



ASSOCIATION FOR
FINANCIAL
PROFESSIONALS

March 20, 2020

Sent via E-Mail

The Honorable Jerome H. Powell, Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

Dear Chairman Powell:

The Association for Financial Professionals (AFP) is pleased with the Federal Reserve's decision to establish the Commercial Paper Funding Facility (CPFF), as well as the Money Market Mutual Fund Liquidity Facility (MMLF). Commercial paper (CP) is a critical source of cost-effective, short-term funding for many of America's highest-rated businesses. Money market mutual funds are a vital cash management and short-term investment alternative for businesses and consumers. They are also large investors in CP, thereby acting as a critical source of funding to American businesses. We are supportive of the Federal Reserve's decision to broadly support the market during this time of historical volatility and disruption.

However, I am writing to formally request that the Federal Reserve extend the Commercial Paper Funding Facility (CPFF) to include eligibility for Tier 2 CP issuers, and to include Tier 2 CP as eligible collateral in the Money Market Mutual Fund Liquidity Facility (MMLF). We believe that these expansions will help alleviate constrained credit access for these Tier 2 issuers.

The Tier 2 CP market is approximately \$90 billion in size and includes many public utilities and other critical industries. Prominent Tier 2 issuers include Walgreens Boots, Marriott International, American Express, General Electric, and Duke Energy. Extending the CPFF and MMLF to Tier 2 companies would not increase risk to the Federal Reserve by any measurable degree, as the historical default rate on 180-day P-2 paper is 0.027%, as compared to 0.018% for P-1 paper¹.

The market for Tier 2 CP is largely frozen at present, with rates at two to three times their historical average - if an issuer can even find any investors. As the Tier 2 CP market is diminished or completely frozen, these high-quality Tier 2 issuers will draw on their credit lines as an alternative source of liquidity. This change will put increased pressure on banks to find funding. As a result, banks are already limiting new loans and dramatically increasing rates above revolver pricing for any new loans. By opening the CPFF to Tier 2 issuers, the demand for bank credit on the part of Tier 2 issuers should decrease. This would increase the ability of banks to lend to other businesses, including smaller and lower-rated businesses, because Tier 2 companies will not have to draw as much on bank lines of credit.

Similarly, expanding the eligible collateral under the MMLF to include Tier 2 CP will help to restore demand and normalize rates on this high-quality paper. The demand from prime funds for Tier 2 CP would certainly be bolstered by the knowledge that the MMLF could serve as a source of liquidity based on Tier 2 paper, helping to ensure that CP issuers can continue to fund their businesses through CP purchases by prime funds.

¹ Default and Recovery Rates of Corporate Commercial Paper Issuers, 1972 - 2017 H1, Moody's Investors Service, 23 April, 2018



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While some may be dismissive of the impact of higher funding rates on large corporations, such as those typically represented by AFP members, it is important to understand the broader impact of higher funding costs. Higher funding costs may lead to headcount or other cost reductions, and delays or reductions in capital expenditures. In addition, there will likely be negative impacts to the downstream vendors and small businesses that supply and support Tier 2 CP issuers, as purchases of their products and services may be drastically reduced. Prolonged increases in funding costs will also lead to higher prices for consumers, including increases in utility rates in the case of public utilities, thereby directly impacting individual consumers.

The membership of AFP includes more than 12,000 financial executives employed by over 5,000 corporations and other organizations. AFP members represent a broad spectrum of financial disciplines, and their organizations are drawn generally from Fortune 1000 and middle-market companies in a wide variety of industries, including manufacturing, retail, energy, financial services, and technology. We appreciate the opportunity to provide our thoughts on extending the CPFF program to Tier 2 companies and expanding the eligible collateral under the MMLF to include Tier 2 CP. If you have any questions, please contact Jeff Glenzer, EVP, Chief Operating Officer, at (301) 961-8872 or jglenzer@afponline.org.

Sincerely,

A handwritten signature in black ink, reading 'James A. Kaitz'. The signature is written in a cursive, flowing style.

James A. Kaitz
President & CEO

cc: Ms. Ingrid Naylor, Federal Reserve Board of Governors
Mr. Joshua Gallin, Federal Reserve Board of Governors