Note 8. Investments in Special Purpose Vehicles

Investments in Special Purpose Vehicles as of September 30, 2021

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain (Loss)	Fair Value
Main Street Lending Programs	16.6	(1.0)	15.6
Municipal Liquidity Facility	6.3	0.2	6.5
Term Assets Lending Facility	3.5	-	3.5
Total investments in Special Purpose Vehicles	26.4	(0.8)	25.6
Common stock warrants[1]			0.8
Total			26.4

[1]Investments in common stock warrants are included due to the nature of funding and purpose of financial assistance to provide payroll support to aviation workers during the pandemic. Common stock warrants gross investment cost is $0.9 billion.

Investments in Special Purpose Vehicles as of September 30, 2020

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain (Loss)	Fair Value
Corporate Credit Facilities	37.5	(0.1)	37.4
Main Street Lending Programs	37.5	(4.3)	33.2
Municipal Liquidity Facility	17.5	(0.2)	17.3
Term Assets Lending Facility	10.0	(0.1)	9.9
Commercial Paper Funding Facility	10.0	0.1	10.1
Total investments in Special Purpose Vehicles	112.5	(4.6)	107.9
Common stock warrants[1]			0.5
Total			108.4

[1]Investments in common stock warrants are included due to the nature of funding and purpose of financial assistance to provide payroll support to aviation workers during the pandemic. Common stock warrants gross investment cost is $0.4 billion

Pursuant to the CARES Act enacted in FY 2020, in response to the COVID-19 pandemic, the government invested in SPVs established by the Federal Reserve Board through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. SPV investments are accounted for as equity investments at FV, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, changes in the FV of these investments are recorded as gains or losses. In FY 2021, SPV gross investments decreased by $86.1 billion partly from the result of Treasury and the Federal Reserve canceling or amending four of the five SPV agreements, and the Federal Reserve returning $62.2 billion in equity investments to Treasury. The Federal Reserve also sold its remaining investment in two of the SPVs and returned an additional $23.9 billion in equity investments to Treasury.

The FV of SPV equity investments is determined by using available market pricing data, risk-free discount rates, market pricing of floating interest-rate swaps, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows for the SPVs. For determining market pricing data, active market prices for the CCF and TALF programs that own publicly traded securities, Bloomberg estimated prices for the MLF program which owns securities that do not have active market prices but have estimated prices in Bloomberg, or market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. Contractual instrument terms and market derived, risk-neutral loss rates and, where applicable, market pricing of floating interest-rate swaps are used to estimate scenario specific, risk-neutral cash flows which are discounted using risk-free discount rates.

In deriving the FV of SPV investments, Treasury relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, and other information pertinent to the valuation were relied on. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

Under SFFAS No. 47, *Reporting Entity* criteria, SPVs were owned or established by the federal government. The relationship with the federal government represents non-permanent intervention designed to help mitigate the economic impacts. These entities are classified as disclosure entities based on their characteristics as a whole. Accordingly, these entities are not consolidated into the U.S. government's consolidated financial statements; however, the value of the investments in these entities, changes in value, and related activity with these entities are included in the U.S. government's consolidated financial statements.

The SPVs invest certain funds in Treasury issued nonmarketable SPV securities. As of September 30, 2021, and 2020, the total amount of SPV securities outstanding was $22.0 and $96.0 billion in Treasury issued SPV securities respectively. Please see Note 13—Federal Debt and Interest Payable. For additional information regarding COVID-19 relief, CARES Act funding, and amendments of SPV agreements refer to Treasury's financial statements and Note 30—COVID-19 Activity.

Corporate Credit Facilities LLC

On April 13, 2020, the FRBNY established the CCF as the SPV to facilitate both the PMCCF and the SMCCF programs in support of providing the flow of credit to employers through corporate bond and loan issuances. The FRBNY lends to the SPV on a recourse basis. The PMCCF was intended to purchase qualified bonds from eligible issuers and purchases portions of syndicated loans or bonds at issuance, giving issuers access to credit so that they are better able to maintain business operations and capacity during the period of disruption caused by COVID-19. The SMCCF supported the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds. The FRBNY loans are secured by all the assets of the SPV. On December 29, 2020, Treasury's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $23.6 billion were returned to Treasury on January 5, 2021. As of December 31, 2020, the SPV ceased purchasing of eligible notes. The FRBNY sold the credit holdings in the SPV and on September 24, 2021, returned to Treasury the remaining outstanding equity contribution of $13.9 billion and $17.0 million of interest earnings on special nonmarketable Treasury securities invested within the SPV. Final dissolution of the CCF SPV is expected in early FY 2022, and Treasury will be entitled to an additional amount equal to 90.0 percent of the cash balance in all of the other accounts of the SPV.

Main Street Lending Program

On May 18, 2020, the FRBB established the MSF to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. Using loans from the FRBB, the SPV purchases 95.0 percent participations in loans originated by eligible lenders, while the lender retains 5.0 percent. Loans issued under the MSF program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. Treasury had initially committed to contribute up to $75.0 billion in capital in the single common SPV in connection with the MSF. On June 1, 2020, Treasury acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $37.5 billion to the MSF to cover potential losses incurred by the FRBB in connection with this program. On December 29, 2020, Treasury's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $20.9 billion were returned on January 8, 2021. The SPV ceased purchasing of loan participations on January 8, 2021.

Municipal Liquidity Facility LLC

On May 1, 2020, the FRBNY established the MLF SPV to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The FRBNY lends to the MLF SPV, on a recourse basis, to allow the facility to purchase short-term notes directly from eligible U.S. states (including the D.C.), counties and cities. On May 26, 2020, Treasury acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $17.5 billion to the MLF LLC to cover potential losses incurred by FRBNY in connection with this program. On December 29, 2020, Treasury's undisbursed investment commitment of $17.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $11.2 billion were returned to Treasury on January 5, 2021. The SPV ceased purchasing eligible notes on December 31, 2020.

Term Asset-Backed Securities Loan Facility II LLC

FRBNY established the TALF SPV on March 23, 2020, to support the flow of credit to consumers and businesses for purposes of stabilizing the U.S. financial system. The TALF facilitates the issuance of Asset Backed Securities backed by student loans, auto loans, credit card loans, loans guaranteed by the SBA, commercial mortgages, and certain other assets. On June 16, 2020, Treasury acquired an equity interest in the SPV by committing to and transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $10.0 billion to the TALF to cover potential losses incurred by the FRBNY in connection with this program. On January 5, 2021, excess funds of $6.5 billion were returned to Treasury pursuant to the amended SPV LLC agreement. No new credit extensions were made after December 31, 2020.

Commercial Paper Funding Facility II LLC

On March 30, 2020, the FRBNY established the CPFF to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. To cover potential losses incurred by FRBNY in connection with this program, on April 13, 2020, Treasury made a capital contribution in the CPFF SPV by transferring $10.0 billion of core ESF funds to the SPV in exchange for a preferred equity interest in the SPV. The SPV ceased purchasing commercial paper on March 31, 2021. Commencing June 29, 2021 and concluding July 7, 2021, the FRBNY made final distributions to Treasury for $10.0 billion of capital contribution. These investments were provided to ESF, which reinvested them in overnight, nonmarketable U.S. Treasury securities. The CPFF SPV was terminated as of July 8, 2021.

Common Stock Warrants

Common stock warrants provide Treasury with the right to purchase shares of common stock or receive a cash payment. The number of warrants required is equal to 10.0 percent of the principal amount of the note issued by the participant, divided by an exercise price. The warrants are exercisable for a five-year term. In accordance with the warrant agreement between Treasury and each recipient, Treasury acknowledges the warrants are not registered under the *Securities Act of 1933* and may not be sold without such registration or an exemption. Additionally, the warrants received do not entitle Treasury to any voting rights or other rights of a shareholder before the date of exercise. Common stock warrants are not considered to be SPVs but are included here due to the nature of their funding and purpose.