

Fed Creates Secondary Market Corporate Credit Facility to Provide Liquidity to Corporate Bonds

March 26, 2020 | Client Update | 3-minute read

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¹ Corporate bonds that are rated by two or more NRSROs must be rated BBB-/Baa3 or more by at least two NRSROs.

- The SMCCF will purchase individual corporate bonds from eligible issuers that meet the following asset and issuer eligibility criteria.
 - **Eligible individual corporate bonds** under the SMCCF must be:
 - issued by an eligible issuer (defined below);
 - rated BBB-/Baa3 or more by a major nationally recognized statistical rating organization (NRSRO), subject to review by the Federal Reserve;¹ and
 - have a remaining maturity of five years or less.
 - **Eligible issuers** under the SMCCF are all U.S. businesses with material operations in the United States.
 - Companies that are expected to receive direct financial assistance under pending federal legislation are excluded from participation in the SMCCF. A draft of the CARES Act fiscal stimulus package (which, as of the time of this writing, remains subject to Congressional negotiations) provided financial assistance to companies affected by the coronavirus pandemic. Davis Polk's rush summary of the CARES Act's economic stabilization and small business assistance provisions will be available on our [Coronavirus Updates Blog](#).
 - The SMCCF will purchase eligible corporate bonds at **fair market value** in the secondary market.
- The SMCCF will also purchase **corporate bond portfolios**, which are limited to **exchange traded funds (ETFs)** whose investment objective is to provide broad exposure to the market for U.S. investment grade corporate bonds.
 - The SMCCF can purchase up to 10% of an issuer's maximum bonds outstanding at any time between March 22, 2019 and March 22, 2020.
 - The SMCCF can purchase up to 20% of the assets of any one ETF as of March 22, 2020.
 - The SMCCF will not purchase shares of ETFs at a price that materially exceeds the estimated net asset value of the ETF's underlying portfolio.
- **Procedural considerations:**
 - The SMCCF will continue asset purchases until September 30, 2020. The Federal Reserve may choose to extend the SMCCF after that time.
 - The FRBNY will continue to fund the SMCCF after its termination until the holdings of the SMCCF mature or are sold.