

# U.S. Bank Regulators Modify Liquidity Regulation to Support Participation in Fed Programs

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*Original post [here](#).*

On [May 5](#), U.S. bank regulators issued an interim final rule modifying the Liquidity Coverage Ratio (LCR) to support banks' use of the Paycheck Protection Program Liquidity Facility (PPPLF) and Money Market Mutual Fund Liquidity Facility (MMLF).

The Fed established the [PPPLF](#) and [MMLF](#) using its emergency lending authority under Section 13(3) of the Federal Reserve Act. The PPPLF allows financial institutions to use government-guaranteed loans made to small businesses under the Paycheck Protection Program (PPP) as collateral for low interest rate loans from the Fed. Under the MMLF, financial institutions can use high-quality assets purchased from eligible prime money funds as collateral for loans from the Fed. Congress established the PPP in March in the CARES Act.

The [new LCR rule](#) allows banks to exclude PPPLF and MMLF loans, as well as the underlying collateral, from the calculation of total net cash outflows.

The existing LCR rule requires that banks maintain sufficient high-quality liquid assets (HQLA) to cover their total net cash outflows over a 30-day stress period. Without the proposed rule change, all of the inflows and outflows of loans from the PPPLF and MMLF with maturities of less than 30 days would have caused “an inconsistent, unpredictable, and more volatile calculation of LCR requirements,” the regulators wrote in the interim rule. The interim rule will be subject to a 30-day comment period beginning on May 6, the day the rule was published in the [Federal Register](#).