

# FOMC, March 17, 2020

## Press Release – CPFF



### Summary

- Section 13(3) of the Federal Reserve Act, a product of the Depression Era, permits emergency lending to bank and nonbank companies by the Federal Reserve.
- On October 27, 2008, the Federal Reserve established the Commercial Paper Funding Facility (CPFF) in response to the frozen global credit facilities resulting from the collapse of Lehman Brothers and the government bailout of AIG. Section 13(3) was the mechanism for broader programs like the Term Securities Lending Facility (TSLF), Term Asset-Backed Securities Loan Facility (TALF), and CPFF.
- Under the Dodd-Frank Act, Congress narrowed that authority so that lending must be made in connection with a “program or facility with broad-based eligibility”; cannot “aid a failing financial company” or “borrowers that are insolvent”; and cannot have “a purpose of assisting a single and specific company avoid bankruptcy” or similar resolution. Additionally, the Federal Reserve cannot establish a section 13(3) program without the prior approval of the secretary of the Treasury.
- The commercial paper market is under significant stress with challenging and vanishing liquidity under the COVID-19 outbreak here and globally. Today, the Federal Reserve announced the creation of a special purpose vehicle (SPV) that is to last at least for one year. The SPV will purchase unsecured and asset-backed commercial paper rated A1/P1 directly from eligible companies.
- The Gold Reserve Act of 1934 provides the authority for the Treasury to set up an [Exchange Stabilization Fund](#) (ESF) which provides, in part, that the Treasury “has a stabilization fund ...consistent with the obligations of the Government in the International Monetary Fund (IMF) on orderly exchange arrangements and an orderly system of exchange rates, the Secretary ..., with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities.”
- The Treasury will provide \$10 billion of credit protection to the Federal Reserve in connection with the CPFF from the ESF. The Federal Reserve will then provide financing to the SPV under the CPFF. Its loans will be secured by all of the assets of the SPV.

## **Press Release**

March 17, 2020

Federal Reserve Board announces establishment of a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses

For release at 10:45 a.m. EDT

The Federal Reserve Board announced today that it will establish a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses. Commercial paper markets directly finance a wide range of economic activity, supplying credit and funding for auto loans and mortgages as well as liquidity to meet the operational needs of a range of companies. By ensuring the smooth functioning of this market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs across the economy. 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 program is established by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary.

The commercial paper market has been under considerable strain in recent days as businesses and households face greater uncertainty in light of the coronavirus outbreak. 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. An improved commercial paper market will enhance the ability of businesses to maintain employment and investment as the nation deals with the coronavirus outbreak.

The Treasury will provide \$10 billion of credit protection to the Federal Reserve in connection with the CPFF from the Treasury's Exchange Stabilization Fund (ESF). The Federal Reserve will then provide financing to the SPV under the CPFF. Its loans will be secured by all of the assets of the SPV.

A brief description of the program is attached. More detailed program terms and conditions and an operational calendar will be subsequently published.