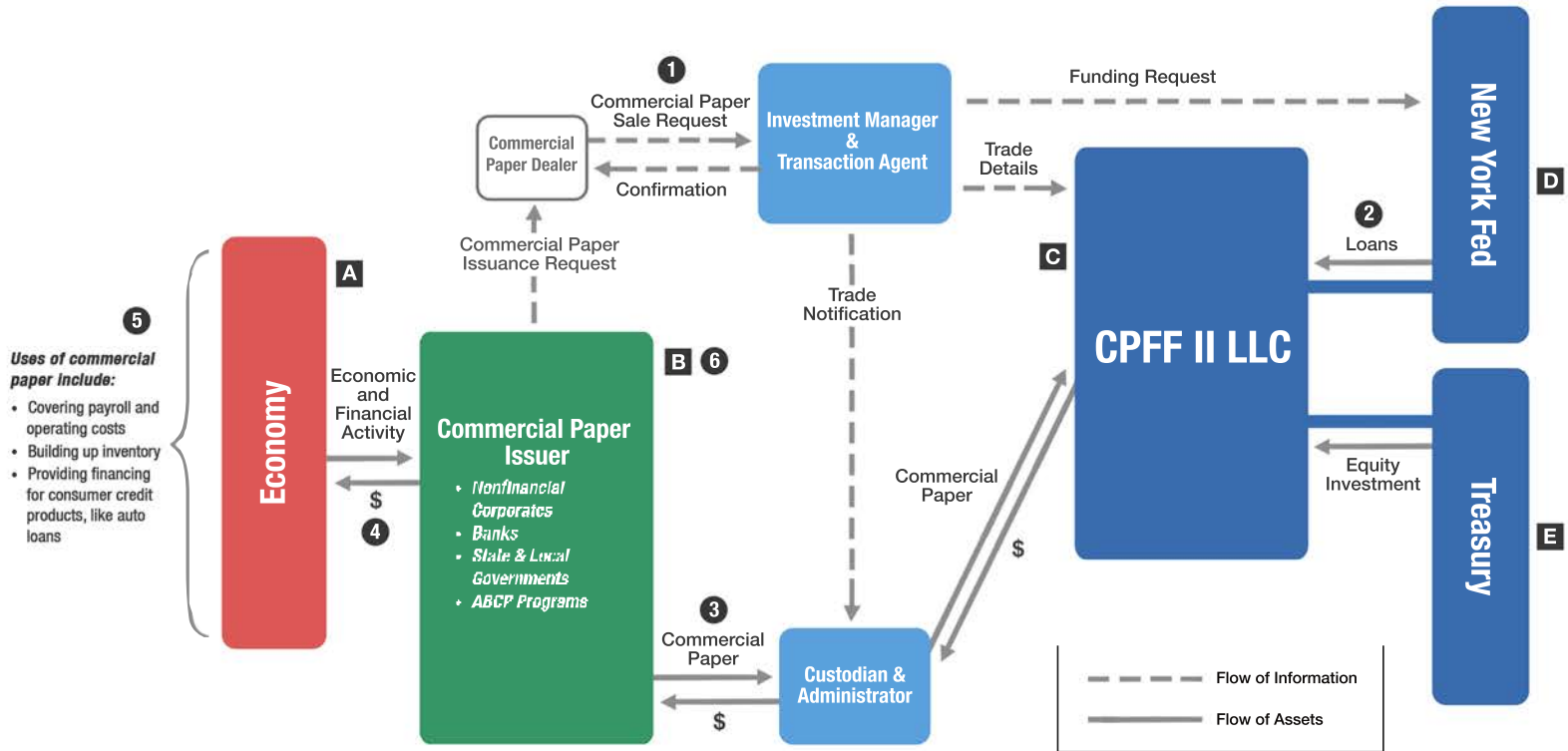


Commercial Paper Funding Facility (CPFF)

nyfed.org/cpff

The CPFF was established to support the flow of credit to households and businesses during the coronavirus pandemic. It provides a liquidity backstop to U.S. issuers of commercial paper by increasing the availability of term commercial paper funding to issuers, and by providing greater assurance to both issuers and investors that businesses and municipalities will be able to roll over their maturing commercial paper when markets are strained.



Key Entities

- Commercial paper is a short-term IOU used to finance a wide range of economic activity, supplying funding for the operational needs of businesses and municipalities. Commercial paper can help firms cover payroll and other operating costs, build up inventories, and provide financing for assets like auto loans.
- Issuers of commercial paper can register to sell their paper to the CP Funding Facility II LLC (CPFF II LLC). Eligible issuers are highly-rated U.S. entities, including nonfinancial corporations, banks, state and local governments, and asset-backed commercial paper (ABCP) programs.
- The CPFF II LLC is a dedicated funding vehicle established solely to implement the CPFF by purchasing eligible commercial paper from eligible issuers.
- The New York Fed manages the CPFF II LLC and makes loans to fund its commercial paper purchases. It has retained vendors to assist in managing the CPFF II LLC's activities (Investment Manager & Transaction Agent), and to serve as custodian and administrator of the CPFF II LLC's assets (Custodian & Administrator).
- The U.S. Treasury has made an equity investment in the CPFF II LLC to help absorb potential losses.

Flow of Credit

- Registered issuers can sell new, 3-month commercial paper to the CPFF II LLC, working through a commercial paper dealer and the CPFF II LLC's Transaction Agent. The CPFF II LLC purchases the paper at a discount, at a rate that is set and published at the start of each business day.
- The CPFF II LLC receives a loan from the New York Fed to fund its purchase of the commercial paper. The CPFF II LLC's assets serve as collateral that secures that loan. Assets consist of purchased commercial paper, interest earned on commercial paper repayments, issuer registration fees, and earnings from the reinvestment of these assets, as well as the Treasury's equity contribution.
- The issuer delivers the commercial paper to the CPFF II LLC's custodial account. Other entities (not shown) also play an operational role in this process. Specifically, the commercial paper is created by the issuer's Issuing and Paying Agent and delivered through the Depository Trust Company.
- In exchange, the CPFF II LLC delivers funds to the issuer with the expectation that it will be paid back in three months.
- Issuers then use those funds to support near-term business operations that support economic activity.
- After the commercial paper matures in three months, the issuer repays the CPFF II LLC at face value. The CPFF II LLC uses those funds to repay the loan from the New York Fed. The difference between the CPFF's commercial paper purchase rate and the rate on the New York Fed's loan represents interest income earned by the CPFF II LLC. This income covers the CPFF II LLC's operating expenses and provides a capital buffer to absorb potential losses before using the Treasury's equity contribution.