The role of commercial paper in the sustainable finance market

October 2024

Table of contents

Introduction

The sustainable commercial paper (CP) market is potentially worth up to EUR 300 billion[1] based on our estimates. Although considerably smaller than the sustainable bond market[2], which is currently worth USD 4.5 trillion[3], noticeable progress has been made in recent years, and developments in the space have demonstrated a growing recognition of its potential to play a more active role in issuers' overall sustainable finance strategies and the transition towards a sustainable economy, while providing flexible funding options.

In response to these developments, ICMA, together with the Executive Committee of the Principles, established a Commercial Paper Taskforce (the Taskforce) to explore the role of conventional CP in the sustainable finance market, further track existing and upcoming market practice, and assess relevant standards and best practice to enshrine as the sustainable CP market continues to develop. The Taskforce is comprised of members of the ICMA Commercial Paper and Certificates of Deposit Committee with the inputs of the Members and Observers of the Principles. The contents of this paper have been informed by inputs from the Taskforce and observations of current market usage of sustainable CP.

The extent to which CP can contribute to sustainable finance varies. This paper reflects on recent market developments and outlines some observations and high-level categorisations in sustainable CP transactions that have emerged, notably use of proceeds CP (Use of Proceeds CP), and sustainability-linked CP (Sustainability-Linked CP). It is not a validation by ICMA of any existing practices, but looks at the intersections between these types of sustainable CP and issuers' overall sustainable finance strategies. It sets out best practice initial and preliminary recommendations, as well as observations, as informed by current market practice and inputs of the Taskforce.

This paper aims to provide transparency and information on the role of sustainable CP in the sustainable finance market, as well as its different approaches and challenges. In doing so, it seeks to promote communication and a coherent understanding among market participants to avoid misconceptions between how sustainable CP can be used as a financing or liquidity instrument supporting an issuer's sustainability strategy, and to help foster convergence around terminology and avoid misinterpretation in sustainable CP operations.

A clear understanding of current market practice will also be an important basis for developing any future guidance, in particular for Sustainability-Linked CP.

It is organised as follows: (i) the feasibility of CP as a sustainable financing instrument, (ii) market data relating to sustainable CP, (iii) high level considerations relating to Use of Proceeds CP, (iv) high level considerations relating to Sustainability-Linked CP, and (v) overall conclusions. It should be considered alongside the Principles.

1 See further *Market data relating to sustainable CP.*
2 Including green, social, sustainability and sustainability-linked bonds.
3 As at 31 August 2024. Source: Bloomberg.

The feasibility of CP as a sustainable financing instrument

The characteristics of conventional CP, which are described in more detail in Appendix 1, have an obvious impact on the feasibility of its use as a financing instrument which could potentially support an issuer's sustainability strategy. More specifically, these characteristics require consideration of several inherent limitations, which are not necessarily obstacles to issuance, but include:

(i) how to reconcile the short-term nature of CP financing (typically, 90 days with a maximum of 365 days)[4] with the intrinsically longer-term nature of sustainable investment and issuers' overall sustainability objectives and strategies, climate and social-related goals and success metrics;

(ii) the fact that conventional CP is typically used for financing or refinancing short-term liabilities or as a bridge for financing capex or acquisitions, rather than financing assets or projects themselves, including eligible green, social or sustainable projects or activities;

(iii) how to report allocations of Use of Proceeds CP, which is an instrument that is continually refinanced, often by repaying old issuance with the proceeds of new issuance;

(iv) the challenge of structuring impact reporting of Use of Proceeds CP, where it is not used for financing assets or projects themselves; and

(v) the challenge of reporting on performance against SPTs and the related impact for Sustainability-Linked CP and investors.

Notwithstanding the challenges brought about by these limitations, working within the constraints of the product, the market has come up with pragmatic ways to allow conventional CP to potentially play an important, supplementary role in supporting and/or contributing to the realisation of an issuer's sustainable projects or strategy the robustness of which could be reinforced if the issuer has a Sustainable Financing Framework and/or Sustainability-Linked Financing Framework accommodating the issuance of sustainable CP.

4 Noting however that CP is typically continually refinanced, or 'rolled-over', so that maturities can effectively (although not necessarily) be much longer.

1. High-level categorisations

Although the market is still at a *relatively* early stage, there are currently two main different types of sustainable CP programmes emerging, largely driven by issuers that already have sustainable labelled debt and are looking to embed sustainable features further across their capital structure. These are:

Categorisation	Description
Use of Proceeds Commercial Paper	Commercial paper where the net proceeds (or an equivalent amount) are exclusively applied towards financing or refinancing eligible green, social or sustainable projects or activities, as defined in, and in alignment with, an issuer's Sustainable Financing Framework.
Sustainability-Linked Commercial Paper	Commercial paper that is linked to an issuer's performance based on sustainability Key Performance Indicators (KPIs) or ESG ratings/scores which are consistent with the issuer's Sustainability-Linked Financing Framework or sustainability strategy.

2. Transaction documentation

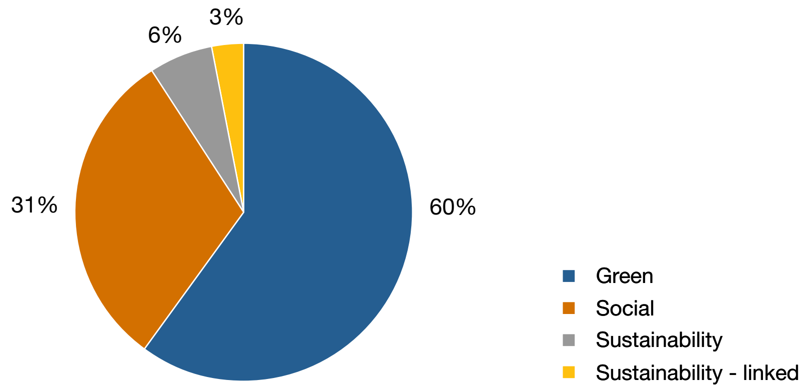
Model transaction documentation for both Use of Proceeds CP and Sustainability-Linked CP developed for the Neu CP/MTN market by a group of financial sector trade associations[5] with the support of the Banque de France was released in 2022. This documentation explicitly references the Principles.

5 ACI France AFTB, AFG and AFTE

Market data relating to sustainable CP

The growth of the sustainable CP market is evidenced by the significant development of new sustainable CP programmes that build on the precedent and established guidance in the sustainable bond market. Based on ICMA's analysis[6], there are currently 33 sustainable CP programmes in the EU[7]. Of these, 23 programmes are Use of Proceeds CP programmes (60% of which focus on green initiatives) and 10 are Sustainability-Linked CP programmes. See figure 1 below for a breakdown of sustainable CP programmes by type.

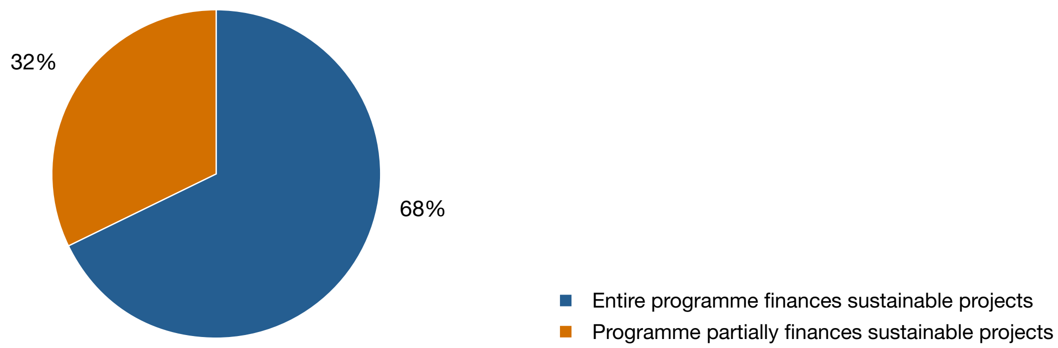
Figure 1: Sustainable CP programmes by programme type



1. Use of Proceeds CP

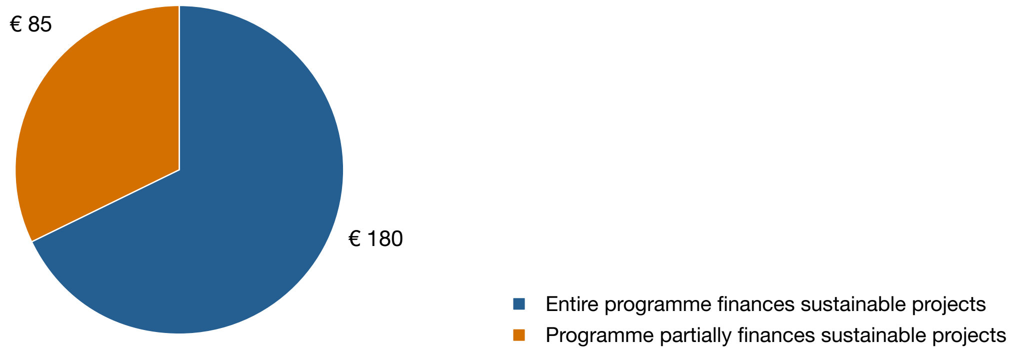
Of the 23 Use of Proceeds CP programmes, 15 (68%) are exclusively dedicated to financing green and sustainable projects or activities, while the other 8 (32%) allow for the issuance of Use of Proceeds CP *alongside the issuance of conventional CP*[8]. See figures 2 and 3 below for this division by number of programmes and by programme size.

Figure 2: Dedicated vs dual programmes for Use of Proceeds CP (by number)



6 Based on ICMA's own research, and data provided to ICMA by members of the Taskforce as at 1 August 2024. This is not exhaustive, and there may be other sustainable CP programmes which have not been captured in this analysis.
7 This does not include sustainable CP programmes which are purely domestic, i.e. targeted towards domestic investors and often governed by local law.
8 It is generally better for transparency purposes to have two separate CP programmes, one for conventional CP and the other for sustainable CP. It is also helpful if identifiers can be used to differentiate between each in clearing and other systems.

Figure 3: Dedicated vs dual programmes for Use of Proceeds CP (by value)

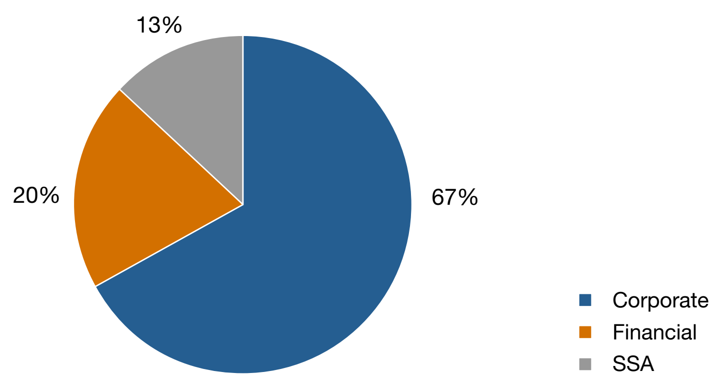


Altogether, the 23 Use of Proceeds CP programmes represent up to EUR 265 billion[9] of capacity for issuance. Taking just the 15 programmes which are exclusively dedicated to financing green and sustainable projects or activities, the available capacity is approx. EUR 85 billion. Data on *actual outstanding* Use of Proceeds CP is not available.

Focussing on the 15 Use of Proceeds CP programmes that are exclusively dedicated to financing green projects or activities, we can further determine that:

- all these programmes are issued in accordance with the issuer's Sustainable Financing Framework, with explicit reference to the Framework provided in the programme documentation;
- all the issuers are also green, sustainable or social (GSS) bond issuers, further illustrating their commitment to sustainability projects; and
- in terms of issuer type, the majority are corporates (10) and financial institutions (3), with (2) attributed to SSA issuers[10], as indicated in figure 4 below.

Figure 4: Use of Proceeds CP by issuer type (by number of programmes)



9 Due to data limitations, it is challenging to be any more precise due to the difficulties in differentiating between Use of Proceeds CP and conventional CP which is issued under the same programme.
10 Supranational, sovereign or agency.

2. Sustainability-Linked CP

There are 10 Sustainability-Linked CP programmes, the total capacity for issuance of which is approx. EUR 34 billion. Data on *actual outstanding* Sustainability-Linked CP is not available.

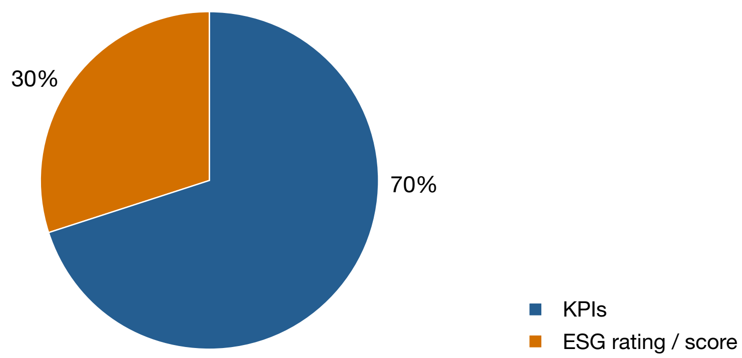
Of the 10 Sustainability-Linked CP programmes, 7 (70%) allow only for the issuance of Sustainability-Linked CP, other than in the case where the issuer loses its Sustainability-Linked CP label (see further *Penalties*), while the other 3 (30%) allow for the issuance of Sustainability-Linked CP *alongside the issuance of conventional CP.*[11]

In terms of issuer type, all the issuers of the 10 Sustainability-Linked CP programmes are corporates that have also already issued sustainability-linked bonds, term loans or revolving credit facilities. All but 2 (or 80%) of these Sustainability-Linked CP programmes are issued under their organisation's Sustainability-Linked Financing Framework, or their sustainability-linked bond or loan framework.

Key Performance Indicators

It is important to note that there are currently two types of Sustainability-Linked CP target structures emerging: either linked to sustainability KPIs[12], or more narrowly to ESG ratings/scores provided by financial data providers or internal methodologies from in-house metrics. As indicated in figure 5 below, of the 10 Sustainability-Linked CP programmes, 7 (or 70%) are linked to sustainability KPIs and 3 (or 30%) are linked to ESG ratings/scores.

Figure 5: Sustainability-Linked CP by target type (by number of programmes)



Based on ICMA's analysis and consistent with the sustainability-linked bond market and ICMA's Illustrative KPIs Registry, among the KPIs observed, greenhouse gas emissions reduction is a key focus, both in absolute terms and relative to baseline years. Attention has also been drawn to gender diversity in leadership positions, increased proportion of renewable energy as well as reduction in food waste. These KPIs align with those commonly found in the bond market.

Notably, as the majority of Sustainability-Linked CP is issued under issuers' frameworks, KPIs currently remain consistent across all debt instruments, serving as a common benchmark for sustainability performance across the issuer's entire debt portfolio, although some instrument-specific divergence in KPIs is inevitable, such as short-term KPIs which align more closely with short-term maturities of CP.

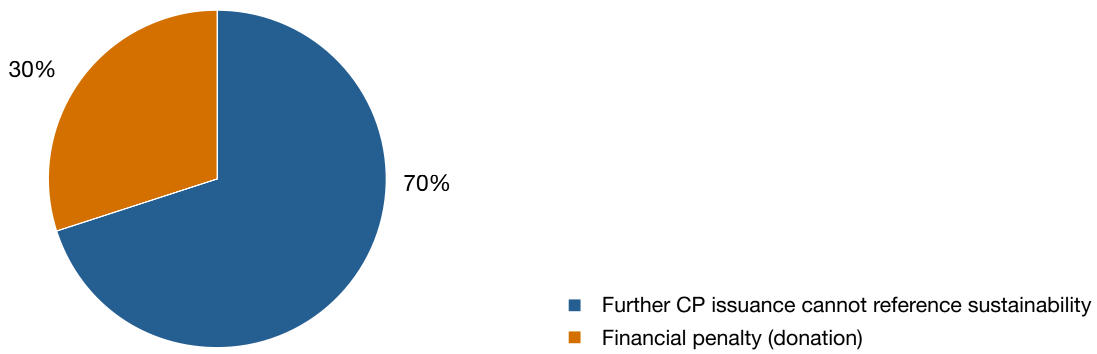
11 It is generally better for transparency purposes to have two separate CP programmes, one for conventional CP and the other for sustainable CP. It is also helpful if identifiers can be used to differentiate between each in clearing and other systems.
12 See Illustrative KPI registry for Sustainability-Linked Bonds.

Penalties

Two types of penalties are listed for these Sustainability-Linked CP programmes if they fail to meet their targets. As indicated in figure 6 below, of the 10 Sustainability-Linked CP programmes:

- 70% result in the restriction that any future CP issuance cannot be designated as Sustainability-Linked CP, although the issuer may continue to issue conventional CP under the programme.
- 30% involve a financial penalty in the form of a donation i.e., if the KPIs are not achieved, the issuer is required to make a donation to a charity or NGO.

Figure 6: Sustainable-Linked CP by penalty type (by number of programmes)



High-level considerations relating to Use of Proceeds CP

As already described, Use of Proceeds CP is now an established component of the CP market. Use of Proceeds CP has to date looked to the sustainable bond market and the Principles for best practice guidance. In this section, we consider the applicability of the Principles and the scope for additional guidance.

1. The importance of the Sustainable Financing Framework

A key recommendation under the Principles is that issuers have a Framework that provides relevant information "within the context of the issuer's overarching sustainability strategy". Subsequently, many issuers have developed Sustainable Finance Frameworks that apply to all their related financing. Based on ICMA's analysis in *Market data relating to sustainable CP*, all Use of Proceeds CP programmes within the observed sample are issued in accordance with the issuer's Sustainable Finance Framework and with explicit reference to it in the programme documentation.

Treating Use of Proceeds CP as an eligible debt instrument under the issuer's overarching Sustainable Financing Framework helps to address the disjoint between the short-term nature of CP financing and the longer-term nature of sustainable investment and issuers' overall sustainability objectives and strategies. This can be further achieved by the Sustainable Financing Framework:

- explaining alignment with the four core components of the Principles/Social Bond Principles;
- specifically permitting, referencing and explaining the issuance of Use of Proceeds CP, including expectations on how its proceeds can contribute to the issuer's overall sustainability strategy;
- specifying that Use of Proceeds CP is an enabling funding tool which can be issued in furtherance, support or in pursuit of financing eligible green, social or sustainable projects or activities; and
- allowing for all eligible green, social or sustainable projects or activities to be capable of being financed by Use of Proceeds CP.

2. Areas of general alignment with the Principles, and best practice initial recommendations

The characteristics of Use of Proceeds CP tend to follow well-established voluntary practices for the bond market represented by the Green Bond Principles or the Social Bond Principles (SBP), as several aspects of each apply equally to the issuance of Use of Proceeds CP.

The following best practice initial recommendations, as informed by current market practice and inputs of the Taskforce, demonstrate how the Principles can be applied to Use of Proceeds CP either wholesale or with targeted flexibility or adaptations.

Principles	Topic	Initial recommendation for Use of Proceeds CP
Use of proceeds	*Expenditures*	End use of funds for Use of Proceeds CP can be flexible and used, indicatively, for a range of purposes with differing lifespans, including opex, capex, project working capital, research and development, refinancing of short-term liabilities, expenditures relating to the maintenance of sustainable assets, bridge to bond financing, to refinance maturing CP with the proceeds of new issuance, or supporting other financing, as long as in all cases these are related to the eligible green, social or sustainable projects or activities under the issuer's Sustainable Financing Framework, rather than financing actual projects themselves.
	Financing and refinancing	This aspect of the Principles can broadly be applied to Use of Proceeds CP, but with some flexibility: rather than a recommendation, where all or a proportion of the proceeds of the Use of Proceeds CP are or may be used for refinancing eligible green, social or sustainable projects or activities under the issuer's Sustainable Financing Framework, issuers should aim, where possible, to: (i) provide an estimate of the share of financing versus refinancing, (ii) clarify which eligible green, social or sustainable projects or activities may be refinanced, and (iii) provide transparency of the expected look-back period for Use of Proceeds CP used for refinancing.
Management of proceeds	*Tracking*	This can broadly be applied to Use of Proceeds CP in the sense that the net proceeds of the Use of Proceeds CP, or an equivalent amount, should be tracked by the issuer in an appropriate manner, and attested to by the issuer in the same way as Green Bonds under the Sustainable Financing Framework.
Reporting	*Allocations*	Because Use of Proceeds CP is generally short term and can frequently be used to refinance previous issues, it is difficult to track allocations accurately. Allocation reporting should therefore be (i) considered by way of a cumulative mechanism on an annual (as is standard in the sustainable bond market) and aggregated portfolio basis under the issuer's Sustainable Financing Framework, and (ii) on both the simple average and the highest amount of outstanding Use of Proceeds CP applied to the eligible green, social or sustainable projects or activities over the reporting period, as compared against the spend over the same period, rather than tranche by tranche. The total of the Use of Proceeds CP expenditures should exceed this highest amount, rather than the average amount.
	Impact	Impact reporting should be integrated in the overall impact reporting under the Sustainable Financing Framework with the impact of the Use of Proceeds CP being viewed in generic terms at least at the project portfolio level.

3. Areas for further consideration

There are areas where specific best practice for Use of Proceeds CP may require further development. However, for these areas, the following best practice preliminary recommendations reflect general consensus among the Taskforce.

Principles	Topic	Preliminary recommendation for Use of Proceeds CP
Reporting	*Double counting*	Allocations should be transparently communicated to the market to avoid potential "double counting" complications. Issuers should ensure there is no double counting of eligible green, social or sustainable projects or activities and/or their impact between Use of Proceeds CP with any other type of outstanding sustainable financing. Funds raised by issuance of Use of Proceeds CP can be allocated between eligible green, social or sustainable projects or activities provided that they do not breach the double counting principle.
External review	*Post issuance*	The verification of the allocations of Use of Proceeds CP by an independent external reviewer is recommended and can be integrated in a broader external review under the issuer's Sustainable Financing Framework. Issuers should consult the Guidelines for External Reviews for recommendations and explanations on the different types of reviews[13].

4. Summary conclusions

- Existing market practice to issue Use of Proceeds CP under an issuer's Sustainable Financing Framework is a key mitigant of the limitations of its sustainability characteristics, notably its short-term tenor.
- Use of Proceeds CP tends to follow well-established voluntary practices in the green, social and sustainable bond market under the Principles and associated guidelines, as many of these are also relevant to either wholesale, or with some additional flexibility.
- There remains, however, areas for further consideration (see *Reporting* and *External review* in table above) where best practice may need further development. The Taskforce has made initial and preliminary best practice recommendations for these based on current market practice.

13 External Reviews » ICMA (icmagroup.org)

High-level considerations relating to Sustainability-Linked CP

Despite the market being in its early stages, there has been a noticeable growth in Sustainability-Linked CP programmes since 2020. There are currently two types of Sustainability-Linked CP programme structures emerging, based on either targets linked to sustainability KPIs, or linked to ESG ratings/scores.

1. The relevance of the Sustainability-Linked Bond Principles and its wider guidance

Sustainability-Linked CP tends to follow well-established voluntary practices for the sustainability-linked bond market, such as the Sustainability-Linked Bond Principles (SLB Principles) and related releases, including the Registry of KPIs and accompanying Core Components of the SLB Principles[14]. The SLB Principles and related releases provide good and detailed guidance for sustainability-linked bonds in terms of the selection of KPIs, the calibration of SPTs, the structural characteristics of sustainability-linked bonds (in terms of financial and/or structural impact), reporting of performance of the KPIs and the verification of the issuer's performance against each SPT.

The existence of an organisation-level Sustainability-Linked Financing Framework, which accommodates the issuance of Sustainability-Linked CP, helps to mitigate the tension between its short-term nature and the longer-term nature of an issuers' SPTs. Based on ICMA's analysis, 80% of Sustainability-Linked CP programmes in its scope are issued in accordance with such frameworks and with an explicit reference in related programme documentation.

2. Observations

Further reflection may be required on how, and whether, market practice observed on Sustainability-Linked CP requires possible adaptation of the SLB Principles and can be the subject of guidelines and recommendations. In the meanwhile, the following observations reflect a general consensus among the Taskforce.

SLB Principles	Topic	Observations
Sustainability Performance Targets	***Longevity of SPT and KPI horizons***	There is possible inconsistency between the short-term nature of Sustainability-Linked CP and the longer-term nature of issuers' SPTs and KPIs. Issuers should attempt to calibrate KPIs towards a commensurately shorter term, noting that even if they do, there is no assurance that a particular investor will continually invest in the Sustainability-Linked CP and so may not evidence whether the issuer has, or has not, met its targets. Further, as described below, a financial penalty mechanism for failure to meet targets is not considered suitable for Sustainability-Linked CP. SPTs also need to be ambitious enough (i.e. represent a material improvement in the respective KPIs and be beyond a "Business as Usual" trajectory) to merit achievement. Depending on the KPI, this can potentially be difficult to measure over a short period of time, which can in turn cast doubt upon the ambition of an SPT if it is too short term. Ensuring that Sustainability-Linked CP is issued within an organisation-level Sustainability-Linked Financing Framework, or otherwise linked to an issuer's sustainability strategy, is essential to mitigate this fundamental disjoint. It is in this manner that Sustainability-Linked CP can also be characterised as contributing to the realisation of the longer term SPTs under the Framework or an issuer's sustainability strategy.

14 See Chapter 4 of the The-Principles-Guidance-Handbook-November-2023-291123.pdf (icmagroup.org).

SLB Principles	Topic	Observations
	Use of ESG Ratings as KPIs	In principle, an issuer's ESG rating as provided by an external sustainability/ESG rating agency may serve as KPI for Sustainability-Linked CP. Issuers should clarify if they are using either an ESG rating as a whole, or specific E and/or S and/or G-related components of the overall rating as their target KPIs. Given diverging and evolving rating methodologies and rating scales, as well as other characteristics (e.g. subjectivity), where an ESG rating is not accompanied by other KPIs, issuers are expected to explain why an ESG rating may be the best indicator to reflect their core business ESG challenges and disclose the kind of rating (solicited vs unsolicited rating). In addition, issuers should be aware that they may have only limited direct influence on the evolution of their ESG ratings and, in choosing them as KPIs, they risk not reaching any set SPTs. There may also be regulatory or licensing constraints to using ESG ratings as KPIs that the issuer should consider. Issuers should also note that there are currently no agreed market standards for such ESG ratings or metrics, although there are recent regulatory and best practice developments underway, such as the EU regulation on the transparency and integrity of ESG rating activities, as well as market-driven voluntary code of conduct for ESG ratings and Data Products Providers provided by ICMA. Sustainability-Linked CP using KPIs linked to ESG ratings criteria is therefore outside the scope of this paper.
Penalties		Financial penalties directly linked to the financial instrument, of the type which are typically seen in sustainability-linked bonds such as coupon step-ups payable to investors on failure to meet a target, are considered as not suitable for Sustainability-Linked CP. This is largely due to its short-term nature; the difficulties in the attribution and allocation of financial penalties to, potentially, a high number of different participating investors over different periods of time during which the target has not been met, or payment to investors being no longer possible as the Sustainability-Linked CP will have been redeemed before the SPT is assessed. Based on ICMA's analysis, in 70% of the observed Sustainability-Linked CP programmes, failure to meet targets, or the target ceasing to be met, results in the issuer being able to continue to issue CP under the programme, but that CP not being designated as Sustainability-Linked CP. These restrictions may remain in place until such time as the target is met, although some programmes prescribe a restriction time period, correlating to a particular frequency at which targets are measured, or set. It is generally the case that if a target is not met, or ceases to be met, it does not affect the designation already applied to any outstanding Sustainability-Linked CP of the issuer. In the remaining 30% of cases, a financial penalty in the form of a donation to a charity or NGO is required. Currently, there is no absolute consensus between market participants as to whether these measures, coupled with the resulting reputational implications and consequential potentially higher cost of refinancing suffered by the issuer, provide sufficiently effective incentives to meet the targets. However, as the market continues to innovate, there may be more reference points to explore which support alternative potential financial and/or structural characteristics, such as payments to charitable causes or reputable NGOs, or for the funding of projects for the development of infrastructure or other environmental or social projects[15].

15 Heidelberg Cement, Ahold Delhaize and Ferrovial, respectively.

3. Summary conclusions

- The guidance of the SLB Principles and wider guidance of the Principles is broadly relevant to Sustainability-Linked CP.
- Ensuring that Sustainability-Linked CP is issued within an organisation level Sustainability-Linked Financing Framework or otherwise linked to an issuer's sustainability strategy is essential to mitigate the potential inconsistency between the short-term nature of CP and the longer-term of issuers' sustainability KPIs. It is in this manner that Sustainability-Linked CP can also be characterised as contributing to the realisation of the longer term SPTs of an issuers' Frameworks or issuer's sustainability strategy.
- Currently, there is no absolute consensus between market participants as to whether the measures for failing to achieve targets on Sustainability-Linked CP provide sufficiently effective incentives.
- Further reflection may be required on how, and whether, market practice observed on Sustainability-Linked CP can currently be the subject of guidelines and recommendations.

Overall conclusions

Estimated at as much as EUR 300 billion, the sustainable CP market is significant, even if it is a fraction of the sustainable bond market. Within it, Use of Proceeds CP is the more established product, while Sustainability-Linked CP is emerging. This market has developed by leveraging the well-established voluntary practices in the sustainable bond market represented by the Principles, as many of its recommendations are directly relevant or can be adapted for its purposes.

Several initial and preliminary best practice recommendations for issuing Use of Proceeds CP are set out in this paper, which have been informed by current market practice and inputs of the Taskforce. These recommendations outline current best practice when issuing Use of Proceeds CP but may evolve as this market continues to develop.

This paper outlines observations and further questions for Sustainability-Linked CP. As the market continues to innovate, ICMA, along with the Taskforce members, will continue to assess how Sustainability-Linked CP's characteristics evolve, and whether the guidance from the SLB Principles could be utilised with possible adaption, or as a starting point, for any future guidance.

Appendix 1: Characteristics of conventional CP

When considering the wider role of CP in the sustainable finance market, it is important to understand how conventional CP functions, and how it differs to other, more traditional bond issues and sustainable financings. It is worth noting that that the nature of conventional CP is not changed by any correlation to sustainability strategies.

Market profile:

In the European market, CP (and certificates of deposit) is the instrument most widely used for short-term funding on an unsecured basis. As at 31 August 2024, there was over EUR 1 trillion of CP outstanding[16]. Issuers – financial institutions, banks, sovereign and supranational agencies, non-financial corporates and asset backed conduits (issuing asset-backed commercial paper, or ABCP) – tend to be highly rated, leading to a relatively low risk of default and good returns for investors. The market is generally wholesale in nature, and investors are almost exclusively institutional, often investing through money market funds (MMFs) or exchange traded funds (ETFs). CP is often issued at a discount to face value so there are no coupon payments, but it is redeemed at par/face value at maturity.

Duration:

CP is a short-term money market instrument, with a minimum maturity of one day and a maximum maturity of less than one year. In practice, maturities rarely extend beyond 270 days, with 90 days being the more usual tenor in Europe.

End use:

There is generally no restriction on the end use of CP funds. So, for issuers, CP is an important and flexible means of liquidity management which is typically used for funding short-term liabilities (such as opex, working capital, general corporate purposes or other outflows). Although many credit rating agencies require an alternative credit line in place, it can be used as an alternative to drawing on bank credit lines.

Issuance and trading patterns:

CP is issued on a continual basis off commercial paper issuance platforms, or programmes, similar in nature to standard debt issuance programmes, but with different, lighter, less onerous documentation, investor requirements and regulatory compliance. As it tends to be continually issued, it is usually refinanced, or 'rolled over', by repaying old issuance with the proceeds of new issuance, often to the same pool of investors, or fund (MMF or ETF). This constant refinancing means that CP can remain drawn and be outstanding over a period of time, which allows the CP as a product to be almost akin in some ways to a type of long-term funding.

Activity in CP is largely confined to the primary market; it rarely trades in secondary markets, although dealers will almost always provide a market to bid-back outstanding CP.

16 Including ECP, NEU CP and EU Domestic CP. Source: CMD Portal.

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
8002 Zurich

ICMA London
T: +44 20 7213 0310
110 Cannon Street
London EC4N 6EU

ICMA Paris
T: +33 1 8375 6613
25 rue du Quatre Septembre
75002 Paris

ICMA Brussels
T: +32 2 801 13 88
Avenue des Arts 56
1000 Brussels

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2, Lippo Centre
89 Queensway, Admiralty, Hong Kong

ICMA
International
Capital
Market
Association

icmagroup.org