

Analysis of Implied Risk Size or Assets Supported by Fed Liquidity Injections thru Primary Dealers

As of Date 3/18/20

Estimating the size of the present problem

Primary Dealer Total System Leverage (est.) **21.7x** *sourced from SEC forms X-17A-5, most recent reports, specific PD entities; likely conservative as these are quarterly or annual end-of-period figures*
note: these are stale and 'as reported' figures, there is likely upward room in reality; conversely not clear all PD equity devoted to which asset classes

tomo recent net outstanding (\$ bn) **\$ 441.47**

tomo supported assets (\$ bn) **\$ 9,567.01**

cum. net pomo incep 2019 (\$ bn) **\$ 602.17** *last operation 03/18/20 Fed began new POMO activities Apr-2019*

pomo supported assets (\$ bn) **\$ 13,049.61**

tot. supported assets (\$ bn) **\$ 22,616.62** *nominal value of assets supported by FED liquidity injections detailed above, thru PD leverage*
these are 'assets at risk' or 'in question' of write-downs where the usual financing has become difficult

2008 Reference Estimate - How Justified is my analysis?

2008 GFC Tri-Party repo reference assets (\$ bn) **\$ 1,250.00** *FED bailout of Tri-Party repo system MBS ann. Early 2009; not including other measures and facilities (i.e. PDCF, TALF, TARP, etc.)*
<https://www.federalreserve.gov/reqreform/reform-mbs.htm>

pd leverage est, contemporaneous **33.0x** *my est. at time, back of envelope, based on parent cos, probably low - based on annual/qtrly reports vs 'repo 105' intra-quarter activity*

Fed auth loans to JPM around Bear takeover **\$ 55.00** *in two parts FED publications, contemporaneous*

implied assets at risk / supported **\$ 1,815.00** *compare to 2008 GFC reference assets! Close estimate.*
Well Justified *(cell B21 problem 'resolution')*

Re-Nationalization of US money market

total PD equity (\$ bn, last filings) **\$ 131.98** *as of last avail. SEC reports*

Fed TOMO injections / est. PD equity **3.3x** *the Fed has come to market as a de-facto PD, larger than the entire outside PD system!*

Fed total injections / est. PD equity **7.9x** *the Fed has come to market as a de-facto PD, larger than the entire outside PD system!*

once again, like 2008, 2009, the money market has been de-facto nationalized
additionally, FED-as-PD = direct monetization!

Chief Brody says **We're gonna need a bigger boat.** *over 10x 2008 GFC comparison*

<https://www.federalreserve.gov/supervisionreg/legalinterpretations/legalinterpretations.htm>

CECL-related capital requirements Dec-19 Reg YY exceptions for foreign GSIBs https://www.federalreserve.gov/supervisionreg/legalinterpretations/bhc_changeincontrol2018.htm
 31-Dec-18 ext on clean holding provision of TLAC rule https://www.federalreserve.gov/supervisionreg/legalinterpretations/bhc_changeincontrol2018.htm

Specific Regs restricting fungibility of liquidity btw holdcos and affiliates

Section 23A of <https://www.federalreserve.gov/boarddocs/meetings/2001/20010502/05022001-OpenMemo1-App1.pdf>
 Regulation W https://www.federalreserve.gov/supervisionreg/topics/regulation_w.htm

Regulation YY <https://www.federalreserve.gov/supervisionreg/regulation-yy-foreign-banking-organization-requests.htm>

<https://www.marketwatch.com/story/the-us-treasury-is-about-to-flood-the-market-with-debt-to-fund-a-1-trillion-deficit-heres-why-that-is-a-worry-2019-08-15>

Bond dealers who underwrite the Treasury's debt sales in the weekly auctions are already holding record amounts of U.S. Treasuries on their books as the fiscal deficit has increased. Now their need to borrow more cash in short-term money markets, using Treasuries as collateral, to buy even more government debt is pushing up short-term rates.

<https://fred.stlouisfed.org/series/IOER>
<https://fred.stlouisfed.org/series/EXCSRESNW>

Fed auth loans to JPM around Bear takeover Maiden Lane \$29bn loan (<https://www.federalreserve.gov/reqreform/reform-bearsteams.htm>)

<https://www.federalreserve.gov/newsevents/pressreleases/files/other20080627a2.pdf>
<https://www.federalreserve.gov/other20080627a1.pdf>
<https://www.federalreserve.gov/other20080627a2.pdf>
<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20080318.pdf>