

Commercial Paper Funding Facility: Frequently Asked Questions

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

Effective October 14, 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. U.S. issuers are entities organized under the laws of the United States or a political subdivision or territory thereof.

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 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.

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, 2008. 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.

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.

Will the SPV purchase commercial paper with an extendable maturity?

No.

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.

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 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 New York Fed at the target federal funds rate. 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?

24.A. 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?

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