

## **BOK to Launch Corporate Bond-Backed Lending Facility**

At its special meeting on April. 16, 2020, the Monetary Policy Board of the Bank of Korea decided to launch a new lending scheme, the Corporate Bond-Backed Lending Facility (CBBLF), as a safety net for businesses, banks and non-bank financial institutions that are bracing for a deterioration of the credit flow due to the prolonged impacts of COVID-19.

The facility will provide loans to banks and to non-bank financial institutions, including securities companies and insurance companies, with high- quality corporate bonds (rated at least AA-) as collateral for up to six months.\*

\* Loans are made under the authority of Article 64 of the Bank of Korea Act for banks and under Article 80 for non-bank financial institutions.

It will be operated as a standing lending facility, which allows ready access to credit from the Bank of Korea whenever eligible corporate bonds are paid in as collateral.

To begin with, it shall be operated with a ceiling of 10 trillion won and a term of three months, but it shall be decided later whether or not to expand those figures, depending on financial market situations and the limit exhaustion.

This measure is expected to contribute to stabilizing the corporate bond market and to improving funding conditions for financial institutions by making immediate loans with corporate bonds as collateral at a constant interest rate (the yield on Korean Monetary Stabilization Bonds (182 days) + 0.85%p)\* to non-bank financial institutions, such as securities companies, based on their demand for funds (moment and scale).

\* 1.54%, as of April 14

It will also be effective in alleviating market anxiety by setting up a standing lending facility in advance as a safety net against any possible emergencies.

Attachment: Contents of “Corporate Bond-Backed Lending Facility (CBBLF)”

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This press release is the English version of a Bank of Korea policy statement. In the case of any discrepancy, the original Korean version takes precedence.

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## **Contents of “Corporate Bond-Backed Lending Facility (CBBLF)”**

### **1. Eligibility to Borrow\***

\* Lending to banks and to non-bank financial institutions is based on Articles 64, and 80 of the Bank of Korea Act, respectively

- Banks – 16 domestic banks and 23 branches of foreign banks (financial institutions eligible to make use of Liquidity Adjustment Loans)
- Securities Companies – the Korea Securities Finance Corp. and 15 securities companies that are included as any of ① counterparts eligible for outright transactions, ② counterparts eligible for RP transactions, or ③ Primary Dealers
- Insurance Companies – 6 insurance companies that have signed an agreement for current account transactions with the Bank of Korea and that have equity capital of more than 3 trillion won

### **2. Ceiling : 10 trillion won\***

\* The limit for each institution is 25% of its equity capital

### **3. Operating Period : 3 months from the effective date**

### **4. Term : within 6 months**

### **5. Eligible Collateral : high-quality corporate bonds(rated at least AA-\*) issued by private enterprises with 5 years of remaining maturity\*\* or less**

\* Based on the lowest rating among the ratings by Korea Ratings, the Korea Investors Service and Nice Investors Service

\*\* The followings are excluded : subordinated debentures, Convertible Bonds (CBs), Exchangable Bonds (EBs), Bonds with Warrants (BWs), and corporate bonds issued by subsidiaries or affiliated companies and that are at-risk of interconnectedness

**6. Rate :** the interest rate will be 0.85%p over yield on Korean Monetary Stabilization Bonds (182 days)\*

\* Based on the average of 4 private bond rating agencies (KIS Pricing, Korea Asset Pricing, Nice P&I, FN Pricing). Average interest rate of 5 business days just before the loan date is applied.

**7. Mechanics of Lending :** loans in the amount requested by the institution, within the scope of the margins of the eligible collateral provided by the eligible borrowers

**8. Withdrawals :** lump-sum payment

- Loans made under the facility are pre-payable

**9. Interest Payment :** payment at maturity

**10. Effective Date :** May 4, 2020