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## Commercial Paper Funding Facility LLC: Financial Statements 2009-10

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# ***Commercial Paper Funding Facility LLC***

*(A Special Purpose Vehicle Consolidated by the  
Federal Reserve Bank of New York)*

*Financial Statements as of May 31, 2010 and for the  
Period January 1, 2010 through May 31, 2010, and as of  
and for the Year Ended December 31, 2009, and  
Independent Auditors' Report*

# Commercial Paper Funding Facility LLC

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## INDEPENDENT AUDITORS' REPORT

To the Managing Member of  
Commercial Paper Funding Facility LLC:

We have audited the accompanying statements of financial condition of Commercial Paper Funding Facility LLC (a Special Purpose Vehicle Consolidated by the Federal Reserve Bank of New York) (the "LLC") as of May 31, 2010 and December 31, 2009, and the related statements of income, changes in member's equity, and cash flows for the period from January 1, 2010 to May 31, 2010, and for the year ended December 31, 2009. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Commercial Paper Funding Facility LLC (a Special Purpose Vehicle Consolidated by the Federal Reserve Bank of New York) as of May 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the period January 1, 2010 to May 31, 2010 and for the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

August 30, 2010

## Commercial Paper Funding Facility LLC

### Statements of Financial Condition

As of May 31, 2010 and December 31, 2009

(Amounts in thousands, except contributed capital data)

	<u>May 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,114	\$ 9,269
Commercial paper, at amortized cost	-	9,421,189
Trading securities, at fair value (cost of \$0 and \$4,784,725, respectively)	-	4,786,416
Interest receivable	-	16,327
Total assets	<u>1,114</u>	<u>14,233,201</u>
<b>Liabilities and Member's Equity</b>		
Loans payable to FRBNY	\$ -	\$ 9,374,342
Loans interest payable to FRBNY	-	4,173
Unearned registration fees	-	168,223
Unearned credit enhancement fees	-	1,167
Professional fees payable and accrued	156	3,986
Total liabilities	<u>156</u>	<u>9,551,891</u>
Equity (contributed capital of \$10)	-	-
Accumulated earnings	958	4,681,310
Total member's equity	<u>958</u>	<u>4,681,310</u>
Total liabilities and member's equity	<u>\$ 1,114</u>	<u>\$ 14,233,201</u>

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

## Commercial Paper Funding Facility LLC

### Statements of Income

For the period January 1, 2010 through May 31, 2010 and for the year ended December 31, 2009

(Amounts in thousands)

	For the Period January 1, 2010 through May 31, 2010	For the Year Ended December 31, 2009
<b>Revenues</b>		
Interest income	\$ 43,749	\$ 3,136,544
Credit enhancement fees	1,167	586,394
Registration fees	168,223	500,841
Total revenues	<u>213,139</u>	<u>4,223,779</u>
<b>Expenses</b>		
Loans interest	3,503	598,079
Professional fees	2,181	30,441
Total expenses	<u>5,684</u>	<u>628,520</u>
Operating income	<u>207,455</u>	<u>3,595,259</u>
<b>Non-operating Income</b>		
Realized gains on trading securities, net	2,806	9,006
Unrealized losses on trading securities, net	(1,613)	(1,147)
Total non-operating income	<u>1,193</u>	<u>7,859</u>
<b>Net income</b>	<u>\$ 208,648</u>	<u>\$ 3,603,118</u>

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

## Commercial Paper Funding Facility LLC

### Statements of Changes in Member's Equity

For the period January 1, 2010 through May 31, 2010 and for the year ended December 31, 2009

(Amounts in thousands)

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Member's equity, January 1, 2009	1,078,192
Net income	3,603,118
Member's equity, January 1, 2010	<u>4,681,310</u>
Net income	208,648
Distribution	<u>(4,889,000)</u>
Member's equity, May 31, 2010	<u><u>\$ 958</u></u>

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

## Commercial Paper Funding Facility LLC

### Statements of Cash Flows

For the period January 1, 2010 through May 31, 2010 and for the year ended December 31, 2009

(Amounts in thousands)

	For the Period January 1, 2010 through May 31, 2010	For the Year Ended December 31, 2009
<b>Cash flows from operating activities</b>		
Net income	\$ 208,648	\$ 3,603,118
Adjustments to reconcile net income to net cash flow provide by (used in) operating activities:		
Amortization of discounts and premiums	(32,575)	(3,081,453)
Realized gains on trading securities	(2,806)	(9,006)
Unrealized losses on trading securities	1,613	1,147
Decrease (increase) in interest receivable	16,327	(8,735)
Decrease in loans interest payable to FRBNY	(4,173)	(616,265)
Decrease in unearned registration fees	(168,223)	(482,496)
Decrease in unearned credit enhancement fees	(1,167)	(150,455)
Decrease in professional fees payable and accrued	(3,830)	(5,358)
Payments for purchases of trading securities	(33,429,402)	(39,653,524)
Proceeds from sales and maturities of trading securities	38,207,595	36,111,649
Net cash flow provided by (used in) operating activities	<u>4,792,007</u>	<u>(4,291,378)</u>
<b>Cash flows from investing activities</b>		
Purchases of commercial paper	(2,942,383)	(403,607,169)
Proceeds from maturities of commercial paper	12,405,563	730,932,944
Net cash flow provided by investing activities	<u>9,463,180</u>	<u>327,325,775</u>
<b>Cash flows from financing activities</b>		
Proceeds from loans from FRBNY	2,942,384	403,607,219
Repayment of loans to FRBNY	(12,316,726)	(726,632,347)
Distribution to Managing Member	(4,889,000)	-
Net cash flow used in financing activities	<u>(14,263,342)</u>	<u>(323,025,128)</u>
Net change in cash and cash equivalents	(8,155)	9,269
Beginning cash and cash equivalents	9,269	-
Ending cash and cash equivalents	<u>\$ 1,114</u>	<u>\$ 9,269</u>
<b>Supplemental cash flow disclosure</b>		
Cash paid for interest	<u>\$ (7,676)</u>	<u>\$ (1,214,344)</u>

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



# Commercial Paper Funding Facility LLC

## Notes to Financial Statements

For the period ended May 31, 2010 and for the year ended December 31, 2009

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### 1. Organization and Nature of Business

The Commercial Paper Funding Facility (the “CPFF Program”) was created to enhance the liquidity of the commercial paper market in the U.S. by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that issuers would be able to roll over their maturing commercial paper. The authorization to purchase high-quality commercial paper through the CPFF Program expired on February 1, 2010.

The Commercial Paper Funding Facility LLC (the “LLC”), a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York (“FRBNY” or “Managing Member”), is a single member Delaware limited liability company that was formed on October 14, 2008, in connection with the implementation of the CPFF Program, to purchase eligible three-month unsecured and asset-backed commercial paper directly from eligible issuers using the proceeds from loans made to the LLC by FRBNY. FRBNY is the sole and managing member of the LLC as well as the controlling party of the assets of the LLC, and will remain as such as long as it retains an economic interest in the LLC.

To be eligible for purchase by the LLC, commercial paper was required to be (i) issued by a U.S. issuer (which includes U.S. issuers with a foreign parent company and U.S. branches of foreign banks) and (ii) rated at least A-1/P-1/F1 by a nationally recognized statistical rating organization (“NRSRO”) or if rated by multiple NRSROs, rated at least A-1/P-1/F1 by two or more NRSROs. The commercial paper was also required to be U.S. dollar-denominated and have a three-month maturity. Commercial paper purchased by the LLC was discounted when purchased and carried at amortized cost. The maximum amount of a single issuer’s commercial paper that the LLC could own at any time (“maximum face value”) was the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding on any day between January 1, 2008 and August 31, 2008.

Upon registration with the LLC, all issuers were required to pay a non-refundable facility fee equal to 10 basis points of the issuer’s maximum face value (“registration fee”). The CPFF Program charged a lending rate for unsecured commercial paper equal to a three-month overnight index swap (“OIS”) rate plus 100 basis points per annum, with an additional surcharge of 100 basis points per annum for unsecured credit (“credit enhancement fee”). The rate imposed for asset-backed commercial paper was a three-month OIS plus 300 basis points.

During its term, the LLC experienced no defaults on commercial paper purchased. The last commercial paper purchased by the LLC was acquired on January 26, 2010 and matured on April 26, 2010. Revenues and realized gains on trading securities earned by the LLC, net of LLC expenses, were reinvested in cash equivalents and trading securities. The LLC stopped purchasing new trading securities in 2010 and by May 3, 2010, all securities held by the LLC had been sold or had fully matured. A portion of the proceeds from these maturities, \$4.889 billion, was distributed to FRBNY on the same day.

As of May 31, 2010, there is approximately \$1.1 million in cash remaining in the LLC to pay the final accrued expenses of the LLC. After such payments are made, the remaining capital is expected to be distributed to the Managing Member. The LLC is expected to be dissolved by the Managing Member upon termination or expiration of its existing contractual arrangements.

Pacific Investment Management Company LLC (“PIMCO”) provides transaction agent and investment management services to the LLC under a multi-year contract with FRBNY that includes provisions governing termination. State Street Bank and Trust (“State Street”) provides administrative and custodial services to the LLC under a multi-year contract with FRBNY that includes provisions governing termination.

The LLC does not have any employees and therefore does not bear any employee-related costs.

# Commercial Paper Funding Facility LLC

## Notes to Financial Statements

For the period ended May 31, 2010 and for the year ended December 31, 2009

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### 2. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America, 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. Actual results could differ from those estimates. The financial statements as of May 31, 2010 and for the period January 1, 2010 through May 31, 2010 will be the final financial statements prepared for the LLC.

The following is a summary of the significant accounting policies followed by the LLC:

#### A. *Cash and Cash Equivalents*

The LLC 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 were carried at fair value based on quoted prices in active markets. Other investments included in cash equivalents were carried at amortized cost, which approximates fair value.

#### B. *Commercial Paper*

According to the terms of the CPFF Program, commercial paper held by the LLC was designated as held-to-maturity under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 320 (ASC 320) *Investments – Debt and Equity Securities* (previously Statements of Financial Accounting Standards (“SFAS”) 115). The LLC had the positive intent and the ability to hold the securities to maturity and therefore, commercial paper was recorded at amortized cost. The fair value of the commercial paper was believed by the Managing Member not to differ significantly from the amortized cost at December 31, 2009. The accretion of discounts on the purchase of commercial paper was recorded on a straight-line basis, which was not materially different from the interest method, and was included as a component of “Interest income” in the Statements of Income. All discounts were accreted into interest income.

#### C. *Trading Securities*

Debt securities, other than commercial paper, with original maturities greater than three months, when acquired, were designated as trading securities under ASC 320. Trading securities were recorded at fair value in accordance with FASB ASC Topic 820 (ASC 820) *Fair Value Measurements & Disclosures* (previously SFAS 157). Realized and unrealized gains and losses on trading securities were determined on the average cost basis and were recorded as “Realized gains on trading securities, net” and “Unrealized losses on trading securities, net,” respectively, in the Statements of Income. Interest income, which included the amortization of premiums and accretion of discounts, was recorded when earned as “Interest income” in the Statements of Income. As of May 3, 2010, all trading securities matured or were sold.

#### D. *Impairment Assessment*

The commercial paper holdings of the LLC were subject to reviews at the end of each reporting period to identify and evaluate investments that had indications of possible impairment in accordance with ASC 320. Impairment was evaluated using numerous factors including collectability, liquidity and credit support, collateral, and the financial condition and near-term prospects of the commercial paper issuer. If, after analyzing each of the above factors, the LLC determined that an investment was impaired and that the impairment was other-than-temporary, the carrying value of the individual security was written down to estimated fair value. As of December 31, 2009 there were no commercial paper holdings for which management considered impairment to be other-than-temporary. As of April 26, 2010, all commercial

# Commercial Paper Funding Facility LLC

## Notes to Financial Statements

For the period ended May 31, 2010 and for the year ended December 31, 2009

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paper matured and there were no defaults.

### *E. Registration and Credit Enhancement Fees*

Registration fees were amortized on a straight-line basis over the life of the program and were recorded as “Unearned registration fees” in the Statements of Financial Condition and as “Registration fees” in the Statements of Income.

Credit enhancement fees were amortized on a straight-line basis over the term of the commercial paper, which was not materially different from the interest method, and were recorded as “Unearned credit enhancement fees” in the Statements of Financial Condition and as “Credit enhancement fees” in the Statements of Income.

As of April 26, 2010, all registration fees and credit enhancement fees were fully accreted.

### *F. Professional Fees*

Professional fees are primarily comprised of the fees charged by PIMCO, State Street, attorneys, and independent auditors.

### *G. Income Taxes*

The LLC is a single member limited liability company and was structured as a disregarded entity for U.S. Federal, state, and local income tax purposes. Accordingly, no provision for income taxes is made in the financial statements.

## **3. Loans Payable to FRBNY**

All credit extended to the LLC by FRBNY was for the purpose of acquiring eligible commercial paper and was made with recourse to the assets of the LLC through a pledge to State Street as custodial agent. The interest rate on each loan was the target federal funds rate at the time of funding and was fixed through the term of the loan. If the target federal funds rate was a range, the interest rate was set at the maximum rate within the range. Principal and accrued interest on each loan was paid, in full, on the maturity date of the commercial paper acquired by the LLC with the proceeds of the loan extended by FRBNY.

As of April 26, 2010, all loans were fully repaid to FRBNY. The weighted-average interest rate on the loans payable to FRBNY was 0.25 percent and 0.45 percent for the period ended May 31, 2010 and the year ended December 31, 2009, respectively.

## **4. Fair Value Measurements**

The LLC measured the fair value of its trading securities under ASC 820, which establishes a three-level fair value hierarchy that distinguishes between market participant assumptions developed using market data obtained from independent sources (observable inputs) and the LLC’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The three levels established by ASC 820 are described below:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

# Commercial Paper Funding Facility LLC

## Notes to Financial Statements

For the period ended May 31, 2010 and for the year ended December 31, 2009

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- 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 inputs from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the LLC’s own estimates of assumptions that market participants would use in pricing the asset and liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

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

### Determination of Fair Value

The LLC values its trading securities on the basis of the last available bid prices or current market quotations provided by pricing services.

The following table presents the cash equivalents and trading securities recorded at fair value as of December 31, 2009 by the fair value hierarchy (in thousands). The table is not presented for May 31, 2010 as all money market funds and trading securities matured or were sold, and there are no assets or liabilities measured at fair value as of May 31, 2010.

<u>December 31, 2009</u>	<u>Fair Value Hierarchy</u>			<u>Total fair value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market funds	\$ 3,069	\$ -	\$ -	\$ 3,069
Trading securities	-	4,786,416	-	4,786,416
Total	\$ 3,069	\$ 4,786,416	\$ -	\$ 4,789,485

## 5. Contingencies

The LLC agrees to pay the reasonable out-of-pocket costs and expenses of its service providers incurred in connection with its duties under the respective agreements and to indemnify its service providers for any losses, claims, damages, liabilities and related expenses etc., which may arise out of the respective agreements unless they result from the service provider’s bad faith, gross negligence, fraudulent actions or willful misconduct. The indemnity, which is provided solely by the LLC, survives termination of the respective agreements. The LLC has not had any prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

## 6. Subsequent Events

The Managing Member expects that it will dissolve the LLC following the payment of accrued professional fees and the termination or expiration of existing contractual arrangements. On August 17, 2010, the LLC distributed \$957,853 to the Managing Member.

There were no other subsequent events that require adjustments to or disclosures in the financial statements as of May 31, 2010. Subsequent events were evaluated through August 30, 2010, which is the date the LLC issued the financial statements.