April 27, 2020

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW,
Washington, DC 20551

Dear Secretary Mnuchin and Chairman Powell:

We appreciate your leadership in supporting America's businesses as the nation combats the COVID-19 pandemic. While PPP and EIDL have provided critically needed funds to many businesses devastated by this crisis, the AICPA also wants to ensure that appropriate focus is on economic recovery and, equally importantly, keeping the business community thriving.

The AICPA has observed a continuing need for short-term liquidity in the marketplace. In such an unexpected downturn, businesses have had to deal with the challenge of harnessing enough cash while still maintaining other types of short-term assets, such as inventory, in order to continue their business operations. Because of these extraordinary current economic conditions, businesses that normally receive payment for goods or services within 30 days are now experiencing significant slow-downs in payments (90 days or more). These delays have caused businesses to hesitate to even take on normal risk.

AICPA believes that much of what businesses are experiencing is a short-term phenomenon that needs a similar short-term solution. AICPA recommends that the Federal Reserve, with approval from the Treasury Department, create a federally-backed short-term accounts receivable lending facility that would allow companies to pledge their future receivables in order to create immediate cash flow through a 90 to 180-day lending arrangement with the federal government.

The creation of this facility would be similar to other facilities that the Federal Reserve has unveiled in previous weeks. The Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, would authorize the establishment and operation of a short-term accounts receivable lending facility under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). The Federal Reserve would commit to lend to a Special Purpose Vehicle (SPV) on a recourse basis. The Department of Treasury would then make an equity investment into the designated SPV by utilizing funds from Section 4003(b)(4) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Under this lending arrangement, businesses would pledge their receivables in order to receive much needed short-term liquidity funds from the Federal Reserve. Support for the pledge would include any relevant contracts, purchase orders, and confirmations from the secondary parties, that is, customers of said receivables. Upon approval, the Federal Reserve would provide a reasonable discount rate of the receivable/invoiced amount with no repayment due for six months. A repayment plan would exist during months 7-12 (monthly payments) from that point forward. Additional loans to individual businesses for future receivables would be allowed with the entire facility remaining open 1 year to include receivable payments. The AICPA further recommends for this facility to be available for renewal at the Federal Reserve's discretion to allow for up to a 12-18 month application window.

The AICPA appreciates your consideration of this recommendation. We would be happy to discuss it with you or an appropriate member of your staff at the earliest possible time. Please contact Diana Deem, Director, Congressional and Political Affairs at ddeem@aicpa.org or 202-434-9276, or Jason Brodmerkel, Senior Manager, Accounting Standards – Depository and Lending Institutions at jbrodmerkel@aicpa.org or (202) 434-9205, to discuss this further.

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Sincerely,

Barry C. Melancon, CPA, CGMA President & CEO