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Announcement of the Commercial Paper Funding Facility (CPFF)

Federal Reserve System: Board of Governors

FEDERAL RESERVE press release

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The Federal Reserve Board on Tuesday announced the creation of the Commercial Paper Funding Facility (CPFF), a facility that will complement the Federal Reserve's existing credit facilities to help provide liquidity to term funding markets. The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers. The Federal Reserve will provide financing to the SPV under the CPFF and will be secured by all of the assets of the SPV and, in the case of commercial paper that is not asset-backed commercial paper, by fees paid by the issuers or by other forms of security acceptable to the Federal Reserve in consultation with market participants. The creation of the CPFF is supported by the U.S. Department of Treasury. The 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 Federal Reserve Bank of New York in support of this facility.

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, the volume of outstanding commercial paper has shrunk, interest rates paid on commercial paper have increased significantly, and an increasingly high percentage of outstanding paper must now be refinanced each day. A large share of outstanding commercial paper is issued or sponsored by financial intermediaries, and their difficulties placing commercial

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paper have made it more difficult for those intermediaries to play their vital role in meeting the credit needs of businesses and households.

By eliminating much of the risk that eligible issuers will not be able to repay investors by rolling over their maturing commercial paper obligations, this facility should encourage investors to once again engage in term lending in the commercial paper market. Added investor demand should lower commercial paper rates from their current elevated levels and foster issuance of longer-term commercial paper. An improved commercial paper market will enhance the ability of financial intermediaries to accommodate the credit needs of businesses and households.

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