

Fed Issues FAQs for Commercial Paper Funding Facility

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The Federal Reserve has **issued** FAQs providing more information about its Commercial Paper Funding Facility (**CPFF**), originally **announced** on March 17, 2020 and **expanded** on March 23, 2020 as part of its response to the coronavirus crisis. The FAQs provide additional details on how the CPFF will work, including further information on eligible issuers, use of proceeds, calculation of program limits, changes in issuer ratings, ineligible instruments and administrative matters.

For more information on the CPFF, please see our [memorandum](#) dated March 17, 2020, our [blog post](#) covering the March 23, 2020 expansion and the updated [term sheet released](#) by the Federal Reserve on March 23, 2020. This post highlights some of the key takeaways from the FAQs issued on March 25, 2020.

Under the CPFF, the Federal Reserve Bank of New York would provide a recourse loan to a special purpose vehicle (**SPV**), supported by a \$10 billion equity investment in the SPV by the Department of the Treasury and collateralized by all assets of the SPV. The SPV, through Federal Reserve Bank of New York primary dealers, would purchase 90-day U.S. dollar-denominated commercial paper (**CP**) from **eligible issuers**. The SPV would be limited in how much CP it could purchase from a particular issuer.

Key takeaways from the March 25, 2020 FAQs include:

- Eligible Issuers
 - The March 23, 2020 term sheet had defined eligible issuers as U.S. issuers of CP, including municipal issuers and U.S. issuers with a foreign parent company

- The FAQs clarify that 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 issuing CP within a corporate group is considered a separate “issuer” that may be an eligible issuer for purposes of the CPFF
- Use of Proceeds
 - The FAQs explain that an issuer may repurchase outstanding CP from investors and finance that repurchase through selling CP to the SPV (although the SPV itself will not buy CP on the secondary market)
 - This suggests that the Federal Reserve will be flexible with respect to how eligible issuers use the proceeds of their CP sales
- Limits
 - The March 23, 2020 term sheet explained that:
 - For an A1/P1/F1¹⁴ eligible issuer, the maximum amount of the SPV’s holdings of a particular issuer’s CP at any point in time will be equal to the maximum amount of that issuer’s outstanding USD-denominated CP on any day between March 16, 2019 and March 16, 2020;
 - For an A1/P1/F1 eligible issuer (as of March 17, 2020) subsequently downgraded to A2/P2/F2,¹⁵ the SPV may purchase CP in a one-time sale only up to the issuer’s outstanding USD-denominated CP on the day before it was downgraded; and
 - The SPV will not purchase additional CP from an issuer whose total CP outstanding to all investors (including the SPV) equals or exceeds the issuer’s limit
 - The FAQs clarify that, in calculating this limit, an issuer with multiple CP programs should sum the total outstanding CP across all of its programs
- Changes in Ratings
 - The FAQs clarify that the relevant credit ratings are those at the time of the sale of CP to an SPV

- This means that an otherwise eligible issuer that is upgraded to A1/P1/F1 will be able to use the CPFF
- Ineligible Instruments
 - The March 23, 2020 term sheet stated that the SPV would purchase “three-month U.S. dollar-denominated commercial paper”
 - The FAQs specify that the following instruments are ineligible for purchase by the SPV:
 - CP with an extendable maturity
 - Interest-bearing CP
 - Variable rate demand notes
- Administration and Logistics
 - The CPFF will become operational in the first half of April 2020
 - Registration is required, but issuers need to register only once
 - The Federal Reserve has stated that it will provide additional details about the timeline and process for registration in subsequent FAQs
 - The Federal Reserve may publicly disclose information about the CPFF, including information on participants, costs, revenues and other fees
 - Questions may be directed via email to CPFF@ny.frb.org
 - Issuers interested in receiving email alerts from the Federal Reserve Bank of New York about the CPFF can sign up [here](#)

^[1] If an issuer is rated by multiple nationally recognized statistical rating organizations (**NRSROs**), for the issuer to be treated as having a rating of at least A1/P1/F1, it must have a rating of at least A1/P1/F1 from at least two of those NRSROs.

^[2] If an issuer is rated by multiple NRSROs, for the issuer to be treated as having a rating of at least A2/P2/F2, it must have a rating of at least A2/P2/F2 from at least two of those NRSROs.