

Title: Commercial Paper and the Banks Main Unsecured Credit Line (Paid for by us)

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Hi everyone, a follow up to my post yesterday explaining the main issues at play and how banks continue to have cheap easy access to funds.

****What is Commercial Paper?****

Commercial Paper is a short term (generally less than 270 days) debt/money market instrument issued by a business to fund operating expenses, payroll obligations as well as funding other current assets. Companies use this as a low cost alternative to bank loans or other funding that would dilute equity, these can come in unsecured or asset backed but I will mostly focus on the unsecured. The other main positive for companies issuing commercial paper is that they will not need to report this to the SEC. In the beginning the commercial paper market was mostly used by non-financial companies but since have seen a stark shift to financially dominate. Commercial Paper was also designed not to be targeted towards the public, the minimum issuance on Commercial Paper is generally 100k and unless you are a Qualified Institutional Buyer (QIB) you will be hard pressed to find ways to invest. When used correctly it is a great tool especially for non-financial businesses using an example from our beloved company.

Gamestop sales are always highest in the holiday season, they know they need more inventory but don't want to burn their cash on hand to buy it before money from sales come in. They issue 100 million in gamestop commercial paper at a discount so those purchasing (loaning them money) will make some interest generally a couple of basis points above the similarly dated treasury bill. Everyone is happy, investors have a safe place to park funds and earn some interest and gamestop has some breathing room in their cashflow until \$ from sales come in.

****I haven't heard about this how popular could it be?****

Well, very. Not diving too deep into money market mutual funds(MMMF) but since the introduction of these commercial paper has skyrocketed and in 2009 there was more commercial paper issued than Treasury Bills. Let that sink in for a minute, unsecured commercial paper has more \$ than treasury bills issued and backed by the US government.

****Ok, so I know what it is but what companies are using this and who is buying?****

This market is now dominated almost solely by financial institutions, really you could name any large international bank and they probably have a commercial paper program that they can turn to when they need funds. As for who is buying this, well that's the scary part. It's you, indirectly but I am almost positive the majority have some indirect funds invested in these. Below are some examples of funds we have a say in that are investing in banks unsecured commercial paper.

*****Money Market Mutual Funds*****

If you think you don't have money here better check your brokerage accounts. Most will hold cash in these funds. Example below for Fidelity if you SPRXX Money Market fund you're invested in them. You can check by looking at funds prospectus and monthly holdings. [SPRXX - Fidelity® Money Market Fund | Fidelity Investments](<https://fundresearch.fidelity.com/mutual-funds/summary/31617H201>)

*****Pension and Retirement Funds*****

This is harder to find public information on but if you have access to these documents I will not be surprised if there is a large percentage of commercial paper invested and if not I'd be willing to bet that the

money market fund the fund uses utilizes unsecured commercial paper as well.

Governments

Depending on size your town, city, province, county, state likely is purchasing these as well. Governments also pool funding which can trickle down to your town if they invest in the pool. Some examples below. I really quickly googled to find a few, these aren't the best examples just examples. It really is likely most governments own these.

Illinois Treasurer Investment Pool (130 million in CITI)

[2021-08 iptip inventory report.pdf (usgovcloudapi.net)](<https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/2021-08%20iptip%20inventory%20report.pdf>)

Clark County Investment (140 million financial CP)

[Pool PM holdings 6-21.pdf (clark.nv.us)](<https://treasurer.co.clark.nv.us/PDF/Investment%20Holdings/FY2021/June/Pool%20PM%20holdings%206-21.pdf>)

City of Los Angeles (18% of 13 billion portfolio in Commercial Paper)

[General Pool Investments Presentations | Los Angeles Office of Finance (lacity.org)](<https://finance.lacity.org/general-pool-investments-presentations>)

Why is this bad? What happened with Commercial Paper in the last recession?

To quote from the referenced article

"Heightened financial market uncertainty followed the failure of Lehman Brother on September 15. Investors and lenders, uncertain of both the creditworthiness of counterparties and their own ability to borrow in the future (if necessary), shortened commitments and shifted away for CP-based products toward default risk-free assets, including MMMFs invested solely in U.S. Treasuries. Borrowers argued that a near closure of the market would sharply worsen the recession. Suddenly, the term "shadow banking system" came into common usage."

To sum it up, after Lehman Brothers commercial paper became worthless a panic ensued as the institutional investors scrambled to sell the issues they were currently holding at a loss. New issues had very little chance of selling without pricing in a fuckload of a premium to entice buyers. Without these new issuances banks liquidity was turned off.

Whenever someone speaks of the bailout in as necessary to keep money market funds from failing it is because of Commercial paper. The Fed even bought commercial paper in the last recession as a way to help stabilize the market.

What I need help with

I don't have the time to fully flesh this DD out and below are the issues I want to look further into

If SEC is not involved in C Paper issuance who regulates?

How is program size determined?

Is there certain times they can be issued or is it rolling basis as needed?

Way to find program size and issuance outstanding? (If you have a Bloomberg Terminal m-mkt (go) then US CP or Euro CP should get you there but most program size show 0 even though currently for sale)

What can we do?

Buy-Hodl-DRS is the first and best thing we can do. But if we want to limit banks liquidity with our dollars I would suggest the following.

1. Make sure brokerage account cash is invested in a MMMF that only has government issued products or don't have idle funds in a MMMF
2. Research, look into your city, province, state, national governments and make sure they are not overexposed to struggling banks. (this will save you money later if government doesn't take as big of a hit)
3. Contact your local representatives, start small they are most likely to listen and work your way up. If your small town is invested in a state pool that has high exposure express your concern. They will likely then express their concern with the pool as well.

TLDR: Commercial Paper is the banks liquidity line. It's unsecured and paid for by all of us indirectly. Buy-HODL-DRS and make sure none of your funds (cash or indirect like retirement/tax funds) are invested in programs with high exposure to financial CP.

Below is a link to a paper explaining more in depth if needed. There is a lot more to this and I will keep looking into it but need your help as well.

[The Commercial Paper Market, the Fed, and the 2007-2009 Financial Crisis
(stlouisfed.org)](<https://files.stlouisfed.org/files/htdocs/publications/review/09/11/Anderson.pdf>)