The Commercial Paper Funding Facility
In response to the COVID-19 pandemic, on March 17 the Federal Reserve Board (Fed) announced the establishment of a Commercial Paper Funding Facility (CPFF), a critical lifeline for Main Street businesses which provides much-needed capital to meet everyday expenses.

KEY TAKEAWAYS
• Commercial paper is a short term unsecured debt issued by a corporation or municipality used to finance everyday operating expenses such as payroll, inventory, and other short-term needs.
• The CPFF purchases highly rated, three-month unsecured and asset-backed paper from an eligible bank, corporation, special-purpose entity or municipal issuer allowing businesses and local governments access to funding they need in times when credit is strained.

What is Commercial Paper?
Commercial Paper, or CP, is a short-term, unsecured debt issued by a corporation or municipality and used to finance everyday operation expenses. CP is an unsecured form of a promissory note that pays a fixed rate of interest and provides a convenient financing method. It is usually offered at a discount, with maturities that can range from one to 270 days. Traditionally, CP is a very safe investment because the financial situation of a company, especially the forecasts of the high-quality companies that typically offer commercial paper, can easily be predicted over a few months. The total CP market in the United States was $1.092 trillion as of the end of March 2020.¹ The growing importance of the CP market has led the relevant regulators - the Fed and the SEC - to take an active role in supporting the market's functioning and resiliency.

History of the Commercial Paper Funding Facility
The original CPFF was established over a decade ago as the CP market was strained due to money market funds and other investors becoming reluctant to purchase CP, which led to a restriction in the availability of credit. The Fed acted as a lender of last resort for many corporations which were otherwise unable to borrow in the short-term market. This facility is regarded by many Fed officials “as a hallmark of success for Federal Reserve ‘credit easing’ programs.”²

COVID-19 Impact on Commercial Paper
Due to the COVID-19 pandemic, the CP market has recently faced considerable challenges. Short-term credit markets came under strain as investors worried that companies negatively impacted by efforts to slow the spread of the virus would not be able to meet their financial obligations. In addition, interest rates on CP surged to levels not seen in the last decade spurring the Fed to take steps aimed at markets which were frozen by the spike in lending rates. This move has been well received by market participants and has boosted investor confidence, supplied liquidity and encouraged lending in the CP markets. The increased liquidity and confidence allows banks to deploy lending power more efficiently and assures high-quality American companies that short-term funding will remain available.

According to the Fed term sheet effective March 23, 2020, the CPFF is structured as a credit facility to a special purpose vehicle (SPV) and authorized under section 13(3) of the Federal Reserve Act. The CPFF SPV purchases the paper from eligible entities using financing from the Federal Reserve Bank of New York. The SPV will only purchase U.S. dollar-denominated CP, including asset-backed CP, that is rated at least A1/P1/F1 by the major rating organizations as of March 18. In April, the New York Fed announced it hired Pacific Investment Management Company, LLC (PIMCO) to serve on a short-term basis as the asset investment manager for the facility and retained State Street Bank & Trust Company on a short-term basis as the custodian and accounting administrator. Likewise, this facility will be supported by $10 billion of credit protection from Treasury’s Exchange Stabilization Fund (ESF). Further, the Treasury Secretary has outlined that the Fed can leverage as much as 10 times, however, it is not clear that the demand will reach such levels.

Additional Resources: Federal Reserve Bank of New York Commercial Paper Funding Facility Program Page

¹ https://crsreports.congress.gov/product/pdf/IN/IN11332