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Audited Annual Financial Statements: CP Funding Facility II LLC

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Financial Statements:
CP Funding Facility II LLC

A Limited Liability Company Consolidated by the Federal Reserve Bank of New York

For the period from March 30, 2020
to December 31, 2020
and Independent Auditors' Report

CP Funding Facility II LLC

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

To the Managing Member of
CP Funding Facility II LLC:

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of CP Funding Facility II LLC (a Limited Liability Company consolidated by the Federal Reserve Bank of New York) (the “LLC”) as of December 31, 2020, the related statements of operations, changes in members’ equity, and cash flows for the period from March 30, 2020 to December 31, 2020 and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLC as of December 31, 2020, and the results of its operations for the period from March 30, 2020 to December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the LLC’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the LLC in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provided a reasonable basis for our opinion.

KPMG LLP

We have served as the LLC’s auditor since 2020.

New York, New York
March 17, 2021

Abbreviations

ASC	Accounting Standards Codification
CPFF II	CP Funding Facility II LLC
FASB	Financial Accounting Standards Board
FRBNY	Federal Reserve Bank of New York
GAAP	Accounting principles generally accepted in the United States of America
LLC	Limited liability company

CP Funding Facility II LLC

Statement of Financial Condition

As of December 31, 2020

(Amounts in thousands)

	<u>2020</u>
<u>ASSETS</u>	
Cash and cash equivalents	Note 3 \$ 4,303
Restricted cash and cash equivalents	
Cash deposit	1,500,000
Short-term investments in non-marketable securities	Note 3 8,504,019
Short-term investments at fair value (amortized cost of \$48,671 as of December 31, 2020)	Note 3 48,675
Interest receivable	177
Total assets	<u>\$ 10,057,174</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>	
Liabilities:	
Registration fees deferred revenue	\$ 11,534
Other liabilities	<u>2,010</u>
Total liabilities	<u>13,544</u>
Members' equity	Note 6 <u>10,043,630</u>
Total liabilities and members' equity	<u>\$ 10,057,174</u>

The accompanying notes are an integral part of these financial statements.

CP Funding Facility II LLC

Statement of Operations

For the period March 30, 2020 to December 31, 2020
(Amounts in thousands)

		<u>2020</u>
<u>INCOME</u>		
Interest income	Note 4	\$ 16,669
Registration fees		35,950
Realized gains on short-term investments, net		34
Unrealized gains on short-term investments, net	Note 3	4
Total operating income		<u>52,657</u>
<u>EXPENSES</u>		
Loans interest expense	Note 5	1,055
Professional fees		7,972
Total operating expenses		<u>9,027</u>
Net operating income	Note 7	<u>\$ 43,630</u>

The accompanying notes are an integral part of these financial statements.

CP Funding Facility II LLC

Statement of Changes in Members' Equity

For the period March 30, 2020 to December 31, 2020

(Amounts in thousands)

		<u>Members'</u> <u>contributed equity</u>	<u>Undistributed net</u> <u>operating income</u>	<u>Total members'</u> <u>equity</u>
Members' equity, March 30, 2020		\$ -	\$ -	\$ -
Members' contributions	Note 6	10,000,000	-	10,000,000
Net operating income	Note 7	-	43,630	43,630
Members' equity, December 31, 2020		<u>\$ 10,000,000</u>	<u>\$ 43,630</u>	<u>\$ 10,043,630</u>

The accompanying notes are an integral part of these financial statements.

CP Funding Facility II LLC

Statement of Cash Flows

For the period March 30, 2020 to December 31, 2020

(Amounts in thousands)

		<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net operating income	Note 7	\$ 43,630
Adjustment to reconcile net operating income to net cash provided by (used in) operating activities:		
Amortization of discounts and premiums on investments		(12,364)
Realized gains on short-term investments, net		(34)
Unrealized gains on short-term investments, net	Note 3	(4)
Increase in interest receivable		(177)
Increase in registration fees deferred revenue		11,534
Increase in other liabilities		2,010
Cash provided by operating activities		<u>44,595</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for purchases of short-term investments		(184,424)
Proceeds from sales and maturities of short-term investments		135,583
Payments for purchases of commercial paper		(4,272,480)
Proceeds from maturities of commercial paper		4,285,048
Cash used in investing activities		<u>(36,273)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from contributed capital	Note 6	10,000,000
Proceeds from loans payable to FRBNY	Note 5	4,272,480
Repayment of loans payable to FRBNY	Note 5	(4,272,480)
Cash provided by financing activities		<u>10,000,000</u>
Net change in cash and cash equivalents, restricted cash and cash equivalents		10,008,322
Beginning cash and cash equivalents, restricted cash and cash equivalents		-
Ending cash and cash equivalents, restricted cash and cash equivalents		<u>\$ 10,008,322</u>
<u>SUPPLEMENTAL CASH FLOW DISCLOSURE</u>		
Cash paid for interest		<u>\$ 1,055</u>

The accompanying notes are an integral part of these financial statements.

CP Funding Facility II LLC

Notes to the Financial Statements

(1) ORGANIZATION, NATURE OF BUSINESS, AND FINANCING

In accordance with section 13(3) of the Federal Reserve Act and with prior approval from the Secretary of the Treasury, the Board of Governors of the Federal Reserve System authorized the Federal Reserve Bank of New York (“FRBNY”) to establish the Commercial Paper Funding Facility (“Facility”) 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 and municipalities will be able to roll over their maturing commercial paper. The Facility’s purpose is to provide credit to eligible issuers by purchasing commercial paper. The authorization to purchase commercial paper through the Facility will expire on March 31, 2021.

CP Funding Facility II LLC (“CPFF II”) is a Delaware limited liability company (“LLC”) formed in connection with the implementation of the Facility on March 30, 2020. CPFF II has two members: FRBNY, which is CPFF II’s managing member and the U.S. Department of the Treasury (“Treasury”) which is the preferred equity member. The managing member has the exclusive rights to manage CPFF II. The preferred equity member contributed capital to CPFF II using funds from the Exchange Stabilization Fund.

FRBNY also serves as the lender to CPFF II. FRBNY extended \$4.3 billion in loans to CPFF II so that CPFF II could purchase commercial paper from eligible issuers during the period of April 14, 2020 to December 31, 2020. The loans made by FRBNY are with full recourse to CPFF II and are secured by all assets of CPFF II. CPFF II records a liability in the Statement of Financial Condition when FRBNY funds the loans. Interest on the loans are paid on the maturity date of the loans.

CPFF II purchases U.S. dollar-denominated unsecured and asset-backed commercial paper that satisfies criteria set forth in the Facility’s terms and conditions. The Facility’s terms and conditions set limits on the maximum amount of a single issuer’s commercial paper that CPFF II may own at any time. CPFF II will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including CPFF II) equals or exceeds the issuer’s limit.

Upon registration with the Facility, all eligible issuers are required to pay a non-refundable registration fee equal to 10 basis points of the maximum amount of the issuer’s commercial paper CPFF II may own.

All available cash receipts of CPFF II are used to pay its obligations as described in Note 7. Distributions of residual proceeds to the members will occur after all CPFF II loans are repaid in full. During the life of CPFF II, undistributed net residual income or loss is reported as “Undistributed net operating income” in the Statement of Changes in Members’ Equity.

CPFF II invests cash receipts from registration fees and investment earnings in short-term assets in the following categories: Treasury and agency securities, repurchase agreements collateralized by Treasury and agency securities, government money market funds, and dollar-denominated overnight deposits.

Various service providers for legal, accounting, administrative, custodial, investment management, and compliance services were engaged to provide services for CPFF II. Pacific Investment Management Company LLC (“Investment Manager”) provides transaction agent and investment management services for CPFF II. State Street Bank and Trust Company provides administrative and custodial services to CPFF II. CPFF II does not have any employees and therefore does not bear any employee-related costs.

CP Funding Facility II LLC

Notes to the Financial Statements

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”), which require the managing member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant items subject to such estimates and assumptions include the fair value of the investments. Actual results could differ from those estimates.

Significant accounts and accounting policies are explained below.

a. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents

CPFF II defines investments in money market funds and other highly liquid investments with original maturities of three months or less, when acquired, as cash equivalents. Money market funds are carried at fair value based on quoted prices in active markets. Other investments included in cash equivalents are carried at fair value based on composite prices received from pricing vendors representing quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in market that are not active.

In accordance with the terms of the CPFF II Preferred Equity Investment Agreement, approximately 85 percent of the Treasury’s initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to CPFF II. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 230-10 *Statement of Cash Flows*, these investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The investments in overnight non-marketable Treasury securities are recorded at amortized cost and are shown as “Restricted cash and cash equivalents: Short-term investments in non-marketable securities” in the Statement of Financial Condition. The remaining Treasury equity contribution in CPFF II is held in cash as a deposit at FRBNY to support the liquidity needs of CPFF II and is reported as “Restricted cash and cash equivalents: Cash deposit” in the Statement of Financial Condition and is included in “Net change in cash and cash equivalents, restricted cash and cash equivalents” in the Statement of Cash Flows.

b. Investments

Commercial Paper

Commercial paper held by CPFF II is designated as held-to-maturity under FASB ASC 320 *Investments - Debt and Equity Securities*. CPFF II has both the positive intent and the ability to hold the securities to maturity; therefore, the commercial paper it purchases is recorded at amortized cost. The accretion of discounts on the purchase of commercial paper is recorded using the effective interest method and is reported as a component of “Interest income” in the Statement of Operations.

Short-Term Investments

Debt securities with original maturities greater than three months, when acquired, are designated as trading securities under FASB ASC 320 *Investments - Debt and Equity Securities*. CPFF II’s short-term investments are composed of agency debt securities and Treasury securities that mature within one year. Any securities held for these short-term investments are categorized as trading securities and are reported as “Short-term investments at fair value” in the Statement of Financial Condition. Trading securities are

CP Funding Facility II LLC

Notes to the Financial Statements

recorded at fair value in accordance with FASB ASC 820 *Fair Value Measurements & Disclosures*. Realized gains and losses on short-term investments at fair value are determined on the average cost basis and are reported as “Realized gains on short-term investments, net” in the Statement of Operations. Unrealized gains and losses on short-term investments at fair value are reported as “Unrealized gains on short-term investments, net” in the Statement of Operations. Interest income, which includes the amortization of premiums and accretion of discounts, is recorded when earned and is reported as “Interest income” in the Statement of Operations.

c. Credit Impairment

CPFF II’s commercial paper investments are subject to review each reporting period to identify and evaluate investments that had indications of possible credit impairment in accordance with FASB ASC 320 *Investments Debt and Equity Securities*. Impairment is evaluated using numerous factors including collectability, liquidity and credit support, collateral, and the financial condition and near-term prospects of the issuer. If, after analyzing the above factors, FRBNY determines that an investment is impaired and that the impairment is other-than-temporary, the amortized cost of the individual security is written down to estimated fair value and a realized loss is recorded. To determine whether impairment is other-than-temporary, FRBNY considers whether it is probable that CPFF II will be unable to collect substantially all of the contractual interest and principal payments on the investment on the maturity date of the commercial paper. As of December 31, 2020, there were no commercial paper holdings for which FRBNY considered impairment to be other-than-temporary.

d. Interest Income

CPFF II recognizes interest income on commercial paper on an effective interest basis, based on the contractual rate of the commercial paper. Interest income recognition ceases when the commercial paper matures. Interest income on short-term investments in non-marketable securities is recorded when earned and is received daily based on an overnight rate established by the Treasury’s Bureau of Fiscal Services.

e. Registration Fees

Participating issuers are required to register with the Facility to sell commercial paper to CPFF II. Registration includes a nonrefundable 10 basis point fee paid upon submission of the registration. Proceeds of these fees are invested by the Investment Manager in accordance with the investment objectives and guidelines set out in the investment management agreement. In accordance with ASC 310-20, *Receivables - Nonrefundable Fees and Other Costs*, the registration fees are deferred and amortized using the straight-line method over the period for which CPFF II is authorized to purchase commercial paper through the Facility and is reported as “Registration fees deferred revenue” in the Statement of Financial Condition and as "Registration fees" in the Statement of Operations.

f. Professional Fees

Professional fees consist primarily of fees charged by CPFF II’s Investment Manager, administrator, custodian, attorneys, and independent auditors. Professional fees are reported as “Professional fees” in the Statement of Operations.

CP Funding Facility II LLC

Notes to the Financial Statements

g. Taxes

CPFF II was formed by FRBNY and the Treasury. It is not subject to an entity level income tax. Accordingly, no provision for income taxes is made in the financial statements.

h. Fair Value Measurements

Certain assets of CPFF II are measured at fair value in accordance with FASB ASC 820 *Fair Value Measurement & Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 *Fair Value Measurement & Disclosures* establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and FRBNY's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by FASB ASC 820 *Fair Value Measurement & Disclosures* are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect FRBNY's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies used for valuing the financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

i. Recently Issued Accounting Standards

The following items represent recent GAAP accounting standards.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. Although earlier adoption is permitted, this update is effective for CPFF II for the year ending December 31, 2023. CPFF II is continuing to evaluate the effect of this guidance on CPFF II's financial statements.

CP Funding Facility II LLC

Notes to the Financial Statements

(3) FACILITY ASSETS

At December 31, 2020 there were no outstanding commercial paper holdings in CPFF II. The maturity distribution of CPFF II holdings at December 31, 2020, which are recorded at fair value for cash equivalents, amortized cost for short-term investments in non-marketable securities, and fair value for short-term investments in the Statement of Financial Condition are as follows (in thousands):

	Within 15 days	16 days to 90 days	91 days to 1 year	Total
Cash equivalents	\$ 503	\$ 3,800	\$ -	\$ 4,303
Short-term investments in non-marketable securities	8,504,019	-	-	8,504,019
Short-term investments	-	29,184	19,491	48,675
Total	<u>\$ 8,504,522</u>	<u>\$ 32,984</u>	<u>\$ 19,491</u>	<u>\$ 8,556,997</u>

CPFF II's cash equivalents and short-term investments are valued on the basis of the last available bid prices or current market quotations provided by pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

The following table presents the financial instruments recorded at fair value as of December 31, 2020 by ASC 820 *Fair Value Measurements & Disclosures* hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 503	\$ 3,800	\$ -	\$ 4,303
Short-term investments	-	48,675	-	48,675
Total investments at fair value	<u>\$ 503</u>	<u>\$ 52,475</u>	<u>\$ -</u>	<u>\$ 52,978</u>

The fair value of CPFF II's holdings is subject to both market and credit risk, arising from movements in variables such as interest rates, credit spreads and the credit quality of the holdings. Based on evaluations performed as of December 31, 2020 there are no credit impairments of CPFF II's holdings.

The following table presents CPFF II's holdings that are reported at fair value in the Statement of Financial Condition at December 31, 2020 (in thousands). Amortized cost is provided as supplemental information.

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	\$ 48,671	\$ 6	\$ (2)	\$ 48,675

Due to the short-term nature of cash equivalents and short-term investments in non-marketable securities, there is no material difference between cost and fair value.

CP Funding Facility II LLC

Notes to the Financial Statements

(4) RISK PROFILE

As of December 31, 2020, CPFF II's portfolio consisted primarily of cash equivalents, short-term investments, and short-term investments in non-marketable securities. CPFF II's cash equivalents consisted of approximately \$4 million of Treasury bills and government money market funds with remaining maturities less than 90 days. The value of CPFF II's short-term investments consisted of approximately \$49 million in U.S. agency debt securities, Treasury notes, and Treasury bills with remaining maturities of greater than 15 days and less than one year. Short-term investments in non-marketable securities totaled approximately \$8.5 billion. Interest income earned on the portion of the preferred equity contributions invested in non-marketable securities totaled approximately \$4 million and is reported as a component of "Interest income" in the Statement of Operations. These principally short-term government guaranteed investments are subject to interest rate risk.

At December 31, 2020, CPFF II's short-term investments in non-marketable securities and short-term investments were all issued or guaranteed by the U.S. government or government agencies. Cash equivalents were composed of securities issued or guaranteed by the U.S. government and money market funds with underlying investments of cash and securities issued or guaranteed by the U.S. government.

(5) LOANS PAYABLE TO THE FEDERAL RESERVE BANK OF NEW YORK

FRBNY has extended loans to CPFF II, and the loan proceeds financed CPFF II's purchase of commercial paper. In addition to loans for the purchase of eligible assets, CPFF II may borrow from FRBNY for temporary liquidity needs.

The assets of CPFF II are used to secure the loans from FRBNY. These assets include the equity that the Treasury has contributed to CPFF II to function as credit protection for FRBNY's loans to CPFF II.

Each loan made by FRBNY to CPFF II bears interest, accrued daily, at a rate per annum equal to the interest rate on excess reserves in effect on the day the loan was made. Repayment of the principal and interest on the loans is made from proceeds of the maturity of the commercial paper. The amount of interest expense during the period is reported as "Loans interest expense" in the Statement of Operations.

There were no loans outstanding to FRBNY as of December 31, 2020.

(6) EQUITY CONTRIBUTIONS

As of December 31, 2020, the preferred equity member contributed \$10.0 billion in capital as credit protection to CPFF II for loans needed to fund purchases of commercial paper or operations of CPFF II, and the managing member contributed \$10 in capital.

Preferred equity member contributions are held in cash deposits and non-marketable securities, as mutually agreed upon by the managing member and the preferred equity member and consented to by FRBNY and are reported as "Members' contributions" in the Statement of Changes in Members' Equity.

CP Funding Facility II LLC

Notes to the Financial Statements

(7) DISTRIBUTION OF PROCEEDS

Amounts available for distribution, due to interest, fees, payments on investments and other receipts of income are applied on the dates and in the order of priority set forth in the credit agreement between CPFF II and FRBNY.

At the conclusion of the Facility, when the credit agreement has been terminated and all obligations of CPFF II repaid, the remaining net assets will be allocated and distributed in accordance with the limited liability company agreement of CPFF II. That agreement contemplates the distribution, upon CPFF II's liquidation, 1) to Treasury of the preferred equity account balance inclusive of any investment earnings accrued on those amounts, and 2) 90 percent of the remaining net assets to the preferred equity member and 10 percent of the remaining net assets to the managing member.

The following table presents the allocation of undistributed net operating income to equity members as of December 31, 2020 (in thousands):

	<u>Managing member</u>	<u>Preferred equity member</u>	<u>Total undistributed net operating income</u>
Net operating income	\$ 3,961	\$ 39,669	\$ 43,630

(8) COMMITMENTS AND CONTINGENCIES

CPFF II agreed to pay the reasonable out-of-pocket costs and expenses of certain service providers incurred in connection with their duties. CPFF II also generally agreed to indemnify its service providers for certain losses, expenses, and other liabilities under the agreements it has with those service providers, subject to customary exceptions such as for losses caused by the service providers' misconduct. These indemnity obligations survive termination of those agreements. As of December 31, 2020, CPFF II did not have any claims under these indemnities, and the risk of loss was deemed remote.

(9) SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2020. Subsequent events were evaluated through March 17, 2021, which is the date that these financial statements were available to be issued.