of 1940:
 - Relief permitting registered open-end funds and insurance company separate accounts to borrow money from certain affiliates;
 - Relief that permits additional flexibility under existing interfund lending arrangements and extends the ability to use interfund lending arrangements to funds that do not currently have exemptive relief; and,
 - Relief that permits registered open-end funds to enter into lending arrangements or borrowings that deviate from fundamental policies, subject to prior board approval.
- On March 21, the SEC noticed for immediate effectiveness a [proposed rule](#) filing submitted by the NYSE to facilitate electronic auctions in light of its decision to temporarily close the New York trading floor. The NYSE ruling modifies certain rules to set wider price parameters and to remove volume limits, within which NYSE designated market makers can facilitate auctions in an electronic trading environment.
- Update on Consolidated Audit Trail
 - On March 17, SEC Chairman Jay Clayton issued an [update](#) on COVID'19's impact on market participants actively testing and refining their ability to report to CAT. According to the Chairman, the virus's impact has placed stress on market participants' IT infrastructure and required the deployment of significant resources to implement and adapt business continuity plans.
 - In response to these issues, SEC staff issue a [no-action letter](#) regarding the SROs' enforcement of their CAT compliance rules through May 20, 2020 so that personnel who are working on CAT matters but are important to maintaining critical operations and implementing business continuity plans can focus their attention on those needs.
- The agency has transitioned entirely to teleworking with limited exceptions and remains fully operations. The Commission is preparing for the possibility of remote open and closed meetings, and the Division of Enforcement and the Office of Compliance Inspections and Examinations continue to execute their missions.

- SEC divisions have expanded their outreach efforts with clearing agencies, exchanges, issuers, and others. Key areas of ongoing focus and monitoring include:
 - Trading, Markets and Securities Infrastructure
 - Monitoring the functioning, integrity, and resiliency of securities markets with a focus on operations, systems integrity, and BCPs of U.S. securities and derivatives clearinghouses, exchanges, and other market utilities and key market participants.
 - Large Financial Firm Monitoring
 - Monitoring and communicating with the largest U.S. broker-dealers to keep abreast of their activities and operations, including BCP matters, capital, and liquidity.
 - Asset Management Industry
 - Monitoring and outreach to the asset management industry, particularly funds and advisers with materials exposures in markets and asset classes that have been most affected by recent events.
 - Securities Market Macro Trends
 - Monitoring and analyzing real and potential effects of the coronavirus on the functioning of U.S. and global securities markets.
 - This includes potential impacts and spillover effects on industry and company operations and actions taken by governmental authorities and private market participants.
 - This also includes communicating with the NRSROs to keep abreast of how they are considering the impact of the coronavirus on their credit ratings and operations.
 - Issuers, Corporate Disclosures, and Accounting Issues
 - Monitoring and providing guidance with respect to corporate filings and disclosures of U.S. issuers, as well as foreign companies listed in the U.S.
 - Ongoing Coordination with U.S. and Foreign Financial Regulatory Community
 - Engaging in regulator communication, coordination, and information sharing concerning risks, trends, and impacts with the U.S. Treasury, National Economic Council, Federal Reserve, Federal Reserve Bank of New York, FDIC, OCC, and CFTC, as well as foreign regulators.
- The SEC has issued several pieces of relief and guidance to assist various classes of market participants and certain specific entities:
 - Conditional Exemptive Order: [Providing Conditional Regulatory Relief and Assistance for Companies Affected by COVID-19](#) (3/4/2020)
 - Staff Statement: [Fund Board Meetings and Unforeseen or Emergency Circumstances Related to COVID-19](#) (3/4/2020)
 - Conditional Exemptive Order: [Targeted Action to Assist Funds and Advisers, Permit Virtual Board Meetings and Provide Conditional Relief From Certain Filing Procedures for Funds and Investment Advisers Affected by COVID-19](#) (3/13/2020)
 - Staff Guidance: [Providing Guidance to Facilitate Continued Shareholder Engagement,](#)

- [Including at Virtual Annual Meetings, for Companies and Funds Affected by COVID-19](#) (3/13/2020)
- Immediate Effectiveness of Proposed Rule Change: [Facilitating Continued Operations of the Cboe Options Exchange In Light Of Temporary Suspension of Cboe Physical Trading Floor](#) (3/14/2020)
 - Staff Guidance: New and Updated Frequently Asked Questions for Investment Advisers on: [Conducting Investment Advisory Business from a Temporary Location](#) (Form ADV Item 1.F) & [Inadvertent Adviser Custody During a Temporary Office Closure](#) (Question II.1) (3/16/2020)
 - Staff No Action Letter: [Consolidated Audit Trail Reporting](#) (3/16/2020)
 - Staff Guidance: New and Updated Frequently Asked Questions for Investment Advisers on: [Conducting Investment Advisory Business from a Temporary Location](#) (Form ADV Item 1.F) & [Inadvertent Adviser Custody During a Temporary Office Closure](#) (Question II.1) (3/16/2020)
 - Staff No Action Letter: [Affiliated Purchases under Rule 17a-9 of the Investment Company Act](#) (3/19/2020)
 - Immediate Effectiveness of Proposed Rule Change: [Facilitating NYSE Electronic Auctions in Light of Temporary Closure of Physical Trading Floor](#)
 - Conditional Exemptive Order: [Relief for Registered Transfer Agents and Certain Other Persons Affected by COVID-19](#)
 - Staff Statement: [Regarding Rule 302\(b\) of Regulation S-T in Light of COVID-19 Concerns](#) (3/24/2020)
 - Temporary Exemptive Order: [Regarding Rule 606 of Regulation NMS Under the Exchange Act in Response to the Effects of COVID-19](#) (3/25/2020)
 - Conditional Exemptive Order: [SEC Extends Conditional Exemptions From Reporting and Proxy Delivery Requirements for Public Companies, Funds, and Investment Advisers](#) (3/25/2020)
 - Staff Guidance: [Providing Guidance Regarding Disclosure and Other Securities Law Obligation That Companies Should Consider With Respect to COVID-19 and Related Business and Market Disruption](#) (3/25/2020)
 - Exemptive Relief: [Granting Application by the Financial Information Forum and Securities Traders Association for a Temporary Exemption Pursuant to rule 606\(c\) of Regulation NMS](#) (3/25/2020)
 - Temporary Final Rule: [Providing Temporary Relief for the Form ID Notarization Process and for Issuers Subject to Reporting Obligations Pursuant to Regulation A and Regulation Crowdfunding](#) (3/25/2020)
 - Conditional Exemptive Order: [Providing Conditional Regulatory Relief for Registered Municipal Advisors Affected by COVID-19](#) (3/26/2020)
 - Staff No Action Letter: [Affiliated Purchases of Debt Securities under Section 17\(a\) of the Investment Company Act](#) (3/26/2020)
 - Staff Guidance: [New FAQs for Investment Advisers on: Timely Completion of a Surprise Exam When Faced with Logistical Disruptions Due to COVID-19](#) (3/30/2020)

- Staff Statement: [Regarding Requirements for Certain Paper Submission in Light of COVID-19](#) (4/2/2020)
- Staff Guidance: [New FAQs for Investment Advisers on: Qualified Custodian Service Disruptions Due to COVID-19](#) (4/2/2020)
- Staff Guidance: [Exchange Act Forms, Section 104. From 10-K](#) (4/6/2020)
- Staff Guidance: [Exchange Act Forms, Section 112. Form 40-K](#) (4/6/2020)
- Staff Guidance: [Conducting Annual Meetings in Light of COVID-19 Concerns](#) (4/7/2020)
- Conditional Exemptive Order: [Providing Temporary Relief for BDCs Making Investment in Small and Medium-Sized Businesses](#) (4/8/2020)
- [Division of Investment Management Staff Statement on Hearing Requests on Applications Filed Under the Investment Company Act of 1940 and Investment Advisers Act of 1940](#) (4/8/2020)
- Division of Corporation Finance Statement Regarding Requirements for Form 144 Paper Filings in Light of COVID-19 Concerns (4/10/2020)
- [Division of Investment Management Staff Statement on Importance of Delivering Timely and Material Information to Investment Company Investors](#) (4/14/2020)
- [Division of Investment Management FAQs Regarding COVID-19 Response](#) (4/14/2020)
- Staff Guidance: [New FAQs Concerning the COVID-19 Pandemic and the Broker-Dealer Financial Responsibility Rules](#) (4/22/2020)
- For each of the pending items/rulemakings listed below, the Commission will **not take final action before May 1** in order to allow commenters additional time if needed.
 - Amendments to Rule 2-01, Qualifications of Accountants, File No: S7-26-19, Release Nos.: 33-10738, 34-87864, FR-86, IA-5422, IC-33737;
 - Amending the “Accredited Investor” Definition, File No: S7-25-19, Release Nos.: 33-10734, 34-87784;
 - Disclosure of Payments by Resource Extraction Issuers, File No: S7-24-19, Release No. 34-87783;
 - Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers’ Transactions in Certain Leveraged/Inverse Investment Vehicles, File No. File No: S7-24-15, Release Nos.: 34-87607, IA-5413, IC-33704; and
 - Notice of Proposed Order Directing the Exchanges and the Financial Industry Regulatory Authority to Submit a New National Market System Plan Regarding Consolidated Equity Market Data, File No. 4-757, Release No. 34-88340.
 - Proposed Revisions to Prohibitions and Restriction on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, File No. S7-02-20, Release No. BHCA-8

Federal Reserve Developments

- **PPPLF Expanded**
 - On April 30, the Fed [expanded](#) access to its Paycheck Protection Program Liquidity Facility (PPPLF) to additional lenders and expanded the collateral that can be pledged. Both

changes with facilitate lending to small businesses via the Small Business Administration's (SBA) Paycheck Protection Program (PPP).

- As a result of the changes, all PPP lenders approved by the SBA, are now eligible to participate in the PPPLF. Additionally, eligible borrowers will be able to pledge whole PPP loans that they have purchased as collateral to the PPPLF.
- **Expansion of the Scope and Eligibility for the Main Street Lending Program**
 - On April 30, the Fed [announced](#) it is expanding the scope and eligibility for the Main Street Lending Program, which was developed to help credit flow to small and medium-sized businesses that were in sound financial condition before the pandemic.
 - The changes include: (1) creating a third loan option, with increased risk sharing by lenders for borrowers with greater leverage; (2) lowering the minimum loan size for certain loans to \$50,000; and (3) expanding the pool of businesses eligible to borrow.
- **Expansion of the Scope and Duration of MLF**
 - On April 27, the Fed [announced](#) an expansion of the scope and duration of the Municipal Liquidity Facility (MLF), which was initially announced on April 9 as part of an initiative to provide up to \$2.3 trillion in loans to support U.S. households, businesses, and communities.
 - The MLF, as revised, will purchase up to \$500 billion of short-term notes by U.S. states and counties with populations of at least 500,000 residents and U.S. cities with population of at least 250,000 residents. The new population thresholds allow more entities to borrow directly from the MLF than the initial plan announced April 9. The program has been extended to December 31, 2020.
- **Actions to Increase Intraday Credit Availability**
 - On April 23, the Fed [announced](#) temporary actions aimed at increasing the availability of intraday credit extended by Fed banks on both a collateralized and uncollateralized basis. These actions are consistent with and reinforce the Fed's efforts to encourage regular use of intraday credit by healthy financial institutions.
 - The Fed is adjusting the manner in which the Reserve Banks administer part II of the Fed's policy on Payment System Risk (PSR policy). Specifically, the Fed is (1) suspending uncollateralized intraday credit limits (net debit caps) and is waiving overdraft fees for institutions that are eligible for the primary credit program; and (2) permitting a streamlined procedure for secondary credit institutions to request collateralized intraday credit (max caps).
 - The Fed is also suspending two collections of information that are used to calculate net debit caps. The Board believes that these actions will not meaningfully increase credit risk to Reserve Banks.
 - These temporary actions will be applied immediately and will remain in effect until September 30, 2020, unless the Board communicates otherwise prior to that date.
- **\$2.3 Trillion in Loans to Support the Economy**
 - On April 8, the Fed took [additional actions](#) to provide up to \$2.3 trillion in loans to support the economy:
 - Supplying liquidity to the Small Business Administration's Paycheck Protection

Program (PPP) through term financing back by PPP loans to small businesses. The federal banking regulatory agencies announced a final rule to encourage lending to small businesses through the program.

- Purchasing up to \$600 billion in loans through the Main Street Lending Program to ensure credit flows to small and mid-sized businesses.
 - Increasing the flow of credit to households and businesses through capital markets by expanding the size and scope of the Primary and Secondary Market Corporate Credit Facilities as well the Term Asset-Backed Securities Loan Facility.
 - Establishing a Municipal Liquidity facility that will offer up to \$500 billion in lending to states and municipalities.
- SLR Change
 - On April 1, the Fed announced a [temporary change](#) to its supplementary leverage ratio (SLR) rule to ease strain in the Treasury market and increase banking organizations' ability to provide credit. The change excludes U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the rule for holding companies. The rule will be in effect until March 31, 2021.
 - The changes hope to mitigate the restrictions that accompany balance sheet growth and thus constrain some firms' ability to continue to serve as financial intermediaries and provide credit.
 - The SLR generally applies to financial institutions with more than \$250 billion in total consolidated assets. It requires them to hold a minimum ratio of three percent, measured against their total leverage exposure, with more stringent requirements for the largest and most systemic financial institutions. The change would temporarily decrease tier 1 capital requirements of holding companies by approximately 2 percent in aggregate.
 - FIMA Repo Facility
 - On March 31, the Fed announced the establishment of a [temporary repo agreement facility](#) for foreign and international monetary authority ("FIMA Repo Facility") to help support financial markets, including the U.S. Treasury market, and thus maintain the supply of credit to U.S. households and businesses. The facility will allow FIMA account holders (central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York) to enter into repo agreements with the Fed.
 - In these transactions, FIMA account holders will temporarily exchange their U.S. Treasury securities held with the Fed for U.S. dollars, which can then be made available in their jurisdictions.
 - SA-CCR and CECL Updates
 - On March 27, the federal banking regulatory agencies [announced](#) two actions to support the U.S. economy and allow banking organization to continue lending to households and business: (1) allowing early adoption of a new methodology (SA-CCR) on how certain banking organizations are required to measure counterparty credit risk derivatives contracts; and (2) providing an optional extension of the regulatory capital transition for the new credit loss accounting standard.
 - The "standardized approach for measuring counterparty credit risk" (SA-CCR) rule

was finalized by the agencies in November 2019, with an effective date of April 1. To help improve current market liquidity and smooth disruptions, the agencies will permit banking organizations to early adopt SA-CCR for the reporting period ending March 31.

- The agencies also issued an interim final rule that allows banking organizations to mitigate the effects of the "current expected credit loss," or CECL, accounting standard in their regulatory capital. Banking organizations that are required under U.S. accounting standards to adopt CECL this year can mitigate the estimated cumulative regulatory capital effects for up to two years. This is in addition to the three-year transition period already in place. Alternatively, banking organizations can follow the capital transition rule issued by the banking agencies in February 2019.
- The changes will be effective immediately and the agencies will accept comments on the CECL interim final rule for 45 days.
- The Fed's Supervisory Approach
 - On March 24, the Fed provided [additional information](#) to financial institutions on how its supervisory approach is adjusting in light of the coronavirus. In particular, the Fed is adjusting its supervisory approach in the following ways:
 - Focus on monitoring and outreach to assist financial institutions understand the challenges and risks of the current environment;
 - Minimize disruption and focus on outreach and monitoring by temporarily reducing its examination activities;
 - Large banks should still submit their capital plans by April 6, which will be used to monitor how firms are managing their capital; and
 - Allow firms to focus on heightened risks in the current environment and assist consumers.
- New Measures to Support the Economy
 - On March 23, the Fed announced extensive new measures to provide support for the flow of credit to American families and businesses. These actions include:
 - The Federal Open Market Committee (FOMC) will purchase Treasuries and agency mortgage-backed securities (MBSs) in the amounts needed to support smooth market functioning and effective transmission of monetary policy. The FOMC plans to purchase at least \$500 billion of Treasuries and at least \$200 billion of MBSs.
 - The Fed will establish new programs that will provide up to \$300 billion in new financing to support the flow of credit to employers, consumers, and businesses. The Department of the Treasury, using the Exchange Stabilization Fund, will provide \$30 billion in equity to support these efforts.
 - The [Primary Market Corporate Credit Facility](#) and the [Secondary Market Corporate Credit Facility](#) will be established for new bond and loan issuance and to provide liquidity for outstanding corporate bonds, respectively.
 - The [Term Asset-Backed Securities Loan Facility](#) will be established to support the

flow of credit to consumers and businesses. The program will enable the issuance of asset-backed securities backed by student loans, auto loans, credit card loans, loans guaranteed by the SBA, and certain other assets.

- Expanding the MMLF (see below for further details) to include a wider range of securities.
- Expanding the [CPFF](#) (see below for further details) to include high-quality, tax-exempt commercial paper as eligible securities.
- [Dollar Liquidity Arrangements](#)
 - On March 18, the Fed announced the establishment of temporary U.S. dollar liquidity arrangements (swap lines) with several other central banks. These facilities, like those already established between the Fed and other central banks, are designed to help lessen the strains in global U.S. dollar funding markets, thereby mitigating the effects of these strains on the supply of credit to households and businesses, both domestically and abroad.
- [MMLF Establishment](#)
 - On March 18, the Fed broadened its program of support for the flow of credit to households and businesses by taking steps to enhance the liquidity and functioning of crucial money markets with the establishment of a Money Market Mutual Fund Liquidity Facility (MMLF).
 - The Federal Reserve Bank of Boston will make loans to eligible financial institutions secured by high-quality assets purchases by the financial institution from money market mutual funds. On March 20, the program was expanded so that loans can be made available to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds.
 - In tandem with the MMLF, the Fed, FDIC, and OCC announced an [interim final rule](#), effective immediately, that modifies the agencies' capital rules so that financial institutions receive credit for the low risk of their MMLF activities, reflecting the fact that institutions would be taking no credit or market risk in association with such activities. The change only applies to activities with the MMLF.
- [PDCF Establishment](#)
 - The Fed is establishing a Primary Dealer Credit Facility (PDCF) to support the credit needs of American households and businesses. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.
 - The PDCF will offer overnight and term funding with maturities up to 90 days and will be available on March 20, 2020, and in place for at least six months. Credit extended to primary dealers under this program may be collateralized by a broad range of investment grade debt securities.
- [CPFF Establishment](#)
 - The Fed is establishing a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses. The CPFF is intended to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will

- purchase unsecured and asset-backed commercial paper rated A1/P1 (as of March 17, 2020) directly from eligible companies.
- The Treasury will provide \$10 billion of credit protection to the Fed in connection with the CPFF. The Fed will then provide financing to the SPV under the CPFF; its loans will be secured by all of the assets of the SPV.
 - Capital and Liquidity Buffers
 - The Fed, FDIC, and OCC announced two actions to support the U.S. economy and allow banks to continue lending to households and businesses:
 - A [statement](#) encouraging banks to use their capital and liquidity buffers as they lend to households and businesses.
 - A [technical change](#) to phase in, as intended, the automatic distribution restrictions gradually if a firm's capital levels decline.
 - Discount Window
 - The Fed, FDIC, and OCC issued a [statement](#) encouraging banks to use the Fed's "discount window" so that they can continue supporting households and businesses. By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers.
 - The Fed will lower the primary credit rate by 150 basis points to 0.25 percent, effective March 16, 2020. Depository institutions may borrow from the discount window for period as long as 90 days, pre-payable and renewable by the borrower on a daily basis.
 - [Enhancing the Provision of U.S. Dollar Liquidity](#)
 - The Fed, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and Swiss National Bank announced a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements.
 - Agreed to lower the pricing on the standing U.S. dollar liquidity swap arrangements by 25 basis points, so that the new rate will be the U.S. dollar overnight index swap (OIS) rate plus 25 basis points. To increase the swap lines' effectiveness in providing term liquidity, the foreign central banks with regular U.S. dollar liquidity operations have also agreed to begin offering U.S. dollars weekly in each jurisdiction with an 84-day maturity, in addition to the 1-week maturity operations currently offered.
 - These changes will take effect with the next scheduled operations during the week of March 16. The new pricing and maturity offerings will remain in place as long as appropriate to support the smooth functioning of U.S. dollar funding markets.
 - The swap lines are available standing facilities and serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad.

International Regulatory Updates

Basel III Delayed

On March 27, the Basel Committee announced a series of measures designed to "provide additional

operational capacity for banks and supervisors to respond” to the COVID-19 pandemic. These include pushing back the implementation date of the new Basel III standards, governing bank capital and reporting, by one year to January 1, 2023. They will also grant lenders the same extension for adopting a new market-risk framework and making clearer disclosures of their key liquidity and funding ratios.

G-20 Commerce Ministers’ Statement

G-20 trade chiefs have pledged to try to keep supply chains open as the world fights the COVID-19 pandemic and resulting economic fallout. The group vowed to “guard against profiteering and unjustified price increases” during a Monday conference call, which was devoted to the trade and investment implications of the pandemic. In a joint statement, the commerce ministers committed to deliver “free, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open.”

Some countries’ interest, however, are diverging from the consensus. For example, Russia is proposing limited shipments of its grain abroad. Meanwhile, EU Trade Commissioner Phil Hogan said there is currently no global supply shortage and exporting-restricting measures are unjustified. U.S. Trade Representative Robert Lighthizer said the U.S. main goal is to support global supply chains to help all people, while emphasizing that it would promote domestic industry for critical products to reduce over-reliance on other countries.