FAQs: Commercial Paper Funding Facility
March 25, 2020

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.

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. Recently, however, 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 increased very significantly, and many firms are reportedly unable to issue commercial paper with a term of longer than a week. 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 CPFF become operational?
The CPFF will become operational in the first half of April 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.

Each legal entity that issues commercial paper is considered a separate “issuer” within the construct of the CPFF. For example, if a parent company and a subsidiary issue commercial paper separately, they are considered separate issuers for the purposes of the CPFF.

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.

Can an issuer sell commercial paper directly to the SPV?
At this time, eligible issuers may only sell commercial paper to the SPV through the New York Fed’s primary dealers.

May investors sell outstanding commercial paper to the SPV?
No. The SPV will only purchase commercial paper directly from eligible issuers. It will not purchase commercial paper on the secondary market.

**May an issuer repurchase its own outstanding commercial paper from investors and finance that repurchase by selling commercial paper to the SPV through the New York Fed’s primary dealers?**

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. Issuers will only need to register once. When the registration period begins, registration materials, including wire instructions and a registration form, will be available on the New York Fed’s website. Issuers are required to pay the 10 basis point facility fee upon registration. Further details on the registration timeline and process will be provided in a subsequent update of these FAQs.

**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 through the New York Fed’s primary dealers.

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.

**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 NRSROs, the issuer must have a rating of at least A1/P1/F1 from at least two of those 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 at least A2/P2/F2.

If an issuer is rated by multiple NRSROs, the issuer must have a rating of at least A2/P2/F2 from at least two of those NRSROs. For example, if an issuer has ratings from two major NRSROs, both must be at least A2/P2/F2.

**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 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.

Summary table:

<table>
<thead>
<tr>
<th>CREDIT RATING OF ISSUER</th>
<th>ELIGIBLE TO SELL TO THE SPV</th>
<th>RATE AT WHICH PAPER WILL BE PURCHASED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently rated A1/P1/F1 (as described in text)</td>
<td>Yes</td>
<td>OIS + 110</td>
</tr>
<tr>
<td>Currently rated A2/P2/F2 and rated A1/P1/F1 (as described in text) on March 17, 2020</td>
<td>Yes, one-time sale</td>
<td>OIS + 200</td>
</tr>
<tr>
<td>Currently rated A2/P2/F2 and rated A2/P2/F2 (as described in text) or below on March 17, 2020</td>
<td>Not eligible to sell commercial paper to the SPV</td>
<td></td>
</tr>
<tr>
<td>Currently rated below A2/P2/F2</td>
<td>Not eligible to sell commercial paper to the SPV</td>
<td></td>
</tr>
</tbody>
</table>

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.

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.

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?

Yes. The relevant credit ratings are those on the paper that the issuer is selling to the SPV, which are assessed at the time of the sale.

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?**

No.

**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 17, 2021, unless the Board extends the facility. The New York Fed will continue to fund the SPV after such date until the SPV’s underlying assets mature.

**If an issuer sells commercial paper to the SPV, what information about the individual issuer’s activity might be made known to the public?**

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

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

Questions should be directed via email to CPFF@ny.frb.org.

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

Sign up for email alerts.