

Yale University

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Documents (Series 1)

[Browse by Media Type](#)

1-1-1900

Commercial Paper Funding Facility LLC: Financial Statements 2008-09

Federal Reserve System: Federal Reserve Bank of New York

William Dudley

Christine M. Cumming

Edward Murphy

Follow this and additional works at: <https://elischolar.library.yale.edu/ypfs-documents>

Recommended Citation

Federal Reserve System: Federal Reserve Bank of New York; Dudley, William; Cumming, Christine M.; and Murphy, Edward, "Commercial Paper Funding Facility LLC: Financial Statements 2008-09" (1900). *YPFS Documents (Series 1)*. 7978.

<https://elischolar.library.yale.edu/ypfs-documents/7978>

This Document is brought to you for free and open access by the Browse by Media Type at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in YPFS Documents (Series 1) by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.

***Commercial Paper
Funding Facility LLC***

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

*Financial Statements for the Year Ended
December 31, 2009, and for the Period
October 14, 2008 to December 31, 2008, and
Independent Auditors' Report*

Commercial Paper Funding Facility LLC

Table of Contents

	Page
MANAGEMENT'S ASSERTION	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008, FOR THE YEAR ENDED DECEMBER 31, 2009, AND FOR THE PERIOD OCTOBER 14, 2008 TO DECEMBER 31, 2008:	
Statements of Financial Condition	4
Statements of Income	5
Statements of Changes in Member's Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 14

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control over Financial Reporting

April 21, 2010

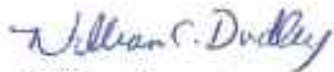
To the Board of Directors of the
Federal Reserve Bank of New York:

The management of the Commercial Paper Funding Facility LLC ("CPFF LLC") is responsible for the preparation and fair presentation of the Statements of Financial Condition, Statements of Income, Statements of Changes in Member's Equity and Statement of Cash Flows as of December 31, 2009 (the "Financial Statements"). The Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

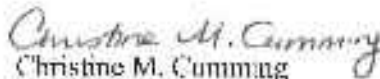
The management of the CPFF LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with GAAP. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the CPFF LLC assessed its internal control over financial reporting reflected in the Financial Statements, based upon the criteria established in the *"Internal Control -- Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the CPFF LLC maintained effective internal control over financial reporting as it relates to the Financial Statements.



William C. Dudley
President



Christine M. Cumming
First Vice President



Edward F. Murphy
Principal Financial Officer

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 December 31, 2009 and 2008, and the related statements of income, changes in member's equity, and cash flows for the year ended December 31, 2009 and for the period October 14, 2008 to December 31, 2008. We also have audited the LLC's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the LLC's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

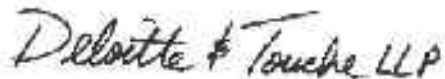
The LLC's internal control over financial reporting is a process designed by, or under the supervision of, the LLC's principal executive and principal financial officers, or persons performing similar functions, and effected by the LLC's Managing Member to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The LLC's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the LLC; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the LLC are being made only in accordance with authorizations of the Managing Member; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 December 31, 2009 and 2008, and the results of its operations and its cash flows for the year ended December 31, 2009 and for the period October 14, 2008 to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 and Note 7 to the financial statements, the LLC's authorization to purchase high-quality commercial paper through the CPFF Program expired on February 1, 2010, and the Managing Member expects that it will dissolve the LLC following the maturity of its holdings, the payment of accrued professional fees, and the termination or expiration of existing contractual arrangements.

Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

April 21, 2010

Commercial Paper Funding Facility LLC

Statements of Financial Condition

As of December 31, 2009 and 2008

(Amounts in thousands, except contributed capital data)

	2009	2008
Assets		
Cash and cash equivalents	\$ 9,269	\$ -
Commercial paper, at amortized cost	9,421,189	333,631,253
Trading securities, at fair value (cost of \$4,784,725 and \$1,268,258, respectively)	4,786,416	1,270,940
Interest receivable	16,327	7,592
Total assets	<u>14,233,201</u>	<u>334,909,785</u>
Liabilities and Member's Equity		
Loans payable to FRBNY	\$ 9,374,342	\$ 332,399,470
Loans interest payable to FRBNY	4,173	620,438
Unearned registration fees	168,223	650,719
Unearned credit enhancement fees	1,167	151,622
Professional fees payable and accrued	3,986	9,344
Total liabilities	<u>9,551,891</u>	<u>333,831,593</u>
Equity (contributed capital of \$10)	-	-
Accumulated earnings	4,681,310	1,078,192
Total member's equity	<u>4,681,310</u>	<u>1,078,192</u>
Total liabilities and member's equity	<u>\$ 14,233,201</u>	<u>\$ 334,909,785</u>

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

Commercial Paper Funding Facility LLC

Statements of Income

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008
(Amounts in thousands)

	2009	2008
Revenues		
Interest income	\$ 3,136,544	\$ 1,236,650
Credit enhancement fees	586,394	290,315
Registration fees	500,841	179,778
Total revenues	<u>4,223,779</u>	<u>1,706,743</u>
Expenses		
Loans interest	598,079	620,438
Professional fees	30,441	10,797
Total expenses	<u>628,520</u>	<u>631,235</u>
Operating income	<u>3,595,259</u>	<u>1,075,508</u>
Non-operating Income		
Realized gains on trading securities, net	9,006	2
Unrealized gains (losses) on trading securities, net	(1,147)	2,682
Total non-operating income	<u>7,859</u>	<u>2,684</u>
Net income	<u>\$ 3,603,118</u>	<u>\$ 1,078,192</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 year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008
(Amounts in thousands)

Member's equity, October 14, 2008	\$ -
Net income	<u>1,078,192</u>
Member's equity, January 1, 2009	1,078,192
Net income	3,603,118
Member's equity, December 31, 2009	<u><u>\$ 4,681,310</u></u>

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

Commercial Paper Funding Facility LLC

Statements of Cash Flows

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008
(Amounts in thousands)

	2009	2008
Cash flows from operating activities		
Net income	\$ 3,603,118	\$ 1,078,192
Adjustments to reconcile net income to net cash flow used in operating activities:		
Amortization of discounts and premiums	(3,081,453)	(1,232,973)
Realized gains on trading securities	(9,006)	(2)
Unrealized (gains) losses on trading securities	1,147	(2,682)
Increase in interest receivable	(8,735)	(7,592)
Increase (decrease) in loans interest payable to FRBNY	(616,265)	620,438
Increase (decrease) in unearned registration fees	(482,496)	650,719
Increase (decrease) in unearned credit enhancement fees	(150,455)	151,622
Increase (decrease) in professional fees payable and accrued	(5,358)	9,344
Payments for purchases of trading securities	(39,653,524)	(8,523,927)
Proceeds from sales and maturities of trading securities	36,111,649	7,256,840
Net cash flow used in operating activities	<u>(4,291,378)</u>	<u>(21)</u>
Cash flows from investing activities		
Purchases of commercial paper	(403,607,169)	(332,399,449)
Proceeds from maturities of commercial paper	730,932,944	-
Net cash flow provided by (used in) investing activities	<u>327,325,775</u>	<u>(332,399,449)</u>
Cash flows from financing activities		
Proceeds from loans from FRBNY	403,607,219	332,399,470
Repayment of loans to FRBNY	(726,632,347)	-
Net cash flow provided by (used in) financing activities	<u>(323,025,128)</u>	<u>332,399,470</u>
Net change in cash and cash equivalents	9,269	-
Beginning cash and cash equivalents	-	-
Ending cash and cash equivalents	<u>\$ 9,269</u>	<u>\$ -</u>
Supplemental cash flow disclosure		
Cash paid for interest	<u>\$ (1,214,344)</u>	<u>\$ -</u>

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

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

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.

Participation in the Federal Deposit Insurance Corporation’s (“FDIC”) Temporary Liquidity Guarantee Program (“TLGP”) qualified as a satisfactory guarantee for unsecured commercial paper under the terms and conditions of the CPFF Program and therefore allowed TLGP participant entities to avoid the CPFF Program’s credit enhancement fee. On October 31, 2009, the Debt Guarantee Program of the TLGP expired; at that time the FDIC established a limited emergency guarantee facility that will be in place until April 30, 2010.

The LLC is authorized to reinvest in short-term and highly liquid assets, which include U.S. Treasury and Federal agency securities (excluding mortgage-backed securities), money market funds, repurchase agreements collateralized by U.S. Treasuries and Federal agency securities, as well as U.S. dollar denominated overnight deposits.

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 year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

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 (“GAAP”), 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 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 are carried at fair value based on quoted prices in active markets. Other investments included in cash equivalents are 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 is 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 has the positive intent and the ability to hold the securities to maturity and therefore, commercial paper is recorded at amortized cost. The fair value of the commercial paper is believed by the Managing Member not to differ significantly from the amortized cost at December 31, 2009. All transactions are accounted for at trade date. The accretion of discounts is recorded on a straight-line basis, which is not materially different from the interest method, and is included as a component of “Interest income” in the Statements of Income.

C. *Trading Securities*

Debt securities, other than commercial paper, with original maturities greater than three months, when acquired, have been designated as trading securities under ASC 320. Trading securities are recorded at fair value in accordance with FASB ASC Topic 820 (ASC 820) *Fair Value Measurements & Disclosures* (previously SFAS 157). All transactions are accounted for at trade date. Realized and unrealized gains and losses on trading securities are determined on the average cost basis and are recorded as “Realized gains on trading securities, net” and “Unrealized gains (losses) on trading securities, net,” respectively, in the Statements of Income. Interest income, which includes the amortization of premiums and accretion of discounts, is recorded when earned as “Interest income” in the Statements of Income.

D. *Impairment Assessment*

The commercial paper holdings of the LLC are subject to reviews at the end of each reporting period to identify and evaluate investments that have indications of possible impairment in accordance with ASC 320. Impairment is 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 determines that an investment is impaired and that the impairment is other-than-temporary, the carrying value of the individual security is written down to estimated fair value. At December 31, 2009 and 2008 there were no commercial paper holdings for which management considered impairment to be other-than-temporary.

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

E. Registration and Credit Enhancement Fees

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

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

F. Professional Fees

Professional fees are primarily comprised of the fees charged by PIMCO, State Street, attorneys, and independent auditors. Organization and closing costs of \$368 thousand, associated with the formation of the LLC and the cost of acquisition of the portfolio, were expensed when incurred in 2008.

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.

H. Recently Issued Accounting Standards

In April 2009, FASB issued FASB Staff Position (“FSP”) SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (codified in ASC 320), which amends the other-than-temporary impairment guidance for debt securities and the financial statement presentation and disclosure requirements. The provisions of ASC 320, which are effective for the LLC’s financial statements for the year ended December 31, 2009, have not had a material effect on the LLC’s financial statements and the required disclosures are reflected in Note 2D.

In April 2009, FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are Not Orderly*, (codified in ASC 820), which provides additional guidance for estimating fair value when the value and level of market activity for an asset or liability have significantly decreased. The standard also provides guidance for identifying circumstances that indicate a transaction is not orderly. The provisions of ASC 820, which are effective for the LLC’s financial statements for the year ended December 31, 2009, were considered in determining the valuation of assets and liabilities that are measured at fair value and have not had a material effect on the LLC’s financial statements.

In May 2009, FASB issued SFAS 165, *Subsequent Events*, (codified in FASB Topic 855 (ASC 855) *Subsequent Events*), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The LLC adopted ASC 855 for the year ended December 31, 2009 and the required disclosures are reflected in Note 7.

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

In June 2009, FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles"* (codified in FASB Topic 105 (ASC 105) *Generally Accepted Accounting Principles*), which establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. ASC 105 is effective for financial statements issued for periods ending after September 15, 2009. As a result, both the ASC and the legacy standards are referenced in the LLC's financial statements and footnotes.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (ASC 820) – *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures related to fair value measurements. This update is effective for the LLC's financial statements for the year beginning on January 1, 2010 and early adoption is prohibited. The adoption of this update is not expected to have a material effect on the LLC's financial statements.

3. Loans Payable to FRBNY

All credit extended to the LLC by FRBNY is 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 is payable, in full, on the maturity date of the commercial paper acquired by the LLC with the proceeds of the loan extended by FRBNY.

At December 31, 2009, the LLC had a total of five loans outstanding, the last of which matured on February 10, 2010. The weighted-average interest rate on the loans payable to FRBNY was 0.45 percent and 1.25 percent for the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008, respectively.

4. Fair Value Measurements

The LLC measures 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.
- 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.

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

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 tables present the cash equivalents and trading securities recorded at fair value as of December 31, 2009 and December 31, 2008 by the fair value hierarchy (in thousands):

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

<u>2008</u>	Fair Value Hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Trading securities	\$ -	\$ 1,270,940	\$ -	\$ 1,270,940

5. Investment Risk Profile

The remaining maturity distribution of the commercial paper and trading securities held by the LLC at December 31, 2009 and 2008 was as follows (in thousands):

<u>2009</u>	Commercial Paper		Trading Securities	Total
	Asset Backed	Non-Asset Backed		
0 – 15 Days	\$ -	\$ -	\$ 1,001	\$ 1,001
16 – 60 Days	7,422,547	1,998,642	30,406	9,451,595
61 – 92 Days	-	-	2,363,807	2,363,807
93 – 124 Days	-	-	2,391,202	2,391,202
Total	\$ 7,422,547	\$ 1,998,642	\$ 4,786,416	\$ 14,207,605

<u>2008</u>	Commercial Paper		Trading Securities	Total
	Asset Backed	Non-Asset Backed		
0 – 15 Days	\$ -	\$ -	\$ 232,890	\$ 232,890
16 – 60 Days	95,306,169	201,659,702	472,832	297,438,703
61 – 92 Days	25,625,395	11,039,987	565,218	37,230,600
Total	\$ 120,931,564	\$ 212,699,689	\$ 1,270,940	\$ 334,902,193

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

Top-tier commercial paper has received the highest ratings (A-1, P-1, F1) from all rating agencies that provide a rating for the paper. Split-rated commercial paper has received a top tier rating from two rating agencies and second tier rating (A-2, P-2, F2) from a third rating agency. All of the commercial paper held by the LLC at December 31, 2009 was top-tier.

The commercial paper held by the LLC, by asset type and issuer type as of December 31, 2009 was as follows (in thousands):

	<u>Commercial Paper</u>
<u>Asset-Backed</u>	
Multi-Seller	\$ 3,583,651
Securities Arbitrage	2,741,213
Structured Investment Vehicle	1,087,704
Registered Investment Company	9,979
Total	<u>7,422,547</u>
 <u>Non Asset-Backed</u>	
Insurance	<u>1,998,642</u>
Total	<u>1,998,642</u>
 Total	 <u><u>\$ 9,421,189</u></u>

The largest issuer, an asset-backed commercial paper conduit of a diversified financial company, represents 29.10 percent of the total commercial paper portfolio holdings at December 31, 2009. This entity and affiliates of this entity, together, represent 61.86 percent of the total commercial paper portfolio held at December 31, 2009.

6. 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.

7. Subsequent Events

All of the commercial paper held by the LLC as of December 31, 2009 has matured as of February 10, 2010 and there were no defaults. The commercial paper held by the LLC at April 21, 2010, which was acquired after December 31, 2009 but prior to the expiration of the CPFF Program on February 1, 2010, using the proceeds from loans made to the LLC by FRBNY, has a face value of \$2,966,000 (in thousands) and will mature on April 26, 2010. The cash equivalents and trading securities held by the LLC at April 21, 2010 and any subsequent investments in cash equivalents and trading securities will mature on or before May 3, 2010. The Managing Member expects that it will dissolve the LLC following the maturity of its holdings, the payment of accrued professional fees, and the termination or expiration of existing contractual arrangements.

Commercial Paper Funding Facility LLC

Notes to Financial Statements

For the year ended December 31, 2009 and the period October 14, 2008 to December 31, 2008

There were no other subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through April 21, 2010, which is the date the LLC issued the financial statements.