**Supervisory Capital Assessment Program (SCAP)**

**Design Roadmap**

**Key Decisions**

The following is a list of the key design decisions that will likely have to be made in implementing a program similar to the Supervisory Capital Assessment Program (SCAP), a “stress test” program intended to assess the capital needs of large bank holding companies (BHCs) in a period of heightened uncertainty around potential losses in the banking system.

1. **Which agency or agencies have the authority and expertise to conduct the stress test?**
   1. What is the basis of this authority?
   2. What particular elements/terms must be satisfied to fit within the authority?
   3. After designing, have all required elements have been satisfied?
2. **What will be the source of funding for the operating expenses of the program and the purchases of CP?** 
   1. Is any special authority or procedure required to effect funding?
   2. Will there be a limit to the funding? (The CPFF had no funding limit.)
   3. How regular will the funding be? (The CPFF relied on daily loans to match daily purchases of CP.)
   4. If the funding is in the form of loans, who will be the obligated party?
      1. What rate and repayment terms will apply to the loan?
      2. Will the loan be secured? How?
3. **Is there a requirement/need for a separate Special Purpose Vehicle (SPV) to be established?**
   1. What purpose will a SPV serve?
      1. Does it make for easier administration or accounting?
      2. Is there a reason to purchase the CP indirectly?
      3. Are there other reasons why a SPV would be useful?
   2. If a SPV will be used, what form will the SPV take?
      1. Who will be the member(s) and beneficiary(ies) of the SPV? (Under the CPFF, the Federal Reserve Bank of New York (FRBNY) was the only member of the SPV.)
   3. Will the SPV have employees? If not, who will act for the SPV? (Under the CPFF, a third-party administrator was hired to act for the SPV.)
4. **What types of CP will the program purchase?**
   1. Must the CP be denominated in the local currency?
   2. Will the facility purchase unsecured CP?
   3. Will the program purchase secured/Asset-backed Commercial Paper (ABCP)?
      1. All types of ABCP or only some types?
   4. What minimum rating must the CP have? From what type of rating agency?
      1. The rating limit will determine the quantity of CP that is eligible for purchase and may impact the program’s effectiveness. Although the CPFF purchased only highly-rated CP (A-1/P-1/F1), approximately 90% of the CP market was eligible under this standard.
         1. What if the CP has a split rating? [Click here to see the rules regarding split ratings adopted by the CPFF.]
      2. Will the rating requirements be the same for unsecured CP as for ABCP?
   5. What term must the CP have?
      1. Will term requirements be the same for CP and ABCP?
   6. Are there any other eligibility requirements for the CP?
5. **Which issuers will be eligible to participate, i.e., to sell CP to the program?**
   1. Can only domestic issuers participate?
      1. Can domestic issuers with foreign parents participate?
   2. How are subsidiaries to be treated?
      1. Can related entities each qualify as an eligible issuer? [Click here to see how the CPFF handled this issue.]
      2. Is the treatment of subsidiaries the same for a domestic issuer with a foreign parent?
   3. Will eligibility be limited to issuers that had an “active CP program” i.e., those that had issued CP prior to the adoption of the facility?
      1. How is “active CP program” to be defined? [Click here to see how the CPFF defined this.]
      2. Limiting the program to issuers with an “active CP program” may help to (1) focus the program towards restoring the pre-existing market capacity that has been constrained by disruptions, (2) avoid funding issuers that the market had retreated from for other reasons, and (3) discourage moral hazard.
   4. Are there other eligibility rules that apply?
6. **Will there be a limit on how much CP an issuer can sell to the program? Will issuers be limited in the total amount of CP that they may issue while participating in the program?**
   1. Will this limit be based on the funding amount, i.e., the amount of funding that the program has or purchasing CP during each period? If so, how will the funding amount be allocated among issuers wishing to sell to the program?
      * 1. Will the limit be issuer-based, i.e., an issuer may sell no more than X amount of CP to the program during any period?
        2. Under the CPFF, the limit was issuer-based. The amount that an issuer could have outstanding with the CPFF and the market at any one time was limited to the maximum amount of CP that the issuer had outstanding on any day between January 1, 2008 and August 31, 2008.
        3. Limiting these amounts may help to focus the program towards restoring the pre-existing market capacity that has been constrained by the market malfunction.
        4. Will the same limits apply to an issuer with a foreign parent as to those without?
7. **Will issuers have to preregister to participate in the facility?**
   1. If yes, how will this be accomplished?
   2. Preregistration permits an issuer’s eligibility to be verified, eligible amounts to be calculated, payment agents to be verified, and other logistical details to be checked. Under the CPFF, the facility registration, calculation of maximum eligible amount, and payment of the registration fee were coordinated and achieved through the Registration Instructions, which potential issuers completed and submitted. [Click here to see the CPFF Registration Instructions and related documents.]
8. **Will issuers have to pay a registration fee just to sign up to participate in the program?**
   1. If yes, fixed fee or variable?
   2. If variable, how will this be calculated?
   3. Upfront registration fees provide funds that help offset the initial start-up costs of the program. The CPFF charged a nonrefundable registration fee of 10 basis points times the total amount of CP that an issuer was eligible to sell to the CPFF and collected $580 million in registration fees from potential issuers before it purchased its first CP.
9. **What will be the other costs of participating in the program?**
   1. Pricing is an important element in minimizing moral hazard and keeping the program focused. Fees and lending rates under the CPFF were structured to maximize availability while discouraging arbitrage and moral hazard.
   2. What discount will apply to the unsecured CP? To the ABCP? (CP is usually purchased at a discount)
      1. Will this discount rate vary? Based on what?
      2. The CPFF charged a discount rate of 100 basis points over the OIPS spread for unsecured CP and of 200 basis points + the OIPS spread for ABCP, rates that were initially below market rate, but which were intended to become unattractive as the market recovered. [Click here for discussion of the CPFF fees.]
   3. Will there be other program fees?
      1. To further secure the purchases of unsecured CP, the CPFF charged an additional “credit enhancement fee” of 100 basis points over the OIPS spread (payable on maturity).
         * 1. An issuer could present a further guarantee of such CP in order to avoid this fee. [Click here for a description of the Federal Deposit Insurance Corporation’s (FDIC) Temporary Liquidity Guarantee Program ("TLGP"), which was accepted in lieu of the credit enhancement fee.][Click here to see the representations made by an issuer with respect to the TLGP to qualify for waiver of the credit enhancement fee.]
10. **What information will be disclosed about the program’s operations and issuer participation?**
    1. Are there any existing reporting/disclosure requirements that apply specifically or generally to the program?
    2. If not, what information will be disclosed about the program’s operations and issuer participation and when?
11. **When and how will the facility end?**
    1. Will there be a fixed date that can/cannot be extended?
    2. Will termination be based on some other criteria, e.g., 30 days after the last request to purchase CP or 90 days after the last maturity of purchased CP?
    3. What happens on termination of the facility?
       1. How will any residual assets be distributed?

**Implementation Steps**

The following is a list of the key tasks and documents that you will likely need to complete in order to implement the program once you have made your major design decisions as indicated above. This is only a guide and additional tasks or documents may be needed based on your specific design.

1. Adopt resolution authorizing the program, funding, and establishing SPV if being utilized
   1. Draft description of program including authority, funding arrangements, purpose, eligible issuers, eligible CP, and anticipated start dates.
   2. Seek industry input
2. Draft detailed terms and conditions [Click here to see the original CPFF published Terms and Conditions] and Frequently Asked Questions (FAQs) [Click here to see the original published CPFF FAQs]
3. Establish SPV if needed
4. Finalize funding arrangements, procedure and schedule. Draft and execute any needed documents.
5. Identify elements to be outsourced and any third-party administrators and their roles.
6. Negotiate and draft appropriate documents for third-party relationships. [Click here to see the Custodian and Administration Agreements executed with respect to the CPFF.]
7. Develop fee schedule
8. Develop Issuer Registration Instructions and related documents [Click here to see the CPFF Issuer Registration Documents]
9. Develop report/disclosure framework template

A Note abut Timing: The CPFF began to register potential issuers one week after it was announced and made its first CP purchase just 20 days after the program was announced. Analyses of the program reveal several factors that contributed to the speed with which the program was implemented—(1) the FRBNY hired knowledgeable third-party experts to assist it in designing and implementing the program, (2) the FRBNY sought input from the CP industry participants, and (3) the program followed many existing patterns and practices of the market and relied on established logistics.