

FAQs: Secondary Market Corporate Credit Facility

The following is intended to address Frequently Asked Questions (FAQs) about the Secondary Market Corporate Credit Facility (SMCCF) and the sale of assets from its portfolio. Please check this website for new FAQs and more information.

Effective July 8, 2021

Why did the Federal Reserve establish the Secondary Market Corporate Credit Facility (SMCCF)?

Pandemic-related events which began in March 2020 had a sudden and significant adverse impact on financial markets. The spread of COVID-19 harmed communities and substantially disrupted economic activity in many countries, including the United States. The disruption affected many different sectors of the financial system. In general, the availability of credit contracted for corporations and other issuers of debt while, at the same time, the disruptions to economic activity heightened the need for companies to obtain financing.

The SMCCF, which was [announced](#) on March 23, 2020, supported credit to large employers by providing liquidity to outstanding corporate bonds of Eligible Issuers and exchange-traded funds (ETFs) in the secondary market through the date of its closure on December 31, 2020.

Over what time period did the SMCCF purchase eligible assets and what was the approximate size of its portfolio when purchases ceased?

The SMCCF began purchases of eligible ETFs on May 12, 2020, and of eligible corporate bonds on June 16, 2020. The SMCCF ceased purchasing eligible assets as of December 31, 2020. As of the first [aggregate weekly report](#) following the termination of purchases by the SMCCF, the special purpose vehicle (SPV) established to finance the corporate credit facilities held approximately \$14.2 billion in eligible assets acquired under the SMCCF.

Why is the SMCCF selling these assets?

The SMCCF was established to address disruptions to the corporate bond market caused by the outbreak of the COVID-19 pandemic. As an emergency facility authorized under section 13(3) of the Federal Reserve Act, the SMCCF's operations were intended to be temporary actions to support the flow of credit to the economy. With the facility closed as of December 31, 2020, and the corporate credit markets continuing to function well, it is appropriate to begin the process of winding down the SMCCF portfolio.

The SMCCF's ETF holdings, which account for over half of the



occur. Exiting both ETF and bond positions will facilitate an orderly and comprehensive wind down of the full SMCCF portfolio.

When will the SMCCF begin to sell the ETFs and corporate bonds in its portfolio?

The SMCCF began gradual sales of its ETF holdings on June 7, 2021. The SMCCF intends to begin gradual sales of its corporate bond holdings on July 12, 2021.

When does the SMCCF expect to complete sales of its holdings?

Subject to market conditions, the SMCCF expects to complete the sale of its holdings by the end of 2021.

How will the SMCCF conduct sales of ETF and corporate bond holdings?

The SMCCF will sell ETFs and bonds at prevailing market prices and will take liquidity conditions in the secondary market for ETFs and corporate bonds into account when determining the pace of sales. The SMCCF expects to sell at a pace that minimizes the potential for adverse impacts on market functioning. Sales may pause temporarily should the SMCCF observe a material deterioration in market functioning.

The volume of sales of ETFs may fluctuate based on changes in individual trading volumes over time. The SMCCF will avoid selling shares of an ETF at times when it is trading at a price that is materially below the estimated net asset value (NAV) of its underlying portfolio.

With respect to corporate bond sales, the SMCCF will seek to sell its portfolio in a manner that broadly maintains the alignment of the portfolio's sector weights with its weights as of June 30, 2021. Deviations from this distribution may occur over time depending on available liquidity in individual bonds, market conditions, and other operational considerations. The SMCCF bond portfolio was purchased by tracking a broad, diversified universe of secondary market bonds. Please refer to [prior FAQs](#) about the Broad Market Index.

With whom will the SMCCF transact when selling its ETF and corporate bond holdings?

The SMCCF will transact with institutions that were previously designated as Eligible Sellers. The New York Fed will also consider adding as SMCCF counterparties those institutions whose applications to be Eligible Sellers were under consideration at the time the program expired, subject to adequate due diligence, compliance, and other reviews, and may consider additional counterparties from time to time.

Will all SMCCF corporate bond holdings be disposed of through secondary market sales?

The SMCCF expects to dispose of most of its bond holdings through secondary market sales. Some bonds may mature in accordance with their terms. Dispositions may also occur in response to issuer calls and through participation in tender offers.

Who will serve as investment manager for the SMCCF in executing sales?

BlackRock Financial Markets Advisory will continue in its role as third party vendor to serve as the investment manager for the SMCCF. It will execute sales, acting at the sole direction of the New York Fed on behalf of the facility, in order to facilitate an orderly wind down of the facility. The New York Fed had been conducting a multi-phase competitive procurement process for this role, among other vendor roles, but decided not to move forward with a request for proposals (RFP) in view of the fact that the facility will be winding down and exiting its holdings.

Will the investment manager apply its own internal investment guidelines when implementing the disposition of the SMCCF's ETFs and corporate bonds?

No. The Federal Reserve will provide investment guidelines to the investment manager to implement the strategy for the disposition of the SMCCF's ETFs and corporate bonds. The investment manager will act as a fiduciary to the SPV in performing investment management services and will be required to follow the Federal Reserve's disposition guidelines. The investment management agreement for the SMCCF is available on the New York Fed's SMCCF website.

How does the Federal Reserve include minority-, women-, and veteran-owned business entities in supporting the SMCCF?

The Federal Reserve is committed to the fair inclusion and utilization of minority-, women-, and veteran-owned (MWV) business entities in its operation of emergency lending facilities. During the period when the SMCCF was purchasing eligible assets, it expanded the pool of entities with which it could transact to include a wider range of entities, including MWV-owned business entities.

How should a counterparty that transacts with the SMCCF handle information related to trading activity by the SMCCF?

The SMCCF seeks to foster transparency and fair access to information about its activities. It does so by publishing its corporate bond and ETF holdings, including information regarding ETF and corporate bond dispositions, on a monthly basis in its [reports to Congress pursuant to section 13\(3\) of the Federal Reserve Act](#). Accordingly, the SMCCF expects that counterparties will not use or share nonpublic information that they receive while acting as a counterparty, including when buying assets from the SMCCF, for any purpose other than executing and completing transactions with the SMCCF and in furtherance of the counterparty's risk management and internal control requirements. The SMCCF believes this expectation is broadly consistent with good market practice for the handling of institutional counterparty trading information.

What accounting treatments will the SMCCF apply to its ETFs and corporate bond portfolio?

When the SMCCF commenced purchases in 2020, it classified its ETFs as trading securities and reported them at fair value.

Corporate bonds were classified as held-to-maturity securities and reported at cost. Beginning on June 30, 2021, the SMCCF changed the accounting treatment for its corporate bonds from held-to-maturity to trading securities and reported them at fair value to reflect the upcoming initiation of bond sales. The accounting treatment for ETFs remains the same.

Will there be any changes to the 30-day reporting and the H.4.1 following the change in the accounting treatment?

Any changes in the accounting treatment will be reflected weekly 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 SMCCF's monthly disclosures to Congress and the public pursuant to section 13(3) of the Federal Reserve Act, the Board's Regulation A, and the CARES Act have been updated as of June 30, 2021 to reflect the change in accounting treatment.

Will information about the SMCCF's corporate bond and ETF sales be made known to the public?

Consistent with reporting during the SMCCF's purchases of eligible assets, balance sheet items related to the SPV and the SMCCF will continue to 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 continue to disclose to Congress and the public information on a monthly basis pursuant to section 13(3) of the Federal Reserve Act, including sales activity and portfolio holdings.

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

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

How may I receive updates regarding the SMCCF?

Sign up to receive [SMCCF email alerts](#). You also may check the Federal Reserve websites for periodic updates to the SMCCF.

[FAQs: June 3, 2021 »](#)
