

## FEDERAL RESERVE BANK of NEW YORK *Serving the Second District and the Nation*

### FAQs: Commercial Paper Funding Facility

The following is intended to address questions about the Commercial Paper Funding Facility (CPFF). The Federal Reserve may periodically update these FAQs and, therefore, please check this website for new FAQs or revisions to a previously issued FAQ.

Effective November 30, 2020

#### **Why is the Federal Reserve establishing the CPFF?**

Commercial paper consists of short-term, promissory notes that are used to directly finance a wide range of economic activity, supplying credit and funding for the operational needs of a range of businesses and municipalities.

Recent events have significantly and adversely impacted global financial markets. The spread of the Coronavirus Disease 2019 has harmed and disrupted economic activity in many countries, including the United States. In particular, the commercial paper market has been under considerable strain as investors have become reluctant to purchase commercial paper. As a result, interest rates on longer-term commercial paper (such as with a maturity of three months) have surged to levels not seen since the financial crisis of 2008. Many firms have reportedly been unable to issue commercial paper with a term of longer than a week, which increases their rollover risk and reduces the ability of the commercial paper market to support their operations. Pursuant to Section 13(3) of the Federal Reserve Act, and with prior approval of the Secretary of the Treasury, the Board of Governors of the Federal Reserve System (Board) authorized the Federal Reserve Bank of New York (New York Fed) to establish the CPFF.

The purpose of the CPFF is to enhance the liquidity of the commercial paper market by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that firms and municipalities will be able to roll over their maturing commercial paper. This facility should encourage investors to once again engage in term lending in the commercial paper market. By ensuring the smooth functioning of this market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs across the economy.

#### **How will the CPFF work?**

The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV). The SPV will purchase eligible three-month unsecured commercial paper and asset-backed commercial paper (ABCP) from eligible issuers using financing provided by the Federal Reserve Bank of New York (New York Fed). The financing provided by the New York Fed to the SPV will be with full recourse to the SPV and secured by all the assets of the SPV. The SPV will hold the commercial paper until maturity and will use the proceeds from maturing commercial paper and other assets of the SPV to repay its loan from the New York Fed.

#### **In what way is the U.S. Treasury supporting the CPFF?**

The Secretary of the Treasury approved the establishment of the CPFF, and the Department of the Treasury, using the Exchange Stabilization Fund, will make a \$10 billion equity investment in the SPV.

#### **When will the facility open for registration and begin making purchases?**

The registration process for the CPFF commenced on April 6, 2020. The SPV will begin making purchases on April 14, 2020.

#### **What issuers will be eligible to sell commercial paper to the SPV?**

Eligible issuers are U.S. issuers of commercial paper, including municipal issuers, and U.S. issuers with a foreign parent. A U.S. issuer is an entity organized under the laws of the United States or a political subdivision or territory thereof, or is a U.S. branch of a foreign bank.

The SPV will not purchase ABCP from issuers that were inactive prior to the announcement of the CPFF. An issuer will be deemed inactive if it did not issue ABCP to institutions other than the sponsoring institution for any consecutive period of three-months or longer between March 16, 2019 and March 16, 2020.

#### **How would an issuer of ABCP that was established between March 16, 2019 and March 16, 2020 determine if it is considered inactive prior to the creation of the CPFF?**

An issuer of ABCP that was established between March 16, 2019 and March 16, 2020 is considered inactive if it did not issue ABCP to institutions other than the sponsoring institution for any consecutive period of three months or longer between the date of its establishment and March 16, 2020.

#### **How does the CPFF define an issuer?**

For issuers of corporate unsecured commercial paper, the "issuer" is defined as the legal entity issuing commercial paper.

For issuers of asset-backed commercial paper, the "issuer" is defined as the special-purpose entity issuing commercial paper.

For issuers of municipal commercial paper, the "issuer" is defined as the municipal entity issuing the commercial paper for each commercial paper ticker or CUSIP associated with its commercial paper programs.

**May investors sell outstanding commercial paper to the SPV?**

No. The SPV will only purchase newly issued commercial paper from eligible issuers through CPFF dealers. It will not purchase commercial paper on the secondary market.

**What are CPFF dealers?**

CPFF dealers are the commercial paper dealers through which eligible issuers may sell commercial paper to the SPV. CPFF dealers include the New York Fed's primary dealers and any other dealers that the New York Fed selects from time to time. The New York Fed maintains a list of CPFF dealers on its website.

The New York Fed may add additional CPFF dealers subject to adequate due diligence, compliance, and other reviews. A full description of eligibility and program requirements for firms interested in participating as CPFF dealers can be found in the Expression of Interest (EOI) materials and Frequently Asked Questions (FAQs) for the Section 13(3) facility counterparty and agent expansion.

**May an issuer repurchase its own outstanding commercial paper from investors and finance that repurchase by selling commercial paper to the SPV?**

Yes.

**Are issuers required to register with the CPFF?**

Yes, issuers will need to register with the CPFF in order to sell commercial paper to the SPV.

Registration materials, including wire instructions; a registration form, including a request for limit verification from an Issuing and Paying Agent and financial documents; and certifications regarding the issuer's eligibility, are available as of April 6, 2020, on the CPFF webpage. At the time of registration, an eligible issuer must provide a written certification that it is not insolvent, as used in section 201.4(d)(5)(iii) of the Board's Regulation A. The 10 basis point facility fee must be paid upon registration.

Completed registration materials and fees may be submitted any time after 9:00 a.m. ET on April 7, 2020.

To access the facility on April 14, 2020, an issuer must register no later than April 9, 2020. Thereafter, issuers are required to register at least two business days in advance of their intended participation.

Registration is not required by an issuer that does not intend to access the CPFF.

**What certifications or attestations will CPFF issuers be required to make?**

The issuer will be required to certify that it is unable to secure adequate credit accommodations from other banking institutions and that it is not insolvent and is not participating in the CPFF for the purpose of lending the proceeds to a person or entity that is insolvent. The required attestations are included in the Registration materials available here.

**For the purposes of participating in the CPFF, what does it mean for an issuer to certify that it is unable to secure adequate credit accommodations?**

The New York Fed must obtain evidence that participants in the Facility are unable to secure adequate credit accommodations from other banking institutions. The Board of Governors of the Federal Reserve System authorized the establishment of the CPFF to address strains in the commercial paper market, recognizing the sharp rise in interest rates and inability of many issuers to issue commercial paper with terms longer than a week.

In certifying whether the issuer is unable to secure adequate credit accommodations from other banking institutions, issuers may consider economic or market conditions in the market intended to be addressed by the CPFF as compared to usual ones, including the availability and price of credit. Lack of adequate credit does not mean no credit is available. Lending may be available, but at prices or on conditions that are inconsistent with a normal, well-functioning market.

**What types of commercial paper will be eligible for purchase by the SPV?**

The SPV will purchase from eligible issuers three-month U.S. dollar-denominated commercial paper.

Except as provided below, the SPV will only purchase U.S. dollar-denominated commercial paper—including asset-backed commercial paper (ABCP)—that is rated at least A1/P1/F1 by a major nationally recognized statistical rating organization (NRSRO) or, if rated by multiple major NRSROs, is rated at least A1/P1/F1 by two or more major NRSROs, in each case subject to review by the Federal Reserve.

An issuer that:

- on March 17, 2020, was rated at least A1/P1/F1 by a major NRSRO or, if rated by multiple major NRSROs, was rated at least A1/P1/F1 by two or more major NRSROs; and
- is subsequently downgraded,

will be able to make a one-time sale of commercial paper to the SPV so long as the issuer is rated at least A2/P2/F2 by a major NRSRO or, if rated by multiple major NRSROs, is rated at least A2/P2/F2 by two or more major NRSROs, in each case subject to review by the Federal Reserve.

**From which NRSROs will ratings be accepted?**

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Best Rating Services, Inc. (A.M. Best Rating Services, Inc. only with respect to insurance companies) to the extent that the issuer also has a qualifying rating from Fitch Ratings, Inc., Moody's Investors Service, Inc., or S&P Global Ratings.

For purposes of these FAQs, where ratings from DBRS, Inc., Kroll Bond Rating Agency, Inc., and A.M. Best Rating Services, Inc. are eligible for the CPFF, references to A1/P1/F1 ratings also include R1, K1, and AMB1 ratings, and references to A2/P2/F2 ratings also include R2, K2, and AMB2 ratings.

### How are split credit ratings treated?

If an issuer has split credit ratings, the following criteria apply for the issuer to be treated as having a rating of at least A1/P1/F1. If an issuer is rated by multiple major NRSROs, the issuer must have a rating of at least A1/P1/F1 from at least two of those major NRSROs. For example, if an issuer has ratings from two major NRSROs, both must be at least A1/P1/F1.

For such an issuer, the following criteria apply for the issuer to be treated as having a rating of A2/P2/F2. If an issuer is rated by multiple major NRSROs, the issuer must have a rating of at least A2/P2/F2 from at least two of those major NRSROs. For example, if an issuer has ratings from two major NRSROs, both must be at least A2/P2/F2.

### How are unsolicited credit ratings treated?

Unsolicited ratings are not considered in determining an issuer's CPFF eligibility.

### At what price will the SPV purchase commercial paper?

The commercial paper purchased by the SPV will be discounted based on a rate equal to a spread over the three-month overnight index swap (OIS) rate on the day of purchase.

The spread will be OIS + 110 basis points per annum for commercial paper rated at least A1/P1/F1 by a major NRSRO and, if rated by multiple major NRSROs, is rated at least A1/P1/F1 by two or more major NRSROs.

The spread will be OIS + 200 basis points per annum for commercial paper rated A2/P2/F2 by a major NRSRO and, if rated by multiple major NRSROs, is rated A2/P2/F2 by two or more major NRSROs.

### Will there be any limits on the amount of commercial paper that the SPV will purchase from each issuer?

For an issuer that is rated at least A1/P1/F1 by a major NRSRO and, if rated by multiple major NRSROs, is rated at least A1/P1/F1 by two or more major NRSROs, the maximum amount of a single issuer's commercial paper the SPV may own at any time will be the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding on any day between March 16, 2019, and March 16, 2020.

For an issuer that:

- on March 17, 2020, was rated at least A1/P1/F1 by a major NRSRO or, if rated by multiple major NRSROs, was rated at least A1/P1/F1 by two or more major NRSROs; and
- was downgraded below A1/P1/F1 after March 17, 2020, but is currently rated at least A2/P2/F2 by a major NRSRO or, if rated by multiple major NRSROs, is rated at least A2/P2/F2 by two or more major NRSROs,

the maximum amount of the issuer's commercial paper that the SPV will purchase, and may own at any one time, is the amount of U.S. dollar-denominated commercial paper the issuer had outstanding the day before it was downgraded.

If an issuer has multiple commercial paper programs, it should sum the total outstanding commercial paper across all of its programs when calculating the maximum amount of commercial paper it can sell to the SPV pursuant to the criteria set forth above.

The SPV will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including the SPV) equals or exceeds the issuer's limit.

For example, suppose the issuer certifies that the maximum amount of commercial paper that it can sell to the SPV is \$1 billion, based on its greatest amount of commercial paper outstanding between March 16, 2019 and March 16, 2020. When the facility opens, the issuer has \$500 million in commercial paper outstanding with investors, maturing August 1, 2020. On the day the facility opens, the issuer sells \$500 million of three-month commercial paper to the SPV (maturing in mid-July), reaching the maximum amount of commercial paper that the issuer can sell to the SPV at that time. On May 1, 2020, the issuer sells \$300 million in commercial paper maturing in September 30, 2020 to investors other than the SPV. When the commercial paper owned by the SPV matures in mid-July, the SPV will only be able to buy \$200 million of commercial paper from this issuer.

### Can you summarize the key terms of the CPFF?

Summary table:

CREDIT RATING OF ISSUER	ELIGIBLE TO SELL TO THE SPV	RATE AT WHICH PAPER WILL BE PURCHASED	MAXIMUM PURCHASE LIMIT*
Currently rated A1/P1/F1 (as described in text)	Yes (see text for a description of maximum amount)	OIS + 110	Greatest amount of U.S. dollar commercial paper outstanding any day between March 16, 2019 and March 16, 2020

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CREDIT RATING OF ISSUER	ELIGIBLE TO SELL TO THE SPV	RATE AT WHICH PAPER WILL BE PURCHASED	MAXIMUM PURCHASE LIMIT*
Currently rated A2/P2/F2 and rated A1/P1/F1 (as described in text) on March 17, 2020	Yes, one-time sale (see text for a description of maximum amount)	OIS + 200	Amount of U.S. dollar commercial paper outstanding the day before downgrade
Currently rated A2/P2/F2 and rated A2/P2/F2 (as described in text) or below on March 17, 2020	Not eligible to sell commercial paper to the SPV	N/A	N/A
Currently rated below A2/P2/F2	Not eligible to sell commercial paper to the SPV	N/A	N/A

\*The SPV will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including the SPV) equals or exceeds the issuer's limit.

### How does a change in an issuer's credit rating status affect the issuer's registration?

Issuers are only required to register once; however, if an issuer's credit rating changes subsequent to registration, they will be required to certify the rating change and new limit to PIMCO via CPFFRegistration@pimco.com.

### Is there a limit to the size of the SPV?

The Federal Reserve did not specify a maximum size for the facility. The effective limit is the sum of the maximum amounts all individual eligible issuers would be able to issue to the facility. The actual amount of credit extended will depend on the extent to which issuers decide to use the facility.

### How will the New York Fed determine the maximum amount of a single issuer's commercial paper that the SPV may own at one time?

Upon registration with the CPFF, the issuer will be required to certify the maximum amount of U.S. dollar-denominated commercial paper it can sell to the SPV, consistent with the calculation criteria described in the question on limits above. However, as with all eligibility requirements, the New York Fed reserves the right to limit or prohibit participation in the CPFF.

### If an issuer does not intend to sell its maximum allowable amount of commercial paper to the SPV, may it base its facility fee on the amount of commercial paper it intends to sell to the SPV?

No. The fee is based on the maximum amount of an issuer's commercial paper the SPV may own.

### If an issuer did not meet the A1/P1/F1 credit rating eligibility criteria as of March 17, 2020, but meets it subsequently, is the issuer eligible to sell commercial paper to the SPV?

Issuers that are upgraded or add a credit rating to meet the A1/P1/F1 credit rating eligibility criteria are eligible to sell commercial paper to the SPV.

### When can issuers sell commercial paper to the SPV?

Commercial paper can be sold to the SPV at any time while the CPFF remains open, subject to applicable limits.

### Does CPFF eligibility include programs in which there are co-issuers?

If one of the co-issuers of commercial paper is a U.S. issuer of commercial paper and the issuer meets all other program terms and conditions, the commercial paper will be considered eligible. However, as with all eligibility requirements, the New York Fed reserves the right to limit or prohibit participation in the CPFF.

### May U.S. branches of foreign banking organizations sell commercial paper to the SPV?

Yes, if a U.S. branch of a foreign banking organization had commercial paper outstanding between March 16, 2019, and March 16, 2020, it may sell commercial paper to the SPV, subject to any other requirements of the CPFF. The U.S. branch may not sell any commercial paper issued by other parts of the banking organization to the SPV. In addition, in determining the limit applicable to the issuer, the U.S. branch must not include any commercial paper issued by other parts of the organization.

### Will the SPV purchase commercial paper with an extendable maturity?

No.

### Will the SPV purchase interest-bearing commercial paper?

No.

### May municipal commercial paper issuers participate in the CPFF?

Yes.

### Will the SPV purchase variable rate demand notes (VRDNs) or variable rate demand obligations (VRDOs)?

No.

### Must an issuer include extendable commercial paper when calculating the maximum amount of the issuer's commercial paper that the SPV may own at one time?

Yes.

### Given that they are not eligible to be purchased by the CPFF, do outstanding amounts of interest-bearing commercial paper or VRDOs/VRDNs count when calculating the maximum amount of the issuer's commercial



Outstanding interest-bearing commercial paper will count towards establishing the maximum amount that the SPV can purchase, but outstanding VRDOs/VRDNs will not.

**The CPFF registration form asks the issuer to list the eligible commercial paper dealers through which it will participate in the CPFF, but only provides three lines. May issuers list more than three dealers?**

Yes, an issuer wishing to list more than three dealers may do so on a separate page, which should be appended to its submission.

**Over what time period will the SPV operate?**

The SPV will begin purchasing commercial paper when the CPFF opens, and is scheduled to cease purchasing commercial paper on March 31, 2021, unless the Board and the Department of the Treasury extend the facility. The New York Fed will continue to fund the SPV after such date until the SPV's underlying assets mature.

**What third-party vendors are supporting the CPFF?**

Pacific Investment Management Company, LLC (PIMCO) will serve on a short-term basis as asset investment manager, and State Street Bank and Trust Company will serve on a short-term basis as the custodian and administrator.

**How will the SPV be funded?**

The SPV will be funded by loans provided by the New York Fed at the rate of interest on excess reserves. All credit extended to the SPV will be with full recourse to the SPV and secured by all the assets of the SPV, including the Department of the Treasury's \$10 billion equity investment in the SPV.

**When will the daily discount rates on CPFF purchases be announced?**

The CPFF's daily rates will be posted on the New York Fed's website each day by 8:00 a.m. ET. The rates will also be published on the BLOOMBERG PROFESSIONAL BOOM® platform.

**By what time will the CPFF dealers be required to notify New York Fed's investment manager of CPFF transactions?**

A CPFF dealer must notify the investment manager of the amount of commercial paper that the eligible issuers the dealer supports are interested in selling to the SPV no later than 10:30 a.m. ET.

**What are the maximum and minimum transaction sizes?**

The maximum transaction size may not exceed the amount of an issuer's commercial paper that the SPV may own at any one time. The minimum transaction size accepted over the BLOOMBERG PROFESSIONAL BOOM® platform is \$100,000.

**What time will an issuer receive payments for commercial paper sold to the SPV?**

Commercial paper purchased by the SPV will settle T+0.

Consistent with market convention, commercial paper purchased by the SPV will settle in accordance with the standard settlement times established by the Depository Trust Company (DTC). An issuer's issuing and paying agent determines the time that an issuer receives the proceeds from net new issuance.

**Will the payment for the new CP issuance flow through the DTC settlement system?**

Yes.

**Will the Federal Reserve disclose information regarding the CPFF?**

The Federal Reserve may disclose information regarding the CPFF during the operation of the facility, including information regarding participants, costs, revenues, and other fees.

Balance sheet items related to the CPFF will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Federal Reserve.

In addition, the Federal Reserve will disclose to Congress information pursuant to Section 13(3) of the Federal Reserve Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Board's Regulation A.

Under section 11(s) of the Federal Reserve Act, the Federal Reserve also will disclose information concerning the facility 1 year after the effective date of the termination by the Board of the authorization of the facility. This disclosure will include names and identifying details of each participant in the facility, the amount borrowed, the interest rate or discount paid, and information concerning the types and amounts of collateral pledged or assets transferred in connection with participation in the facility.

**Where should questions regarding the CPFF be directed?**

Questions should be directed via email to [CPFF@ny.frb.org](mailto:CPFF@ny.frb.org).

**How may I receive updates regarding changes to CPFF documents?**

Sign up for email alerts.

FAQs: July 23, 2020 »



