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Commercial Paper Funding Facility: Frequently Asked Questions

The following is intended to address operational questions about the Commercial Paper Funding Facility (CPFF).

Effective December 18, 2008

Why is the Federal Reserve establishing the CPFF?

The commercial paper market has been under considerable strain in recent weeks as money market mutual funds and other investors, themselves often facing liquidity pressures, have become increasingly reluctant to purchase commercial paper, especially at longer-dated maturities. As a result, an increasingly high percentage of outstanding commercial paper must now be refinanced each day, interest rates on longer-term commercial paper have increased significantly, and the volume of outstanding commercial paper has declined. A large share of outstanding commercial paper is issued or sponsored by financial intermediaries, and their difficulties placing commercial paper have reduced their ability to meet the credit needs of businesses and households.

What is the purpose of 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 will be able to roll over their maturing commercial paper. These steps should contribute to an overall improvement of conditions in credit markets.

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) that will purchase eligible three-month unsecured and asset-backed commercial paper from eligible issuers using financing provided by the Federal Reserve Bank of New York. 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.

When will the CPFF become operational?

The CPFF will become operational on October 27, 2008.

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

Only U.S. issuers of commercial paper, including U.S. issuers with a foreign parent, are eligible to sell commercial paper to the SPV. 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.

Can an issuer sell commercial paper directly to the SPV?

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 from issuers.

May an issuer repurchase outstanding commercial paper

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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 must register with the CPFF in order to sell commercial paper to the SPV. The registration period begins on Monday, October 20, 2008; registration materials, including wire instructions and a registration form, will be available on this date at <http://www.newyorkfed.org/markets/cpff.html>. The 10 basis point facility fee must be paid upon registration.

Issuers are only required to register once. To access the facility on October 27, 2008, an issuer must register no later than Thursday, October 23, 2008. Thereafter, issuers that have not registered with the CPFF will be required to register two business days in advance of their intended use of the CPFF. Registration is not required by an issuer that does not intend to access the CPFF.

How is "issuer" defined for the purposes of registration in the CPFF?

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

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

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 January 1 and August 31, 2008¹. 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, the issuer certifies that the maximum amount of commercial paper that it can sell to the SPV is \$1 billion. On October 27, 2008, the issuer has \$500 million in commercial paper outstanding with investors, maturing on February 18, 2009. On October 28, 2008, it sells \$500 million of commercial paper to the SPV, reaching the maximum amount of commercial paper that the issuer can sell to the SPV at that time. In November, the issuer sells \$300 million in 6-month commercial paper to investors other than the SPV. On January 26, 2009, when the commercial paper owned by the SPV matures, the SPV will only be able to buy \$200 million of commercial paper from this issuer.

How should an issuer with multiple commercial paper programs determine the maximum amount of commercial paper that the SPV may own at any time?

An issuer with multiple commercial paper programs should determine the maximum amount of commercial paper that the SPV may own at any time by summing outstanding CP across all programs each day between January 1, 2008 and August 31, 2008 and identifying the peak daily amount within that timeframe.

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.

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.

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 had outstanding on any day between January 1 and August 31, 2008. The New York Fed retains the right to verify that maximum amount.

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

The SPV will purchase unsecured and asset-backed commercial paper (ABCP). The commercial paper must be rated at least A-1/P-1/F1 by a major nationally recognized statistical rating organization (NRSRO) and, if rated by multiple major NRSROs, must be rated at least A-1/P-1/F1 by two or more major NRSROs. The commercial paper must be U.S. dollar-denominated and have a three-month maturity.

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 January 1 and August 30, 2008, it may sell commercial paper to the SPV. 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 Maximum Face Value in item 2 of the CPFF issuer registration form, 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.

May municipal commercial paper issuers participate in the CPFF?

At this time the CPFF is not open to municipal issuers.

Does participation in the FDIC's Temporary Liquidity Guarantee Program qualify as a satisfactory guarantee for unsecured commercial paper under the terms and conditions of the CPFF?

Yes. Issuers whose commercial paper is covered by the FDIC's Temporary Liquidity Guarantee Program will be considered guaranteed to the satisfaction of the New York Fed under the terms and conditions of the CPFF. However, during the initial opt-out period (ending on December 5, 2008) of the FDIC's Program, any such issuer that sells commercial paper to the SPV still will be required to pay the 100 basis point unsecured credit surcharge. If the issuer does not opt out of the FDIC's Program at the end of the opt-out period, the issuer will be entitled to a reimbursement of the unsecured credit surcharge.

After the expiration of the opt-out period, issuers who do not opt out of the FDIC's Program will not be subject to the unsecured credit surcharge for commercial paper subsequently sold to the SPV.

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 SPV will not purchase interest-bearing commercial paper. The spread for unsecured commercial paper will be 100 basis points per annum and the spread for ABCP will be 300 basis points per annum. For unsecured commercial paper, a 100 basis points per annum unsecured credit surcharge must be paid on each trade execution date.

How will an issuer pay the 100 basis point unsecured credit

surcharge for unsecured commercial paper?

On each unsecured commercial paper transaction, the issuer will be charged 100 basis points per annum, on the face value of the commercial paper at time of settlement. When distributing the proceeds of the new commercial paper issuance, the SPV will reduce the proceeds due to the issuer by an amount equal to the unsecured credit surcharge on the face value of the commercial paper.

When will the daily lending rates be announced?

The CPFF daily lending rates will be posted on the New York Fed website each day at 8:00 a.m. ET. In addition, the rates will be published on the BLOOMBERG PROFESSIONAL® service on the CPFF page.

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

A primary dealer must notify the asset 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?

Although there are no system constraints on the maximum transaction size, the maximum transaction size may not exceed the maximum amount of commercial paper the SPV may own at one time. The minimum transaction size accepted over the BLOOMBERG PROFESSIONAL BOOM® platform is \$250,000.

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

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.

How will the SPV be funded?

The SPV will be funded by loans provided by the FRBNY at the target federal funds rate. If the target federal funds rate is a range, then the loan will be set at the maximum rate within such range. All credit extended to the SPV will be with full recourse to the SPV and secured by all the assets of the SPV.

Who will be the asset manager for the SPV?

PIMCO will serve as asset manager and State Street Bank and Trust Company will serve as custodian and administrator, subject to reaching final agreement on terms that are mutually acceptable.

Over what time period will the SPV operate?

The SPV will begin purchasing commercial paper on October 27, 2008, and will cease purchasing commercial paper on April 30, 2009, unless the Board of Governors of the Federal Reserve System extends the CPFF. The New York Fed will continue to fund the SPV after such date until the SPV's underlying assets mature.

What is the legal basis for the CPFF?

The CPFF is authorized under Section 13(3) of the Federal Reserve Act, which permits the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations that are unable to obtain adequate credit accommodations.

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

The U.S. Treasury believes this facility is necessary to prevent substantial disruptions to the financial markets and the economy and will make a special deposit at the New York Fed in support of this facility.

How will the Federal Reserve report lending under the CPFF?

The Federal Reserve will not publicly disclose the individual issuers or the amounts provided to individual issuers by the CPFF. Balance sheet items related to the SPV and CPFF will be reported on the H.4.1 weekly statistical release titled "Factors Affecting Reserve

Balances of Depository Institutions and Condition Statement of Federal Reserve Banks." There will be an explanatory cover note on the release when the items are added.

Where should questions regarding the CPFF be directed?

Questions should be directed to the New York Fed's Public Affairs department: 212-720-6130.

¹An issuer may not substitute a lower amount, such as a current authorized lending amount, for the maximum amount of commercial paper that the SPV may own.

FAQs: November 5, 2008 >>

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