

# Federal Reserve's Primary and Secondary Market Corporate Credit Facilities

Released by the Federal Reserve Board on April 9, 2020<sup>1</sup>

**On April 9, 2020, the Board of Governors of the Federal Reserve System (Federal Reserve Board) unveiled the Primary Market Corporate Facility (PMCCF) and Secondary Market Corporate Facility (SMCCF), adding to the list of government actions aimed at rehabilitating the US economy using an unprecedented \$2.3 trillion in loans, loan guarantees, and other investments. This announcement provided further details on the new liquidity programs, which the Federal Reserve Board first announced on March 23, 2020, and Congress referenced and funded in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.**

By expanding the scope and size of these programs, the Federal Reserve intends to ensure the flow of credit to households and businesses. The US Treasury authorized the two new facilities to provide liquidity under section 13(3) of the Federal Reserve Act.

For both facilities, the Federal Reserve Bank of New York will commit to lend to a special purpose vehicle (SPV) on a recourse basis as follows: The PMCCF will purchase (i) qualifying corporate bonds as the sole investor in bond issuances; and (ii) portions of syndicated loans or bonds at issuance; while the SMCCF will purchase (i) secondary market eligible individual corporate bonds; and (ii) eligible corporate bond portfolios in the form of exchanged-traded funds.

The Department of the Treasury will use the funding under the CARES Act to provide \$75 billion in equity to implement the PMCCF and the SMCCF. The initial allocation of equity will be \$50 billion toward the PMCCF and \$25 billion toward the SMCCF. The combined size of the PMCCF and SMCCF will be up to \$750 billion.

PMCCF and SMCCF will cease purchasing eligible assets no later than September 30, 2020, unless extended by the Federal Reserve and Treasury Department. The Reserve Bank will continue to fund the PMCCF and SMCCF after such date until the holdings are either mature or sold.

The checklist below outlines the core requirements for both the PMCCF and the SMCCF requirements.

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<sup>1</sup>This checklist is based on information available as of April 9, 2020. It is intended to provide information on developments in the law only. It is not legal advice and does not constitute an opinion of Norton Rose Fulbright US LLP. These terms can be adjusted at the discretion of the Federal Reserve Board and the Secretary of Treasury.

Program	Primary Market Corporate Credit Facility (PMCCF)	Secondary Market Corporate Credit Facility (SMCCF)
<b>Eligible Assets</b>	<p>Eligible Assets (Assets) are:</p> <ol style="list-style-type: none"> <li>1. Corporate bonds as sole investor</li> <li>2. Eligible syndicated loans and bonds with the following features: <ul style="list-style-type: none"> <li>— Issued by an eligible issuer</li> <li>— Maturity of 4 years or less</li> </ul> </li> </ol> <p>PMCCF may not purchase more than 25% of any loan syndication or bond issuance.</p>	<p>Eligible assets (Assets) are:</p> <ol style="list-style-type: none"> <li>1. Individual corporate bonds with the following features: <ul style="list-style-type: none"> <li>— Issued by an eligible issuer</li> <li>— Remaining maturity of 5 years or less</li> <li>— Sold to the SMCCF by an eligible seller</li> </ul> </li> <li>2. US-listed Exchange Traded Funds (ETF) with the following features: <ul style="list-style-type: none"> <li>— ETFs that are intended to provide a broad exposure to the investment grade corporate bonds</li> <li>— ETFs intended to provide exposure to a broad section of the US high-yield corporate bonds</li> </ul> </li> </ol>
<b>Eligible Issuers</b>	N/A	<p>Eligible sellers (Sellers) must:</p> <ol style="list-style-type: none"> <li>1. Be a business created or organized in the US or under the laws of the US with significant operations</li> <li>2. Have the majority of employees based in the US</li> </ol>
<b>CARES Act Conflict of Interest Attestation by both Issuer and Seller</b>	<p>The Issuer and Seller (for SMCCF) must attest that the president, vice president, an executive department head, member of Congress, or any of such individual's spouse, child, son-in-law, or daughter-in-law does not hold directly or indirectly, at least 20% of any class of equity interest in its business.</p> <ul style="list-style-type: none"> <li>• Applicable equity interests include: <ul style="list-style-type: none"> <li>— Shares (regardless of whether they are transferable or classified as stock or anything similar)</li> <li>— Capital or profit interests in a limited liability or company or partnership</li> <li>— Warrants or rights (other than a right to convert) to purchase, sell, or subscribe to a share or interest</li> </ul> </li> </ul>	

Program	Primary Market Corporate Credit Facility (PMCCF)	Secondary Market Corporate Credit Facility (SMCCF)
<b>Limits per Issuer</b>	<p>Issuers may:</p> <ul style="list-style-type: none"> <li>• Refinance outstanding debt from the period starting three months ahead of the maturity date.</li> <li>• Approach the PMCCF at any time to issue additional debt, as long as their rating is reaffirmed at BB-/Ba3 or above with the additional debt by each major NRSRO with a rating of the Issuer.</li> </ul> <p>An Issuer that borrows from the PMCCF may <b>not</b> have outstanding bonds or loans exceeding 130% of the Issuer's maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020.</p> <p><b>The maximum amount of instruments that PMCCF and SMCCF combined will purchase for any Issuer is capped at 1.5% of the combined potential size of PMCCF and SMCCF.</b></p>	<ul style="list-style-type: none"> <li>• The maximum amount of instruments that the SMCCF and the PMCCF combined will purchase with respect to any Issuer is capped at 1.5% of the combined potential size of the SMCCF and the PMCCF.</li> <li>• The maximum amount of bonds that the SMCCF will purchase from the secondary market of any Issuer is capped at 10% of the Issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020.</li> <li>• The SPMCCF will not purchase shares of a particular ETF if after the purchase SMCCF holds more than 20% of that ETF's outstanding shares.</li> </ul>
<b>Leverage</b>	<p>The PMCCF will:</p> <ul style="list-style-type: none"> <li>— When acquiring investment-grade corporate bonds or syndicated loans from Issuers, leverage Treasury equity at a 10:1.</li> <li>— When acquiring any other type of asset, leverage its equity at 7:1.</li> </ul>	<p>The SMCCF will:</p> <ul style="list-style-type: none"> <li>— When acquiring investment-grade corporate bonds from Issuers and ETFs whose primary investment objective is exposure to US investment-grade corporate bonds, leverage Treasury equity at a 10:1.</li> <li>— When acquiring corporate bonds from Issuers rated below investment-grade at the time of purchase, leverage its equity at 7:1.</li> <li>— When acquiring any other type of eligible asset, leverage its equity in a range between 3:1 and 7:1, depending on the risk.</li> </ul>
<b>Pricing</b>	<p>Eligible corporate bonds:</p> <ul style="list-style-type: none"> <li>• Pricing will be Issuer-specific and informed by market conditions, plus a 100 basis points facility fee.</li> </ul> <p>Eligible syndicated loans and bonds:</p> <ul style="list-style-type: none"> <li>• The PMCCF will receive the same pricing as other syndicated members, plus a 100 basis points facility fee on PMCCF's share of the syndication.</li> </ul>	<p>Eligible corporate bonds:</p> <ul style="list-style-type: none"> <li>• SMCCF will purchase at fair market value in the secondary market.</li> </ul> <p>Eligible ETFs:</p> <ul style="list-style-type: none"> <li>• SMCCF will avoid purchasing shares of eligible ETFs when they trade at prices materially exceeding the estimated net asset value of the underlying portfolio.</li> </ul>