FAQs: Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility

The following is intended to address questions about the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) (together, the CCFs). Additional Frequently Asked Questions on the CCFs are forthcoming, including expected start-up date of the facilities, information on eligibility of issues and issuers, guidance on compliance with CARES Act requirements, opportunities for inclusion in the administration of CCF processes by a broader range of firms, pricing of transactions, and terms applicable to underwriting for new issue syndications. Please check this website for new FAQs or revisions to previously issued FAQs.

Effective April 17, 2020

Why is the Federal Reserve establishing the PMCCF and the SMCCF?

Recent events have significantly and suddenly impacted financial markets. The spread of COVID-19 has harmed communities and substantially disrupted economic activity in many countries, including the United States. The disruption has affected many different sectors of the financial system. In general, the availability of credit has contracted for corporations and other issuers of debt while, at the same time, the disruptions to economic activity have heightened the need for companies to obtain financing. These disruptions have been felt by even highly rated companies that need liquidity in order to pay off maturing debt and sustain themselves until economic conditions normalize.

The PMCCF will provide a funding backstop for corporate debt to Eligible Issuers so that they are better able to maintain business operations and capacity during the period of dislocation related to COVID-19. The SMCCF will support market liquidity for corporate debt by purchasing individual corporate bonds of Eligible Issuers and exchange-traded funds (ETFs) in the secondary market.

How are the PMCCF and SMCCF structured and what can they invest in?

Pursuant to section 13(3) of the Federal Reserve Act, and with prior approval of the Secretary of the Treasury, the Board of Governors of the Federal Reserve System (Board) authorized the Federal Reserve Bank of New York (New York Fed) to establish the PMCCF and SMCCF. The New York Fed will lend to a special purpose vehicle (SPV) through which the CCFs will operate. The financing provided by the New York Fed to the SPV will be with full recourse to the SPV and secured by all the assets of the SPV.

The PMCCF will provide companies access to credit by (i) purchasing qualifying bonds as the sole investor in a bond issuance, or (ii) purchasing portions of syndicated loans or bonds at issuance. The SMCCF may purchase in the secondary market (i) corporate bonds issued by investment-grade U.S. companies; (ii) corporate bonds issued by companies that were investment-grade rated as of March 22, 2020, and that remain rated at least BB-/Ba3 at the time of purchase; (iii) U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. investment-grade corporate bonds; and (iv) U.S.-listed ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds.

In what way is the U.S. Department of the Treasury supporting the CCFs?

The Department of the Treasury, using funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), will make a $75 billion equity investment in the SPV for both of the CCFs. The initial allocation of the equity will be $50 billion toward the PMCCF and $25 billion toward the SMCCF.

Is there a limit to the size of the SPV?

The combined size of the CCFs will be up to $750 billion. The PMCCF will leverage Treasury's equity at 10 to 1 when acquiring corporate bonds or syndicated loans from Eligible Issuers that are investment grade at the time of purchase. The PMCCF will leverage Treasury's equity at 7 to 1 when acquiring corporate bonds or syndicated loans from Eligible Issuers that are rated below investment grade at the time of purchase.

The SMCCF will leverage Treasury's equity at 10 to 1 when acquiring corporate bonds of issuers that are investment grade at the time of purchase and when acquiring ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds. The SMCCF will leverage Treasury's equity at 7 to 1 when acquiring corporate bonds of issuers that are rated below investment grade at the time of purchase and in a range between 3 to 1 and 7 to 1, depending on risk, when acquiring any other type of eligible asset.

Over what time period will the SPV operate?

The CCFs will cease purchasing eligible corporate bonds, eligible syndicated loans, and eligible ETFs no later than September 30, 2020, unless the CCFs are extended by the Board of Governors of the Federal Reserve System and the Department of the Treasury. The New York Fed will continue to fund the CCFs after such date until the CCF's holdings either mature or are sold.

Will information about lending under the CCFs be made known to the public?

The Federal Reserve will publicly disclose information regarding the CCFs during the operation of the facilities, including information regarding participants, transaction amounts, costs, revenues and other fees.

Balance sheet items related to the SPV and CCFs will be reported weekly, on an aggregated basis, on the H.4.1 statistical release titled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," published by the Board of Governors of the Federal Reserve System.

In addition, the Federal Reserve will disclose to Congress information pursuant to section 13(3) of the Federal Reserve Act, the Board's Regulation A, and the CARES Act.

What types of entities are eligible to sell securities to the SMCCF?

Each institution from which the SMCCF purchases securities must be a business that is created or organized in the United States or under the laws of the United States with significant U.S. operations and a majority of U.S.-based employees. The institution also must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act. These institutions are collectively referred to as Eligible Sellers.

To expedite the implementation of the SMCCF, the SMCCF will begin by transacting with Primary Dealers that meet the Eligible Seller criteria. The Federal Reserve will add additional counterparties as Eligible Sellers under the SMCCF, subject to adequate due diligence and compliance work.

Will the Federal Reserve require a statement of eligibility from Eligible Sellers?

Yes. The requirements and processes for certification are under development and will be provided in the near future.

What is an Eligible Issuer under the PMCCF and SMCCF?

To qualify as an Eligible Issuer, the issuer must satisfy certain conditions:

First, the issuer must be a business that is created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States.

Second, the issuer must have been rated at least BBB-/Baa3 as of March 22, 2020, by a major nationally recognized statistical rating organization (NRSRO). If rated by multiple major NRSROs, the issuer must have been rated at least BBB-/Baa3 by two or more NRSROs as of March 22, 2020. An issuer that was rated at least BBB-/Baa3 as of March 22, 2020, but was subsequently downgraded, must be rated at least BB-/Ba3 as of the date on which the PMCCF or SMCCF makes a purchase. If rated by multiple major NRSROs, such an issuer must be rated at least BB-/Ba3 by two or more NRSROs at the time the PMCCF or SMCCF makes a purchase. In every case, issuer ratings are subject to review by the Federal Reserve.

Third, the issuer must not be an insured depository institution or depository institution holding company, as such terms are defined in the Dodd-Frank Act.

Fourth, the issuer must not have received specific support pursuant to the CARES Act or any subsequent federal legislation.

Fifth, the issuer must satisfy the conflicts-of-interest requirements of section 4019 of the CARES Act.

Will the Federal Reserve require a certification of eligibility from Eligible Issuers under the CCFs?

Eligible Issuers under the PMCCF and SMCCF will be required to certify compliance with the eligibility criteria. The requirements and processes for certification are under development and will be provided in the near future.

What are Eligible Assets that will be purchased by the PMCCF?

The PMCCF may purchase eligible corporate bonds as the sole investor in a bond issuance. Eligible corporate bonds must, at the time of purchase, be issued by an Eligible Issuer and have a maturity of 4 years or less.

The PMCCF also may purchase portions of syndicated loans or bonds of Eligible Issuers at issuance. Eligible syndicated loans or bonds must, at the time of purchase, be issued by an Eligible Issuer and have a maturity of 4 years or less. The PMCCF may purchase no more than 25 percent of any syndicated loan or bond issuance. To start, the PMCCF will focus on purchasing bonds at issuance.

Does the definition of Eligible Assets in the PMCCF include investment-grade senior secured bonds issued by a non-investment-grade issuer?

No. In order to be an Eligible Asset under the PMCCF, a bond must be issued by an Eligible Issuer that is rated at least investment grade as of March 22, 2020, and at least BB-/Ba3 at the time of purchase.

What types of assets will be purchased by the SMCCF?

The SMCCF may purchase corporate bonds that are issued by an Eligible Issuer; have a remaining maturity of 5 years or less; and are sold to the SMCCF by an Eligible Seller.

The SMCCF also may purchase U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder will be in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds.

Will the SMCCF purchase non-USD denominated corporate bond issues of Eligible Issuers?

No.

From which NRSROs will ratings be accepted?

Currently, the ratings criteria for the CCFs refer to ratings provided by three NRSROs: S&P Global Ratings, Moody's Investor Service Inc., and Fitch Ratings, Inc. The Federal Reserve is considering including other NRSROs under the CCFs.

Are Eligible Issuers able to use the PMCCF to refinance existing bonds or issue new bonds?

Eligible Issuers may approach the PMCCF to refinance existing bonds and issue new bonds, subject to conditions and limitations. An Eligible Issuer may refinance outstanding debt up to three months ahead of the maturity date of such outstanding debt. Eligible Issuers also may approach the PMCCF at any time to issue additional debt, provided that the Eligible Issuer's rating is reaffirmed at BB-/Ba3 or above by each major NRSRO that has rated the Eligible Issuer and the Eligible Issuer's reaffirmed rating accounts for the additional debt.

Are there limits to using the PMCCF to refinance existing bonds or issue new bonds?

The maximum amount of outstanding bonds and loans of an Eligible Issuer that borrows from the PMCCF may not exceed 130 percent of the Eligible Issuer's maximum outstanding bonds and loans on any day between March 22, 2019, and March 22, 2020. Additionally, there is a single-name concentration limitation on an Eligible Issuer's use of the PMCCF and SMCCF. The maximum amount of instruments that the PMCCF and the SMCCF combined will purchase with respect to any Eligible Issuer is capped at 1.5 percent of the $750 billion combined potential size of the PMCCF and the SMCCF.

Must Eligible Issuers pay the facility fee each time they issue to the PMCCF?

Yes. The facility fee will be applied to each issuance to, or borrowing from, the PMCCF.

How will pricing work under the PMCCF?

For bonds that the PMCCF purchases as sole investor, pricing will be issuer-specific, informed by market conditions, plus a 100 bps facility fee. For eligible syndicated loans and bonds purchased at issuance, the PMCCF will receive the same price as other syndicate members, plus a 100 bps facility fee paid by the borrower on the PMCCF's share of the issuance. For example, in a syndicated bond issuance of $1 billion in which the PMCCF purchases 25 percent ($250 million), the issuer must pay a facility fee of $2.5 million at closing.

Will floating-rate debt that references LIBOR be eligible for purchase?

If the PMCCF is the sole participant in an offering, the Facility only will purchase fixed-rate bonds. The PMCCF generally will only purchase fixed-rate debt when participating in a syndicated issuance. To the extent that the PMCCF is approached to participate in a syndication of floating-rate debt, the PMCCF generally will expect any debt priced off LIBOR to include adequate fallback language.

The SMCCF intends to purchase a range of bonds, including floating-rate debt that is priced off LIBOR.

Which ETFs will the SMCCF buy?

If the SMCCF elects to purchase ETFs, the preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder will be of ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds. In some cases, the holdings of ETFs may include underlying bonds that have a remaining maturity longer than 5 years at the time of purchase, or include underlying bonds that would otherwise be ineligible for purchase by the SMCCF.

What are the issuer limits for the SMCCF?

The maximum amount of corporate bonds that the SMCCF will purchase on the secondary market of any Eligible Issuer is capped at 10 percent of the Eligible Issuer's maximum bonds outstanding on any day between March 22, 2019, and March 22, 2020. The SMCCF will not purchase shares of a particular ETF if, after such purchase, the SMCCF would hold more than 20 percent of that ETF's outstanding shares.

Will the underlying holdings of ETFs be counted towards the issuer limits?

No.

Are there limits across the PMCCF and SMCCF?

The maximum amount of instruments that the CCFs will purchase with respect to any Eligible Issuer is capped at 1.5 percent of the combined potential size of the CCFs. If all assets purchased by the CCFs were investment grade, the combined potential size of the CCFs would be $750 billion. Measurement of the 1.5 percent cap for any Eligible Issuer will be determined at time of purchase of a bond or portion of loan syndication.

Which investment managers are supporting the CCFs?

Initially, BlackRock Financial Markets Advisory will be the investment manager, acting at the sole direction of the New York Fed on behalf of the facilities. Once the exigent need to commence operations of the facilities has passed, the investment manager role will be subject to a competitive bidding process.

Who are the points of contact at the Federal Reserve for the PMCCF and SMCCF?

You can direct your questions to pmccf@ny.frb.org or smccf@ny.frb.org.

How may I receive updates regarding changes to PMCCF and SMCCF documents?

Sign up to receive PMCCF email alerts and SMCCF email alerts. You also may check the Federal Reserve websites for periodic updates to the PMCCF and SMCCF.