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Audited Annual Financial Statements: Corporate Credit Facilities LLC

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Financial Statements:
Corporate Credit Facilities LLC

A Limited Liability Company Consolidated by the Federal Reserve Bank of New York

For the period from April 13, 2020
to December 31, 2020
and Independent Auditors' Report

Corporate Credit Facilities LLC

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

To the Managing Member of
Corporate Credit Facilities LLC:

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Corporate Credit Facilities LLC (a Limited Liability Company consolidated by the Federal Reserve Bank of New York) (the "LLC") as of December 31, 2020, the related statements of operations, changes in members' equity, and cash flows for the period from April 13, 2020 to December 31, 2020 and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLC as of December 31, 2020, and the results of its operations for the period from April 13, 2020 to December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the LLC's management. Our responsibility is to express an opinion on these financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the LLC in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

KPMG LLP

We have served as the LLC's auditor since 2020.

New York, New York
March 17, 2021

Abbreviations

| | |
|--------------|---------------------------------------------------------------------------------|
| ASC | Accounting Standards Codification |
| CCF | Corporate Credit Facilities LLC |
| ETF | Exchange-traded fund |
| FASB | Financial Accounting Standards Board |
| FRBNY | Federal Reserve Bank of New York |
| GAAP | Accounting principles generally accepted in the United States of America |
| LLC | Limited liability company |
| PMCCF | Primary Market Corporate Credit Facility |
| SMCCF | Secondary Market Corporate Credit Facility |

Corporate Credit Facilities LLC

Statement of Financial Condition

As of December 31, 2020

(Amounts in thousands)

| | | <u>2020</u> |
|---------------------------------------------------------------------------------------------|--------|----------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | Note 3 | \$ 237,880 |
| Restricted cash and cash equivalents | | |
| Cash deposit | | 5,625,000 |
| Short-term investments in non-marketable securities | Note 3 | 31,890,070 |
| Short-term investments, at fair value (amortized cost of \$49,995 as of December 31, 2020) | Note 3 | 49,995 |
| Exchange-traded funds, at fair value (original cost of \$8,434,795 as of December 31, 2020) | Note 3 | 8,776,258 |
| Corporate bonds | Note 3 | 5,539,643 |
| Interest receivable | | 40,327 |
| Other assets | | 567 |
| Total assets | | <u>\$ 52,159,740</u> |
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | |
| Liabilities: | | |
| Loans payable to FRBNY | Note 5 | \$ 14,137,686 |
| Interest payable | Note 5 | 6,951 |
| Other liabilities | | 1,905 |
| Total liabilities | | <u>14,146,542</u> |
| Members' equity | Note 6 | <u>38,013,198</u> |
| Total liabilities and members' equity | | <u>\$ 52,159,740</u> |

The accompanying notes are an integral part of these financial statements.

Corporate Credit Facilities LLC

Statement of Operations

For the period April 13, 2020 to December 31, 2020
(Amounts in thousands)

| | | <u>2020</u> |
|--------------------------------------|--------|--------------------------|
| <u>INCOME</u> | | |
| Interest income | Note 4 | \$ 39,158 |
| Dividend income | | 147,306 |
| Realized gains on investments, net | | 797 |
| Unrealized gains on investments, net | Note 3 | <u>341,464</u> |
| Total operating income | | <u>528,725</u> |
| <u>EXPENSES</u> | | |
| Loans interest expense | Note 5 | 7,010 |
| Professional fees | | <u>8,517</u> |
| Total operating expense | | <u>15,527</u> |
| Net operating income | Note 7 | <u><u>\$ 513,198</u></u> |

The accompanying notes are an integral part of these financial statements.

Corporate Credit Facilities LLC

Statement of Changes in Members' Equity

For the period April 13, 2020 to December 31, 2020

(Amounts in thousands)

| | | Members' contributed equity | Undistributed net operating income | Total members' equity |
|------------------------------------|--------|--------------------------------|---------------------------------------|--------------------------|
| Members' equity, April 13, 2020 | | \$ - | \$ - | \$ - |
| Members' contributions | Note 6 | 37,500,000 | - | 37,500,000 |
| Net operating income | Note 7 | - | 513,198 | 513,198 |
| Members' equity, December 31, 2020 | | <u>\$ 37,500,000</u> | <u>\$ 513,198</u> | <u>\$ 38,013,198</u> |

The accompanying notes are an integral part of these financial statements.

Corporate Credit Facilities LLC

Statement of Cash Flows

For the period April 13, 2020 to December 31, 2020
(Amounts in thousands)

| | | <u>2020</u> |
|------------------------------------------------------------------------------------------------------|--------|----------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Net operating income | Note 7 | \$ 513,198 |
| Adjustment to reconcile net operating income to net cash provided by (used in) operating activities: | | |
| Amortization of discounts and premiums on investments | | 42,704 |
| Realized gains on investments, net | | (797) |
| Unrealized gains on ETFs, net | Note 3 | (341,463) |
| Increase in interest receivable | | (40,327) |
| Increase in other assets | | (567) |
| Increase in interest payable | | 6,951 |
| Increase in other liabilities | | 1,905 |
| Cash provided by operating activities | | <u>181,604</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Payments for purchases of short-term investments | | (49,991) |
| Payments for purchases of corporate bonds | Note 3 | (5,791,674) |
| Payments for purchases of ETFs | Note 3 | (8,434,795) |
| Proceeds from principal paydowns on corporate bonds | | 197,120 |
| Proceeds from maturities of corporate bonds | | 13,000 |
| Cash used in investing activities | | <u>(14,066,340)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Proceeds from contributed capital | Note 6 | 37,500,000 |
| Proceeds from loans payable to FRBNY | Note 5 | 14,268,747 |
| Repayment of loans payable to FRBNY | Note 5 | (131,061) |
| Cash provided by financing activities | | <u>51,637,686</u> |
| Net change in cash and cash equivalents, restricted cash and cash equivalents | | 37,752,950 |
| Beginning cash and cash equivalents, restricted cash and cash equivalents | | - |
| Ending cash and cash equivalents, restricted cash and cash equivalents | | <u>\$ 37,752,950</u> |
| <u>SUPPLEMENTAL CASH FLOW DISCLOSURE</u> | | |
| Cash paid for interest | | <u>\$ 59</u> |

The accompanying notes are an integral part of these financial statements.

Corporate Credit Facilities LLC

Notes to the Financial Statements

(1) ORGANIZATION, NATURE OF BUSINESS, AND FINANCING

In accordance with section 13(3) of the Federal Reserve Act and with prior approval from the Secretary of the Treasury, the Board of Governors of the Federal Reserve System authorized the Federal Reserve Bank of New York (“FRBNY”) to establish the Primary Market Corporate Credit Facility (“PMCCF”) and the Secondary Market Corporate Credit Facility (“SMCCF”) to support credit to large employers. PMCCF was established to provide a funding backstop to eligible issuers of corporate debt to enable them to better able to maintain business operations and capacity during the period of funding dislocation related to the COVID-19 pandemic. SMCCF provided market liquidity for corporate debt by purchasing eligible broad market index corporate bonds of eligible issuers and U.S.-listed exchange-traded funds (“ETFs”) in the secondary market. The authorization to purchase eligible assets through the PMCCF and SMCCF expired on December 31, 2020.

Corporate Credit Facilities LLC (“CCF”), is a Delaware limited liability company (“LLC”) formed in connection with the implementation of PMCCF and SMCCF on April 13, 2020. CCF has two members: FRBNY, which is CCF’s managing member, and the U.S Department of the Treasury (“Treasury”), which is the preferred equity member. The managing member has the exclusive rights to manage CCF. The preferred equity member contributed capital to CCF using funds from the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act.

FRBNY also serves as the lender to CCF. FRBNY extended \$14.3 billion in loans to CCF, so that CCF could purchase corporate bonds and ETFs under SMCCF during the period May 12, 2020, to December 31, 2020. FRBNY did not extend any loans to CCF to fund purchases under PMCCF because no purchases were made by PMCCF during the same period. The loans made by FRBNY are with full recourse to CCF and secured by all assets of CCF. CCF records a liability in the Statement of Financial Condition when FRBNY funds the loans. Interest on the loans is paid on the maturity date or upon prepayment of the loans.

CCF purchased eligible broad market index corporate bonds and ETFs under SMCCF. SMCCF purchased ETFs whose investment objective was to provide broad exposure to the market for U.S. corporate bonds. The preponderance of ETF holdings are ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder are ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds. The SMCCF purchased corporate bonds to create a corporate bond portfolio that tracked the composition of the broad, diversified universe of secondary market bonds that met the criteria specified in the term sheet for eligible broad market index bonds. Eligible broad market index bonds were bonds that, at the time of purchase, (i) were issued by an issuer that is created or organized in the United States or under the laws of the United States; (ii) were issued by an issuer that meets the rating requirements for eligible individual corporate bonds; (iii) were issued by an issuer that is not an insured depository institution, depository institution holding company, or subsidiary of a depository institution holding company, as such terms are defined in the Dodd-Frank Act; and (iv) had a remaining maturity of 5 years or less.

All available cash receipts of CCF are used to pay its obligations as described in Note 7. Distributions of residual proceeds to the members will occur after all CCF loans are repaid in full. During the life of CCF, undistributed net residual income or loss is reported as “Undistributed net operating income” in the Statement of Changes in Members’ Equity.

CCF invests cash receipts from investment earnings in short-term assets in the following categories: Treasury securities, government money market funds, and dollar denominated overnight deposits.

Corporate Credit Facilities LLC

Notes to the Financial Statements

Various service providers for transaction, investment management, legal, compliance, accounting, and custodial services were engaged to provide services for CCF. BlackRock Financial Management, Inc. provides investment management services and State Street Bank and Trust Company provides administrative and custodial services for CCF. CCF does not have any employees and therefore does not bear any employee-related costs.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”), which require the managing member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant items subject to such estimates and assumptions include the fair value of the investments. Actual results could differ from those estimates.

Significant accounts and accounting policies are explained below.

a. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents

CCF defines investments in money market funds and other highly liquid investments with original maturities of three months or less, when acquired, as cash equivalents. Money market funds are carried at fair value based on quoted prices in active markets. Other investments included in cash equivalents are carried at fair value based on composite prices received from pricing vendors representing quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in market that are not active.

In accordance with the terms of the CCF Preferred Equity Investment Agreement, approximately 85 percent of the Treasury’s initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to CCF. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 230-10 *Statement of Cash Flows*, these investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The investments in overnight non-marketable Treasury securities are recorded at amortized cost and are shown as “Restricted cash and cash equivalents: Short-term investments in non-marketable securities” in the Statement of Financial Condition. The remaining Treasury equity contribution in CCF is held in cash as a deposit at FRBNY, to support the liquidity needs of CCF and is reported as “Restricted cash and cash equivalents: Cash deposit” in the Statement of Financial Condition and is included in “Net change in cash and cash equivalents, restricted cash and cash equivalents” in the Statement of Cash Flows.

b. Investments

Short-Term Investments

Debt securities with original maturities greater than three months, when acquired, are designated as trading securities under FASB ASC 320 *Investments - Debt and Equity Securities*. CCF’s short-term investments are composed of Treasury bills that mature within one year. Any securities held for these short-term investments are categorized as trading securities and are reported as “Short-term investments, at fair value” in the Statement of Financial Condition. Trading securities are recorded at fair value in accordance with FASB ASC 820 *Fair Value Measurements & Disclosures*. Unrealized gains on trading securities are

Corporate Credit Facilities LLC

Notes to the Financial Statements

reported as a component of "Unrealized gains on investments, net," respectively, in the Statement of Operations. Interest income, which includes the amortization of premiums and accretion of discounts, is recorded when earned and is reported as "Interest income" in the Statement of Operations.

Equities

ETFs held by CCF under SMCCF are designated as trading securities under FASB ASC 320 *Investments - Debt and Equity Securities*. They are reported at fair value in the Statement of Financial Condition. Unrealized gains and losses on ETFs are reported as a component of "Unrealized gains on investments, net," in the Statement of Operations.

Fixed Income

Corporate bonds held by CCF under SMCCF are designated as held-to-maturity under FASB ASC 320 *Investments - Debt and Equity Securities*. CCF has the positive intent and ability to hold the securities to maturity; therefore, the corporate bonds are recorded at amortized cost. The amortization of premiums and accretion of discounts on corporate bonds are recorded on the effective interest method and are reported as a component of "Interest income" in the Statement of Operations. Realized gains (losses) on redemptions and maturities of corporate bonds are determined on a first-in, first-out basis and are reported as "Realized gains on investments, net" in the Statement of Operations.

c. Credit Impairment

CCF's corporate bond investments are subject to review each reporting period to identify and evaluate investments that have indications of possible credit impairment in accordance with FASB ASC 320 *Investments Debt and Equity Securities*. Impairment is evaluated using numerous factors including collectability, liquidity and credit support, collateral, and the financial condition and near-term prospects of the issuer. If, after analyzing the above factors, FRBNY determines that an investment is impaired and that the impairment is other-than-temporary, the amortized cost of the individual security is written down to estimated fair value and a realized loss is recorded. To determine whether impairment is other-than-temporary, FRBNY considers whether it is probable that CCF will be unable to collect substantially all of the contractual interest and principal payments on the investment on the maturity date of the corporate bond. As of December 31, 2020, there were no corporate bonds for which FRBNY considered impairment to be other-than-temporary.

d. Interest and Dividend Income

CCF recognizes interest income on corporate bonds on an effective interest basis, based on the contractual rate of the bond. Interest income recognition ceases when the bond matures or is repaid by the eligible issuer. Interest income on short-term investments in non-marketable securities is recorded when earned and is received daily based on an overnight rate established by the Treasury's Bureau of Fiscal Services. CCF recognizes dividend income on ETF investments on the ex-dividend date, which is the cut-off date that stockholders of record would be entitled to a dividend.

e. Professional Fees

Professional fees consist primarily of fees charged by CCF's attorneys, consultants, investment managers, administrative agent, custodian and independent auditors. Professional fees are reported as "Professional fees" in the Statement of Operations.

Corporate Credit Facilities LLC

Notes to the Financial Statements

f. Taxes

CCF was formed by FRBNY and the Treasury. It is not subject to an entity level income tax. Accordingly, no provision for income taxes is made in the financial statements.

g. Fair Value Measurements

Certain assets of CCF are measured at fair value in accordance with FASB ASC 820 *Fair Value Measurement & Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 *Fair Value Measurement & Disclosures* establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and FRBNY's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by FASB ASC 820 *Fair Value Measurement & Disclosures* are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect FRBNY's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies used for valuing the financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

h. Recently Issued Accounting Standards

The following items represent recent GAAP accounting standards.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. Although earlier adoption is permitted, this update is effective for CCF for the year ending December 31, 2023. CCF is continuing to evaluate the effect of this guidance on CCF's financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients to apply to contract modifications and hedging relationships that reference the London Inter-Bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. CCF has not yet adopted the new standard as CCF is continuing to evaluate the effect of this new guidance on CCF's financial statements.

In October 2020, the FASB issued ASU 2020-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This update clarifies

Corporate Credit Facilities LLC

Notes to the Financial Statements

that an entity reevaluate the premium on its callable debt securities for each reporting period. This update is effective for CCF for the year ending December 31, 2021. CCF is continuing to evaluate the effect of this guidance on CCF's financial statements.

(3) FACILITY ASSETS

At December 31, 2020 the maturity distribution of CCF holdings, which are recorded at fair value for cash equivalents, short-term investments and ETFs, and amortized cost for short-term investments in non-marketable securities and corporate bonds in the Statement of Financial Condition, are as follows (in thousands):

| | Within 15 days | 16 days to 90 days | 91 days to 1 year | Over 1 year to 5 years | Non-specified term | Total |
|-----------------------------------------------------|---------------------|-----------------------|----------------------|---------------------------|-----------------------|----------------------|
| Cash equivalents ¹ | \$ 186,617 | \$ 49,999 | \$ - | \$ - | \$ - | \$ 236,616 |
| Short-term investments in non-marketable securities | 31,890,070 | - | - | - | - | 31,890,070 |
| Short-term investments | - | 49,995 | - | - | - | 49,995 |
| ETFs | - | - | - | - | 8,776,258 | 8,776,258 |
| Corporate bonds | 17,286 | 82,287 | 425,052 | 5,015,018 | - | 5,539,643 |
| Total | <u>\$32,093,973</u> | <u>\$ 182,281</u> | <u>\$ 425,052</u> | <u>\$ 5,015,018</u> | <u>\$ 8,776,258</u> | <u>\$ 46,492,582</u> |

¹ Cash equivalents is a component of "Cash and cash equivalents", which is reported in the Statement of Financial Condition.

CCF's cash equivalents, short-term investments, and ETFs are valued on the basis of the last available bid prices or current market quotations provided by pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

The following table presents the financial instruments recorded at fair value as of December 31, 2020 by FASB ASC 820 *Fair Value Measurements & Disclosures* hierarchy (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|---------------------|------------------|-------------|---------------------|
| Cash equivalents ¹ | \$ 186,617 | \$ 49,999 | \$ - | \$ 236,616 |
| Short-term investments | - | 49,995 | - | 49,995 |
| Exchange-traded funds | 8,776,258 | - | - | 8,776,258 |
| Total investments at fair value | <u>\$ 8,962,875</u> | <u>\$ 99,994</u> | <u>\$ -</u> | <u>\$ 9,062,869</u> |

¹ Cash equivalents is a component of "Cash and cash equivalents", which is reported in the Statement of Financial Condition.

The fair value of CCF's holdings is subject to both market and credit risk, arising from movements in variables such as interest rates and credit spreads and the credit quality of the holdings. Based on evaluations performed as of December 31, 2020, there are no credit impairments of CCF's holdings.

Corporate Credit Facilities LLC

Notes to the Financial Statements

The following table presents the amortized cost, unrealized gains (losses), and fair value of CCF's holdings at December 31, 2020, which are reported at fair value in the Statement of Financial Condition (in thousands). Amortized cost is provided as supplemental information.

| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
|------------------------------------|---------------------|---------------------|----------------------|---------------------|
| Cash equivalents ¹ | \$ 236,615 | \$ 1 | \$ - | \$ 236,616 |
| Short-term investments | 49,995 | - | - | 49,995 |
| Exchange-traded funds ² | 8,434,795 | 341,463 | - | 8,776,258 |
| Total | <u>\$ 8,721,405</u> | <u>\$ 341,464</u> | <u>\$ -</u> | <u>\$ 9,062,869</u> |

¹ Cash equivalents is a component of "Cash and cash equivalents", which is reported in the Statement of Financial Condition.

² Original cost for exchange-traded funds.

CCF's corporate bonds are reported at amortized cost in the Statement of Financial Condition and include unamortized premiums of \$308 million and discounts of \$2 million at December 31, 2020. The following table presents the amortized cost, unrealized gains (losses), and fair value of corporate bonds at December 31, 2020 (in thousands). Fair value is provided as supplemental information.

| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
|------------------------------|-------------------|---------------------|----------------------|--------------|
| Corporate bonds ¹ | \$ 5,539,643 | \$ 45,452 | \$ (1,214) | \$ 5,583,881 |

¹ Because corporate bonds are recorded at amortized cost, the change in unrealized gains and losses is not reported in the Statement of Operations.

Due to the short-term nature of short-term investments in non-marketable securities there is no material difference between cost and fair value.

(4) RISK PROFILE

As of December 31, 2020, CCF's portfolio consisted primarily of cash equivalents, short-term investments in non-marketable securities, corporate bonds, and ETFs. CCF's investments contain varying levels of credit, interest rate, general market, and concentration risk. The following is a description of the significant holdings at December 31, 2020 and the associated risk for each holding.

Cash equivalents and short-term investments

As of December 31, 2020, cash equivalents were composed of approximately \$31.9 billion of short-term investments in non-marketable securities, approximately \$187 million of government money market funds investments, and approximately \$50 million of Treasury bills. Interest income earned on the portion of the preferred equity contributions invested in non-marketable securities totaled approximately \$15 million and is reported as a component of "Interest income" in the Statement of Operations. Short-term investments were composed of approximately \$50 million of Treasury bills. The Treasury bills are subject to interest rate risk.

Corporate Credit Facilities LLC

Notes to the Financial Statements

Corporate bonds and ETFs

Credit-related risk on corporate bonds arises from losses due to defaults by corporate borrowers under the bond indentures pursuant to which the corporate bonds are issued. Credit-related risk on ETFs arises from the ETFs holdings of corporate bonds. The rate of defaults on corporate bonds will be affected by a number of factors, including general economic conditions, industry sector conditions, particularly those sectors affected by COVID-19, and the individual financial circumstances of the borrowers. The loss severity on corporate bonds that default is affected by the valuation of assets and business units, the borrower's credit structure, and the outcomes of negotiations and legal proceedings, among other factors. A small portion of bonds are non-investment grade and some ETFs target non-investment grade bonds, which have a heightened risk of default and loss.

The rate of interest payable on corporate bonds is generally fixed at the time of issuance, although a small number of bonds owned by CCF carry a floating rate of interest. Bonds with a fixed rate of interest will be sensitive to changes in interest rates on Treasuries and credit spreads, both of which fluctuate with market and economic conditions. A large portion of CCF's bond holdings were acquired at a premium to their par value; and many have optional redemption features that allow borrowers to redeem bonds earlier than the scheduled maturity at par or a premium that can be fixed or tied to a market rate. Optional redemptions at values below purchase price can generate losses for CCF.

ETFs are typically benchmarked to an index with regular rebalancing that involves purchases of new bond issues, acquisition of existing issues that are underweight in the index, and disposal of issues no longer eligible for the index or overweight in the index. CCF is exposed to uncertainties in the rebalancing process including variations in the purchase and sale prices of bonds acquired or sold by an ETF and changes in the risk profile and composition of ETF bond holdings over time. ETFs do not mature and will require market exit, which is subject to market pricing at the time of exit.

The fair value of any particular corporate bond or ETF is subject to substantial variation. The entire market or particular instruments traded in a market may decline in value, even if borrower profitability, credit structure or other factors improve, because the prices of such instruments are subject to numerous market factors that have little or no correlation to the performance of a particular instrument. Adverse developments in the corporate bond or ETF markets could have a considerable effect on CCF due to its investment concentration in the corporate bond and corporate bond ETF markets.

At December 31, 2020, the ratings breakdown of CCF holdings, which are recorded at fair value for cash equivalents, short-term investments, and ETFs, and amortized cost for short-term investments in non-marketable securities and corporate bonds, was as follows (in thousands):

| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | BB+ and lower | Government/ agency | Not rated | Total |
|-----------------------------------------------------|-----------|------------|--------------|--------------|---------------|-----------------------|--------------|---------------|
| Cash equivalents ¹ | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 236,616 | \$ - | \$ 236,616 |
| Short-term investments in non-marketable securities | - | - | - | - | - | 31,890,070 | - | 31,890,070 |
| Short-term investments | - | - | - | - | - | 49,995 | - | 49,995 |
| ETFs | - | - | - | - | - | - | 8,776,258 | 8,776,258 |
| Corporate bonds | 26,342 | 443,181 | 1,615,492 | 3,230,749 | 223,879 | - | - | 5,539,643 |
| Total | \$ 26,342 | \$ 443,181 | \$ 1,615,492 | \$ 3,230,749 | \$ 223,879 | \$ 32,176,681 | \$ 8,776,258 | \$ 46,492,582 |

¹ Cash equivalents is a component of "Cash and cash equivalents", which is reported in the Statement of Financial Condition. Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

Corporate Credit Facilities LLC

Notes to the Financial Statements

(5) LOANS PAYABLE TO THE FEDERAL RESERVE BANK OF NEW YORK

FRBNY has extended loans to CCF and the loan proceeds financed CCF's purchase of corporate bonds and ETFs under SMCCF. In addition to loans for the purchase of eligible assets, CCF may borrow from FRBNY for temporary liquidity needs.

The assets of CCF are used to secure the loans from FRBNY. These assets include the equity that the Treasury has contributed to CCF to function as credit protection for FRBNY's loans to CCF.

Each loan made by FRBNY to CCF bears interest, accrued daily, at a rate per annum equal to the interest rate on excess reserves ("IOER") in effect on each day. Repayment of the principal and interest on the loans is being made from proceeds of prepayments or payments on maturity of the purchased eligible assets.

CCF's loans payable to FRBNY are reported as "Loans payable to FRBNY" in the Statement of Financial Condition. The related interest payable is reported as "Interest payable" in the Statement of Financial Condition; the amount of interest expense during the period is reported as "Loans interest expense" in the Statement of Operations.

Loans payable to FRBNY as of December 31, 2020 were as follows (in thousands):

| <u>Loan type</u> | <u>Loans payable to FRBNY</u> | <u>Interest payable</u> | <u>Interest rate</u> | <u>Maturity date</u> |
|------------------|-----------------------------------|-------------------------|----------------------|----------------------------------------|
| Funding | \$ 14,137,686 | \$ 6,951 | IOER | September 30, 2025 - December 31, 2025 |

(6) EQUITY CONTRIBUTIONS

As of December 31, 2020, the preferred equity member contributed \$37.5 billion in capital as credit protection to CCF for loans needed to fund purchases of corporate bonds and ETFs, or operations of CCF, and the managing member was deemed to have contributed \$10 in capital.

Preferred equity member contributions are held in cash deposits and non-marketable securities, as mutually agreed upon by the managing member and the preferred equity member and consented to by FRBNY, and are reported as "Members' contributions" in the Statement of Changes in Members' Equity.

(7) DISTRIBUTION OF PROCEEDS

Amounts available for distribution due to interest, fees, payments on investments and other receipts of income are applied on the dates and in the order of priority set forth in the credit agreement between CCF and FRBNY.

At the conclusion of the Facility, when the credit agreement has been terminated and all obligations of CCF repaid, the remaining net assets will be allocated and distributed in accordance with the limited liability company agreement of CCF. That agreement contemplates the distribution upon CCF's liquidation, 1) to Treasury of the preferred equity account balance, inclusive of any investment earnings accrued on those amounts, and 2) 90 percent of the remaining net assets to the preferred equity member and 10 percent of the remaining net assets to the managing member.

Corporate Credit Facilities LLC

Notes to the Financial Statements

The following table presents the allocation of undistributed net operating income to equity members as of December 31, 2020 (in thousands):

| | <u>Managing member</u> | <u>Preferred equity member</u> | <u>Total undistributed net operating income</u> |
|----------------------|------------------------|--------------------------------|-------------------------------------------------|
| Net operating income | \$ 49,813 | \$ 463,385 | \$ 513,198 |

(8) COMMITMENTS AND CONTINGENCIES

CCF agreed to pay the reasonable out-of-pocket costs and expenses of certain service providers incurred in connection with their duties. CCF also generally agreed to indemnify its service providers for certain losses, expenses and other liabilities under the agreements it has with those service providers, subject to customary exceptions such as for losses caused by the service providers' misconduct. These indemnity obligations survive termination of those agreements. As of December 31, 2020, CCF did not have any claims under these indemnities and the risk of loss was deemed remote.

(9) SUBSEQUENT EVENTS

CCF ceased purchasing eligible assets on December 31, 2020. As a result, CCF returned a portion of the Treasury's equity investment in CCF. The return of these funds occurred on January 5, 2021. This interim distribution reduced the Treasury's preferred equity to approximately the maximum risk to FRBNY. The following table presents on a pro forma basis the effect of the interim distribution of capital on members' equity (in thousands):

| | <u>Members' contributed equity</u> |
|-------------------------------------------|------------------------------------|
| Members' contributions, December 31, 2020 | \$ 37,500,000 |
| Return of Treasury equity investment | <u>(23,618,984)</u> |
| Members' contributions, as adjusted | <u>\$ 13,881,016</u> |

Subsequent events were evaluated through March 17, 2021, which is the date that these financial statements were available to be issued.