

ICI VIEWPOINTS

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Federal Reserve Reverse Repo Facility Helps Stabilize Short-Term Money Markets

By Chris Plantier

Following a [pattern observed](#) at the end of recent quarters, money market fund holdings of European issuers dropped at the end of March, although the decline was not as large as the previous quarter, ending December 2014. As we have [noted before](#), for regulatory reasons European banks have been paring their balance sheets at the end of each quarter, resulting in a temporary decline in their desire to borrow from money market funds. Consequently, money market funds have temporarily parked some assets with the Federal Reserve through the Fed's reverse repurchase (RRP) facility. This increase in "lending" to the Federal Reserve helps prevent a buildup of excess liquidity in the financial system at the end of each quarter that would otherwise cause short-term interest rates to fall temporarily.

Money Market Fund Holdings of European Issuers Falls in March

In our [latest release](#), Table 3 shows that the share of European holdings in prime money market funds' portfolios fell to 29.39 percent in March 2015 from 39.04 percent in February 2015. In addition, Table 2 shows that the share of European holdings in government money market funds' portfolios fell to 7.87 percent in March 2015 from 13.85 percent in February 2015, reflecting declines in repurchase agreement (repo) holdings with European counterparties. These declines in the share allocated to European counterparties was larger than the decline seen in March 2014. In addition, the share settled at much lower levels at the end of March 2015, suggesting that regulatory pressures on European banks continue to rise.

Federal Reserve Was Primary Repo Counterparty in March Once Again

According to ICI's analysis of data collected by the U.S. Securities and Exchange Commission on SEC Form N-MFP, prime and government money market funds held at least \$307 billion combined in overnight and term RRP agreements on March 31, 2015. For government money market funds, 50.5 percent of repo agreements were attributable to the Federal Reserve as a counterparty in March. For prime money market funds, 51.8 percent of repo agreements were executed with the Fed in March.

March 2015 marked the second time the Federal Reserve was a repo counterparty for more than half of the repurchase agreements entered into by taxable money market funds, the first being December 2014. If not for the Federal Reserve's RRP facility, short-term money market interest rates likely would have fallen significantly at the end of March.

- For more on money market funds, please visit ICI's [Money Market Fund Resource Center](#).
- For more on Form N-MFP data, please visit the [Taxable Money Market Fund Portfolio Data](#) page.

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