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### Government Unveils Plans to Create SPV to Support Corporate Bond and CP Markets

South Korea: Financial Services Commission

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## Press Releases

### Government Unveils Plans to Create SPV to Support Corporate Bond and CP Markets

May 20, 2020



The government announced on May 20 specific plans to create a special purpose vehicle (SPV) aimed at supporting the corporate bond and commercial paper markets.

#### BACKGROUND

The conditions surrounding the corporate bond market hit by COVID-19 have improved somewhat recently with the government setting up a bond market stabilization fund (KRW20 trillion) and providing support for the issuance of primary collateralized bond obligations (KRW6.7 trillion) and corporate bonds (KRW4.1 trillion). As a result, the total amount of newly issued blue-chip corporate bonds rebounded in April.

However, the bond market still remains weak for lower rated corporate bonds with A or below ratings, and there is stronger preference for short-term bonds. Against this backdrop, the government announced on April 22 its plans for creating an SPV to purchase lower-rated corporate bonds and commercial paper.

#### SPV MANAGEMENT

The government, the Bank of Korea and the Korea Development Bank will set up a KRW10 trillion SPV to help stabilize the corporate bond market, with the possibility of



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(FUNDING SOURCES) KRW1 trillion (10%) equity capital from KDB, KRW1 trillion (10%) in subordinated loans from KDB and KRW8 trillion (80%) in primary loans from BOK

(PURCHASING TARGETS) AA to BB rated corporate bonds & A1 to A3 rated CP and short-term debt with maturity of up to 3 years

The SPV purchasing program will mostly focus on A rated bonds but will also buy 'fallen angels,' junk-rated bonds which were downgraded from investment ratings due to Covid-19.

Companies with their interest coverage ratio of 100% or less for two consecutive years will be precluded from the purchasing program.

(PURCHASING LIMITS & PRICES) In order to fulfill the purpose of market stabilization, purchasing limits will be established within 2 to 3 percent of the total fund available from the SPV purchasing program for each individual company and business sector.

To encourage market-based capital raising efforts by businesses, the SPV will purchase bonds at a price slightly higher than market rates by applying additional fees. .

(OPERATION PERIOD) For six months with possibility of extension based on market conditions

## FURTHER PLANS

In order to expedite the provision of support, the KDB will begin purchasing low-rated corporate bonds and CP prior to the creation of SPV if deemed necessary.

Once the National Assembly passes the 3rd supplementary budget, which contains a provision of KRW500 billion investment for KDB, the SPV will be created with KDB's investment of KRW1 trillion. The BOK and the KDB will then issue primary loans (KRW8 trillion) and subordinated loans (KRW1 trillion), respectively, based on the purchase size of corporate bonds and CP.

An SPV operating committee composed of officials from the government, BOK and KDB



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extend the operating period beyond the initial six months will be made depending on market conditions.

\* Please refer to the attached PDF for details.

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**PREV**

**NEXT**

**List**

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## **Related Materials**

Apr 09, 2020

[Financial Authorities Work to Ensure Strong Support for Corporate Bond Issuance](#)

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