

Memorandum

Federal Reserve Reestablishes Commercial Paper Funding Facility From the Financial Crisis

March 17, 2020

On March 17, 2020, the Federal Reserve Board announced the establishment of a Commercial Paper Funding Facility (“CPFF”) to support the flow of credit to households and businesses in light of the market instability resulting from the coronavirus disease 2019 outbreak. The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (“SPV”) that will purchase unsecured and asset-backed commercial paper rated A1/P1 (as of March 17, 2020) directly from eligible companies. The CPFF was established pursuant to section 13(3) of the Federal Reserve Act, which provides the Federal Reserve with emergency lending authority to nonfinancial companies through broad-based programs and facilities that relieve liquidity pressures in financial markets. The Federal Reserve Board previously implemented a similar commercial paper funding facility in October 2008 to support the commercial paper market during the Financial Crisis.

The CPFF follows other recent actions by the Federal Reserve Board to support the U.S. economy, including lowering interest rates and bank reserve requirements, encouraging discount window borrowing, and enhancing the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements with other major central banks.

CPFF Key Terms Technical Changes to Capital Distribution Limitations

The Federal Reserve Board released the following high-level description of the terms of the CPFF and indicated that more detailed program terms and conditions and an operational calendar will be subsequently published.

- **SPV Funding:** The Federal Reserve Bank of New York (“FRBNY”) will commit to lend to the SPV on a recourse basis, secured by all of the assets of the SPV. The FRBNY’s lending commitment does not have an aggregate limit, however there are issuer limits, as described further below. The U.S. Treasury Department—using the Exchange Stabilization Fund—will provide \$10 billion of credit protection to the FRBNY in connection with the CPFF.
- **Assets of the SPV:** The SPV will purchase from eligible issuers three-month U.S. dollar-denominated commercial paper through the FRBNY’s primary dealers. Eligible issuers are U.S. issuers of commercial paper, including U.S. issuers with a foreign parent company. The SPV will only purchase U.S. dollar-denominated commercial paper (including asset-backed commercial paper (“ABCP”)) that is rated at least A-1/P-1/F-1 by a major nationally recognized statistical rating organization (“NRSRO”) and, if rated by

multiple major NRSROs, is rated at least A-1/P-1/F-1 by two or more major NRSROs, in each case subject to review by the Federal Reserve.

In addition, the SPV will make one-time purchases of commercial paper (up to the amount outstanding on March 17, 2020) from issuers that met the above criteria (*i.e.*, a rating of at least A-1/P-1/F-1) as of March 17, 2020, but were subsequently downgraded to a rating of at least A-2/P-2/F-2 as of the purchase date. These purchases will be subject to separate pricing than described below.

- **Issuer Limits**: The maximum amount of a single issuer's commercial paper the SPV may own at any time will be the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding on any day between March 16, 2019 and March 16, 2020. The SPV will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including the SPV) equals or exceeds the issuer's limit.
- **Pricing**: Pricing will be based on the then-current 3-month overnight index swap (OIS) rate plus 200 basis points. At the time of its registration to use the CPFF, each issuer must pay a facility fee equal to 10 basis points of the maximum amount of its commercial paper the SPV may own.
- **Termination Date**: The SPV will cease purchasing commercial paper on March 17, 2021, unless the Federal Reserve Board extends the facility, which would require unanimous approval by the Federal Reserve Board's five governors and consent from the Secretary of the Treasury. The FRBNY will continue to fund the SPV after such date until the SPV's underlying assets mature.

Technical Changes to Capital Distribution Limitations

Concurrently with the announcement of the CPFF, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued a joint interim final rule that amended the Agencies' risk-based capital rules to make any automatic limitations on banking organizations' capital distributions more gradual. Specifically, the interim final rule revised the definition of "eligible retained income" to mean the greater of (1) a banking organization's net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income, and (2) average of a banking organization's net income over the preceding four quarters.

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