Davis Polk

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# The Fed Moves to Shore Up Commercial Paper Markets

- The Federal Reserve's **announcement** that it is creating a Commercial Paper Funding Facility (**CPFF**) is the Federal Reserve's first use of its "unusual and exigent circumstances" powers in this crisis.[1]
- It is designed to make sure that any U.S. issuer of commercial paper (**CP**), including corporate issuers, is able to roll over CP and to encourage investors to lend once again in CP markets.
  - It is not primarily designed to help out the financial sector, although banks that issue CP are eligible.
  - The Treasury Secretary has approved the establishment of the program, as is now required under the Dodd-Frank Act's amendments to the Federal Reserve Act.
- The CPFF is very similar to the financial crisis era program.
  - The Federal Reserve Bank of New York (**FRBNY**) creates and lends to a special purpose vehicle (**SPV**).
  - The SPV buys CP from "eligible issuers".
  - The lending is on a collateralized and recourse basis. The collateral the SPV gives is the CP.
  - The Treasury, via the Exchange Stabilization Fund, is providing $10bn of credit protection. During the financial crisis, this credit protection was provided by the then-extant Troubled Asset Relief Program.
- Under the CPFF: "eligible issuers" are any U.S. issuers of CP, including those with a foreign parent. Only 90-day CP will be purchased. Pricing is 200bps over the 3-month overnight index swap (**OIS**) rate.
  - The CP must be rated at least A-1/P-1/F-1 if rated by a major nationally recognized statistical rating organization (**NRSRO**) and must be rated at least A-1/P-1/F-1 by two or more major NRSROs if rated by multiple major NRSROs.[2]
  - 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.
  - The SPV will not purchase additional CP from an issuer whose aggregate CP outstanding to all investors (including the SPV) is at or above this limit.
  - No explicit limit has been placed on the aggregate amount of the CPFF.
  - The CPFF exists through March 17, 2021.
- More details in the one-page **terms and conditions**. See the **linked chart** that shows usage in the CP market as of last Wednesday.
- The Bank of England has **also announced** a similar program, the Covid Corporate Financing Facility, which will purchase CP of up to one-year maturity issued by firms making a material contribution to the UK economy.

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[1] Federal Reserve Act, § 13(3), 12 U.S.C. § 343; *see also* 12 C.F.R. § 201.4(d).

[2] Ratings of at least A-2/P-2/F-2 will be required for one-time purchases made by the SPV up to the amount outstanding on March 17, 2020, and these purchases will be subject to separate pricing.

- Its purpose is to help businesses in across a range of sectors to pay wages and suppliers. Firms need not have tapped CP markets before, but they need to have been in sound financial condition before the crisis.
- The BoE also states that the facility is intended to preserve the capacity of the banking system to lend to other companies, including small and medium-sized enterprises, which rely on banks for funding.

See the **Davis Polk Financial Crisis Manual** for more information on other crisis era programs.

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If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.


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