



## GOVERNMENT | Federal Reserve launches commercial paper funding facility

24 March 2020

In response to the current COVID-19 crisis the Federal Reserve announced last week, on March 17, that it was creating “Commercial Paper Funding Facility 2020” to support the flow of credit to American households and businesses. This facility mirrors the commercial paper (CP) funding facility commenced by the Federal Reserve in 2008 at the height of the credit crisis and ending in early 2010.

The original Program Terms and Conditions of Commercial Paper Funding Facility 2020 (CPFF2020) were published and became effective on March 17, and revised Program Terms and Conditions were published and became effective on March 23.

Like the facility introduced by the Federal Reserve in October 2008, CPFF2020 provides a funding backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month commercial paper directly from eligible issuers.

The Federal Reserve Bank of New York (FRBNY) will provide financing to the SPV under CPFF2020 and is secured by all of the assets of the SPV, i.e. the CP purchased by the SPV. The U.S. Treasury Department will provide \$10 billion in credit protection to the FRBNY in relation to CPFF2020, but this is not a limit on the amount of CP that may be purchased by the SPV. No limit has been set.

The maximum amount of a single issuer’s commercial paper that 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.

CPFF2020 finances U.S. dollar-denominated commercial paper (including asset-backed commercial paper (ABCP)) that (1) is rated at least A-1/P-1/F1 by a major nationally recognized statistical rating

organization (NRSRO) and, if the CP is rated by multiple major NRSROs, is rated at least A1/P1/F1 by two or more major NRSROs; or (2) if a CP issuer is downgraded after March 17, 2020, CP of such issuer so long as the issuer is rated at least A2/P2/F2 by two or more major NRSROs. A sale from such an issuer downgraded to A2/P2/Fs can only be done once, and the amount that the SPV can purchase from such an issuer is capped at the amount U.S. dollar-denominated CP that the issuer had outstanding the day before it was downgraded.

Pricing will be based on the then-current 3-month overnight index swap (OIS) rate plus 110 basis points for commercial paper rated A1/P1/F1 and 3-month OIS rate plus 200 basis points for CP rated A2/P2/F2. In addition, each CP issuer will pay a facility fee equal to 0.10% of the maximum amount of CP that the SPV may own. The Federal Reserve originally had pricing at 3-month OIS rate plus 200 basis points for the A1/P1/F1 CP that was the only CP originally eligible.

Only U.S. issuers of commercial paper, including U.S. issuers with a foreign parent, are eligible to sell commercial paper to the SPV. It is not yet clear how a U.S. issuer will be defined. However, if CPFF2020 follows the lead of the 2008 program in this regard, ABCP issuers that have reorganized offshore in recent years will be ineligible for CPFF20. This would be an unfortunate result given that these programs typically still fund the U.S. economy through CP issued to U.S. investors. On the other hand, non-U.S. ABCP facilities with US co-issuers may be eligible under the terms of the program; the FAQ associated with the 2008 facility provided that facilities with U.S. co-issuers were eligible. The Federal Reserve has stated that more detailed program terms and conditions and an operational calendar are forthcoming.

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1. *Federal Reserve Board announces establishment of a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses* (Mar. 17, 2020), <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200317a.htm>; see also Federal Reserve, *Commercial Paper Funding Facility* (Mar. 23, 2020), <https://www.federalreserve.gov/monetarypolicy/cpff.htm>.
2. Federal Reserve announces extensive new measures to support the economy (Mar. 23, 2020), <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm>.
3. FRBNY, *Commercial Paper Funding Facility* (Mar. 23, 2020), <https://www.newyorkfed.org/markets/commercial-paper-funding-facility>.
4. It can be expected that in terms of how a CP issuer determines this, the Federal Reserve will take the same approach it took for the credit-crisis predecessor to CPFF2020; for example, in connection with the credit-crisis facility, the FRBNY instructed that an issuer with multiple CP programs should determine the maximum amount of CP that the SPV may own at any time by

totaling outstanding CP across all programs and identifying the peak daily amount within the applicable timeframe. Federal Reserve, *Commercial Paper Funding Facility: Frequently Asked Questions* (Oct. 19, 2009), [https://www.newyorkfed.org/markets/cpff\\_faq.html](https://www.newyorkfed.org/markets/cpff_faq.html) (*hereinafter* 2009 FAQ).

5. As with the limit of an issuer's CP that the SPV can hold at one time, the manner in which the maximum amount is calculated for purposes of the facility fee was addressed in the 2009 FAQ in connection with the credit-crisis facility, and the FRBNY can be expected to take the same approach. More generally, the 2009 FAQ should be a good point of reference for the CPFF2020 program.