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South Korea: Corporate Liquidity Support Organization [Externally Reviewed Draft]

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South Korea: Corporate Liquidity Support Organization, Co., Ltd.[1]

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Abstract

The spread of the COVID-19 pandemic in the early months of 2020 strained liquidity in short-term corporate funding markets across the world. In response, the Korean government enacted a number of direct and indirect measures to promote the smooth flow of credit to households and businesses (FSC 2020c). Most of these measures focused on highly rated companies (FSC 2020c). Recognizing the need to extend assistance to lower-rated issuers, the Bank of Korea (BoK) invoked its authority under Article 80 of the *Bank of Korea Act* to establish and fund the Corporate Liquidity Support Organization, Co., Ltd., a special-purpose vehicle (SPV) authorized to purchase up to KRW 10 trillion of corporate bonds, commercial paper (CP), and short-term debt that did not meet the eligibility criteria for other support programs (FSC 2020c). The SPV began purchasing securities on July 14, 2020, accumulating a total of KRW 4.0 trillion worth of corporate bonds and CP by the end of July 2021 (BoK 2021e, vii). Although the SPV was initially scheduled to purchase assets for six months from the date of establishment, the BoK extended the timeframe twice to end December 31, 2021 (BoK 2021d).

Keywords: Short-term funding, corporate bonds, commercial paper, liquidity facility, wholesale funding, asset purchases

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Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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South Korea: Corporate Liquidity Support Organization, Co., Ltd

Summary of Key Terms	
Purpose: "To support low-rated companies facing financing difficulties in the credit securities market by purchasing corporate bonds, commercial paper, and short-term debt, including junk-rated bonds excluded from the Bond Market Stabilization Fund and other government interventions" (BoK 2021c, 58; FSC 2020c, 1; Jung, Lee, and Song 2020, 891).	
Launch Dates:	Authorized: May 20, 2020 (MoEF 2020) Announced: April 22, 2020[3] (FSC 2020b, 2)
Operational Date:	July 14, 2020 [4] (BoK 2020d, 2)
End Date:	July 14, 2024 (BoK 2020e, 48)
Legal Authority:	Article 80 of the *Bank of Korea Act* (BoK 2020e, 48)
Sources of Funding:	Bank of Korea Korea Development Bank (FSC 2020c)
Administration:	Bank of Korea Financial Services Commission Government of Korea (FSC 2020c)
Overall Size:	Initially KRW 10 trillion with the potential to increase to KRW 20 trillion (FSC 2020c)
Purchased Assets	Corporate bonds rated AA to BB; CP rated A1 to A3; short-term debt with maturities up to three years (FSC 2020c)

[3] The Korean government first mentions the creation of the SPV in a press release dated April 22, 2020 (FSC 2020b).

[4] The Korean Development Bank began purchasing corporate bonds on June 10, 2020, to support market functioning while the National Assembly allocated budgetary resources for the SPV (MoEF 2020; Kim 2020).

At a Glance

Peak Utilization:

The spread of COVID-19 in the early months of 2020 threatened financial stability both within and across nations. While corporate funding conditions in financial markets began rapidly deteriorating, aversion to credit risk increased substantially (BoK 2020e, 47). Central banks around the world began to intervene in the corporate bond and commercial paper (CP) markets in order to ensure the supply of credit to households and businesses (BoK 2020e, 47). In South Korea, the credit spread of AA-rated three-year corporate bonds widened from 41.1 basis points (bps) on February 1, 2020 to 77.1 bps on June 12, 2020 (NABO 2020b, 145).

The Bank of Korea (BoK) and government sought to support mid-sized and large corporations whose liquidity stresses might have spilled over to the real economy and affected employment (NABO 2020b, 145). Officials from the BoK, Financial Services Commission (FSC), and government enacted a series of measures to address strains in domestic liquidity, including the Bond Market Stabilization Fund, primary collateralized bond obligations purchases, and a quick bond takeover program to assist with the conversion issue of corporate bonds by the Korea Development Bank (KDB) (BoK 2020e, 47).[5]

As a result of these market interventions, issuance of blue-chip corporate bonds rebounded in April 2020 (FSC 2020c). Still, the market for issuances by lower-rated companies – those with ratings of A or below – remained weak, while the preference for short-term bonds continued to grow (FSC 2020c).

These two factors compelled the Bank of Korea (BoK) to create the Corporate Liquidity Support Organization, Co., Ltd., a special-purpose vehicle (SPV) designed to purchase lower-rated corporate bonds and CP (FSC 2020c). Authorized under Article 80 of *The Bank of Korea Act* and overseen by an Investment Management Committee appointed by the BoK, the SPV began purchasing securities on July 14, 2020, using KRW 10 trillion in funds from the BoK and KDB (BoK 2020e, 47–48). The facility was scheduled to operate for a total of four years from the date of establishment (six months for purchases, three years for holding assets, and six months for resolution), ending on July 14, 2024 (BoK 2020e, 48). Citing volatile market conditions, the BoK extended the purchasing window twice, first to July 13, 2021, and ultimately to December 31, 2021 (BoK 2020g; BoK 2021d). By the end of July 2021, the SPV had purchased KRW 4.0 trillion worth of corporate bonds and CP (BoK 2021e, vii).

Summary Evaluation

As is the case with most COVID-related market interventions, little has been written on the impact of the SPV in isolation. The BoK credited the narrowing of corporate bond spreads

[5] Please see Key Design Decision 1: Purpose/Part of a Package and Appendix A for further information on the Korean government's market liquidity interventions.

after July 2020 to its market stabilization measures, noting that by the end of 2020, spreads had rapidly narrowed for both premium bonds (AA-) and non-premium bonds (A-)[6] (BoK 2021a, 31). The recovery in the bond market after November, 2020, the BoK reported, was due in part to the development and distribution of vaccines to high-income countries, as well as to the support the SPV had provided to the subprime bond market (BoK 2021a, 31). The NABO also singled out the SPV's operations when describing the impact of various measures, noting with concern that it was the only program designed to support lower-rated corporate bonds and CP through passive purchases (NABO 2020b, 151). This approach could have made it difficult for companies to raise short-term funds, leading to solvency concerns for those that were already rated poorly (NABO 2020b, 151). The NABO also pointed out that the SPV was completely government-funded, unlike other programs, and that it should consider ways to support corporate bonds rated BBB or below (NABO 2020b, 151). Conversely, the NABO also cautioned that providing financial support to lower-rated companies with "no possibility of business normalization after COVID-19" might also lead to overwhelming pressures on the national budget (NABO 2020b, 152).

[6] Based on Korean Financial Investment Association (KOFIA) ratings.

Corporate Liquidity Support Organization, Co., Ltd.: South Korea Context	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$ in 2019 $ in 2020
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$ in 2019 Data not available for 2020
Sovereign credit rating (5-year senior debt)	Data for 2019: Moody's: S&P: Fitch: Data for 2020: Moody's: S&P: Fitch:
Size of banking system	in 2019 in 2020
Size of banking system as a percentage of GDP	% in 2019 % in 2020
Size of banking system as a percentage of financial system	
5-bank concentration of banking system	
Foreign involvement in banking system	
Government ownership of banking system	
Existence of deposit insurance	Yes in 2019 Yes in 2020
Sources: *Bloomberg; FRED; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset*	

Key Design Decisions

1. **Purpose/Part of a Package: Korean officials established the Corporate Liquidity Support Organization, Co., Ltd. ('the SPV') to support lower-rated bonds among a package of measures that mostly focused on higher-rated bonds.**

In response to the rapid contraction of financial markets at the onset of COVID-19 in early March 2020, the Korean government enacted a series of stabilization measures (NABO 2020a, 145). These interventions included a bond market stabilization fund (BMSF) (KRW 20 trillion), a stock market stabilization fund (KRW 10.7 trillion), the Corporate Bond-Backed Lending Facility (CBBLF) (KRW 10 trillion), and support for the issuance of primary collateralized bond obligations (KRW 6.7 trillion) and corporate bonds (KRW 4.1 trillion) (FSC 2020a; BoK 2020b; FSC 2020c).[7] In addition, the government announced that it would directly support market financing by providing KRW 5 trillion in liquidity for securities companies, consisting of KRW 2.5 trillion for stock finance loans and KRW 2.5 trillion through repo market financing by the BoK, as well as KRW 2 trillion in refinancing support from the KDB[8] and Korea Guarantee Fund (KODIT) for corporate commercial paper and electronic short-term bonds (FSC 2020a).

The Financial Services Commission (FSC) reported in a May 20, 2020, press release that these programs had together improved market conditions and that the total amount of blue-chip corporate bonds had "rebounded" in April (FSC 2020c).

Despite the recovery in the market for higher-rated corporate bonds, however, the market for those rated A or lower remained weak (FSC 2020c). This compelled the government to create a special-purpose vehicle (SPV) to purchase lower-rated corporate bonds and commercial paper (CP) (FSC 2020c). The asset purchase program complemented other market liquidity interventions by assisting lower-rated issuers who were excluded from participation in the BMSF and other financial support programs (Jung, Lee, and Song 2020, 891). The BoK further emphasized that its loans to the SPV were not meant to directly support "specific or insolvent companies, but to "ease credit risk aversion toward non-prime bonds and to ensure stability in the credit and securities markets" (BoK 2020d).

2. **Legal Authority: The BoK invoked its authority under Article 80 ("Credit to For-profit Enterprises") of the *Bank of Korea Act* in establishing and funding the program.**

Article 79 ("Restrictions on transactions with the public") of the *Bank of Korea Act* normally forbids the central bank from making loans to, or purchasing the obligations of, juridical

[7] For more information, please see Appendix A.

[8] Founded in 1954, the state-owned KDB is a policy bank that supports key public financing operations and serves as a link between the government and the private sector.

persons or individuals other than banking institutions (BoK 2020e, 47). However, Article 80 ("Credit to For-profit Enterprises") stipulates that, "when severe impediments arise to obtaining funds from financial institutions or when there is a strong likelihood of their arising," the BoK may supply credit to any for-profit enterprise such as an SPV (BoK 2020e, 47; BoK 1950).

The Monetary Policy Committee offered two motives to support its decision (BoK 2020e, 47). First, despite gradual signs of improvement in the prime corporate bond and CP markets, it determined that companies with low credit ratings needed further assistance to reactivate the subprime bond market (BoK 2020e, 47). Second, the Committee did not expect that domestic banks would be able to meet corporate funding demands given growing corporate credit risks related to the pandemic (BoK 2020e, 47).

3. **Administration: The BoK created a five-member Investment Management Committee to advise the program.**

The Investment Management Committee's five members included the KDB vice chairman, one private sector expert nominated by the KDB (with approval from other institutions), and one nomination each by the Ministry of Economy and Finance, the Financial Services Commission, and the Bank of Korea (BoK 2020e, 48).

The Investment Management Committee oversaw the SPV's daily operations. It was also responsible for establishing investment guidelines and monitoring market conditions to decide whether to increase the availability of the fund (up to KRW 20 trillion) or extend its purchasing operations beyond the initial six months (FSC 2020c).

The Board of the SPV, a separate body, was charged with making investment decisions (BoK 2020e, 48).

4. **Use of SPV: The BoK, together with the government and the KDB, designed the program to operate as a subsidiary of the KDB.**

In a press release dated May 20, 2020, the FSC announced that the KDB would begin purchasing low-rated corporate bonds and CP prior to the creation of the SPV in order to "expedite the provision of support…if deemed necessary" (FSC 2020c).

The KDB began pre-purchasing corporate bonds on June 10, 2020, to support market functioning while the National Assembly allocated budgetary resources for the SPV (MoEF 2020; Kim 2020).

5. **Governance: The BoK was heavily involved in monitoring the activities and progress of the SPV over the course of its operations.**

In a press release dated July 17, 2020, the BoK's Monetary Policy Committee outlined circumstances under which it would conduct an investigation into the SPV's activities (BoK

2020d). Article 80 of the *Bank of Korea Act*, referencing paragraphs 3 and 4 of Article 65, stipulates that the BoK may, "when it deems necessary, check and confirm the operations and status of the assets of a banking institution in connection with its extension of credit," and that the BoK "shall hear the opinions of the Government before making decisions on emergency credit" (BoK 1950, 20; BoK 2020d). Because the SPV held short-term debt on behalf of the central bank, the BoK took active steps to evaluate asset and portfolio risk (BoK 2020d). It was particularly concerned with the possibility of issuer default, stating that "in the event of delinquency of principal or interest" or "commencement of rehabilitation procedures," the BoK should be "notified immediately" (BoK 2020d). The SPV would also have to comply with any BoK requests for data or other information about its operations (BoK 2020d).

The BoK also worked to ensure that the SPV minimized losses. For example, if the SPV's asset holdings were reduced through repayment or sale, the SPV would repay the BoK loans immediately, regardless of maturity date (BoK 2020d). In general, the BoK expected the SPV to make "every effort" to repay the BoK loans as soon as possible (BoK 2020d). If, at any point, losses were expected over the course of the SPV's operation, the BoK would intervene to decide whether to continue to the program (BoK 2020d). Adhering to Article 80, paragraph 3, of the *Bank of Korea Act*, the BoK also reserved the right to assess the risks associated with individual corporate bonds and CP (BoK 2020e, 49).

In addition to SPV-specific regulations, the BoK adhered to Articles 101 and 102 of the *Bank of Korea Act* requiring the publication of balance sheets on a monthly basis and annual reports (BoK 1950, 31). Article 96 of the *Bank of Korea Act* also required the BoK to prepare assessment reports on "progress in implementing monetary and credit policies and macro-financial stability conditions" (BoK 1950). These were delivered on a semiannual basis to the National Assembly, which could then summon the Governor of the BoK for questioning (BoK 1950).

6. **Communication: In its press releases, the BoK highlighted the importance of its interventions as market stabilizers in a time of severe crisis.**

The BoK initially emphasized that it established the SPV to assist lower-rated companies that were having trouble accessing financing due to the lack of liquidity in short-term funding markets (BoK 2021c, 58; FSC 2020c, 1; Jung, Lee, and Song 2020, 891). In subsequent press releases announcing changes to the program, the central bank cited improved market conditions as the rationale for scaling back purchases or rebalancing the proportion of eligible assets added to its portfolio (BoK 2020f; BoK 2020g; BoK 2021d).

In general, recognizing the need for transparency during a time of crisis, the BoK began to make a concerted effort to improve upon the quality and frequency of its public communications (BoK 2021a, 108). It created a special menu subsection on its website, entitled "Policy Responses to COVID-19," livestreamed press conferences on monetary policy decisions, and released details on its extraordinary operations via press releases and quarterly Monetary Policy Reports (BoK 2021a, 109–10).

7. **Size: The BoK initially set a maximum facility size of KRW 10 trillion, with the possibility of increasing it to KRW 20 trillion.**

In a joint press release on May 20, 2020, the FSC stated on behalf of the BoK and KDB that future funding decisions would be made by the SPV's operating committee (FSC 2020c).

By the end of 2020, the volume of corporate bonds and CP purchased by the SPV had reached 2.5 trillion won (BoK 2021a, 49). As of end-July 2021, the SPV had purchased KRW 4.0 trillion worth of corporate bonds and CP (BoK 2021e, vii).

Each corporation, or group of corporations,[9] issuing debt to the SPV was subject to a purchasing limit of 2% to 3% of the total amount of support (i.e., initially KRW 10 trillion) (FSC 2020c).

8. **Source of Funding: The BoK committed to lend up to KRW 8 trillion, with the KDB providing up to KRW 2 trillion in subordinated loans and equity capital.**

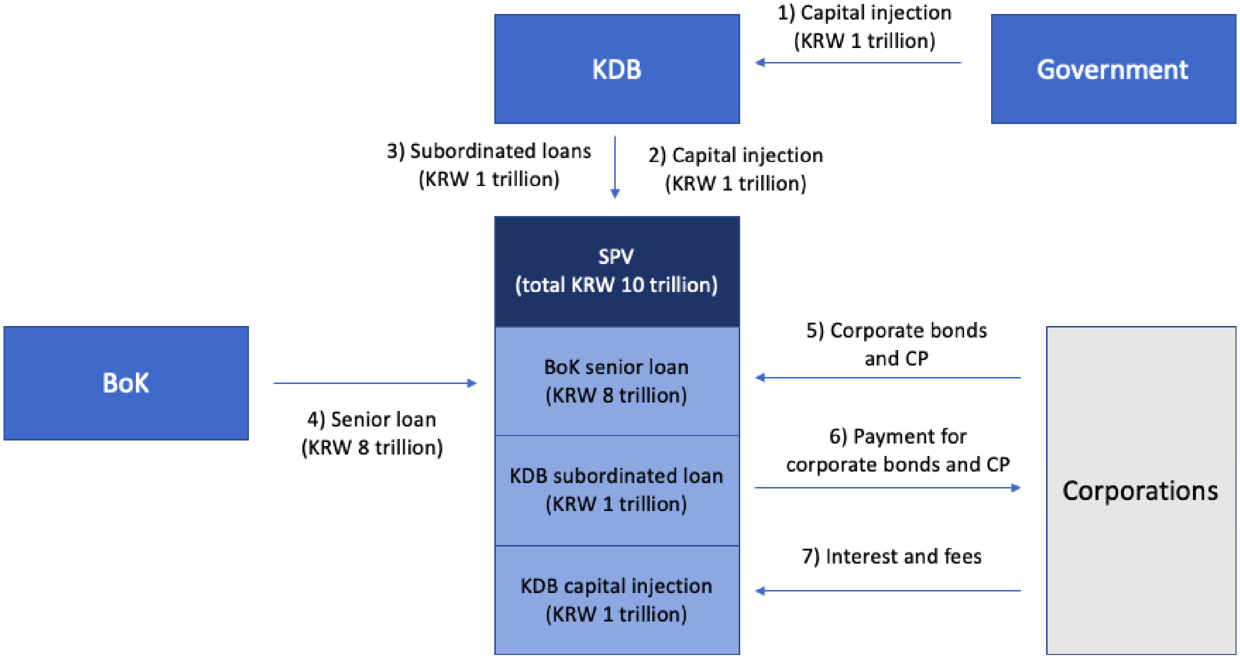
In a press release dated May 20, 2020, the FSC stated that the SPV would be established once the National Assembly passed the third supplementary budget containing a provision for a KRW 500 billion investment in the KDB (FSC 2020c). The KDB would then provide the SPV with up to KRW 1 trillion (10%) in subordinated loans and KRW 1 trillion (10%) in equity capital, while the BoK committed to issuing KRW 8 trillion (80%) in senior loans (FSC 2020c).

The purpose of the government's involvement (through the KDB) was to absorb risks, while the BoK provided liquidity and the KDB established and managed the SPV (MoEF 2020). There were no loss-sharing agreements between the government and the BoK (MoEF 2020).

Figure 1 illustrates the flow of funds from various government entities to corporations.

[9] The Fair Trade Commission designates certain groups of companies as restricted groups for mutual investment (BoK 2020d).

Figure 1: SPV Financing Structure



Source: (BoK 2020c, 2)

The BoK's loans to the SPV earned an interest rate obtained by adding the BoK base rate to the average five-day spread of one-year Monetary Stabilization Bonds (MSB)[10] to the BoK base rate (BoK 2020d). The SPV paid interest every three months (BoK 2020d). The loans had a maturity of one year and were collateralized by all assets of the SPV (BoK 2020d). Upon receiving the loan, the SPV issued a bill to the BoK in order to fund the purchases of corporate bonds and CP (BoK 2020d). The initial loan execution deadline was set six months from the SPV's date of establishment (July 14, 2020) (BoK 2020d). The creditors of the SPV expected repayment in one lump-sum at the time of maturity, although early repayment was also allowed (BoK 2020d).

The SPV started with KRW 3 trillion in its first round of funding on July 23, 2020. That total included KRW 1 trillion in equity capital from KDB, an initial senior loan of KRW 1.78 trillion from the BoK, and an initial subordinated loan of KRW 0.22 trillion from KDB (MoEF 2020). The BoK planned to disburse the rest of its committed loans through four separate capital calls (BoK 2021a, 49).

Of the initial KRW 3 trillion, KRW 2.5 trillion (82.4%) had been exhausted by December 24, 2020 (BoK 2020g). The SPV raised KRW 2 trillion in a second capital call on January 12, 2021, including another KRW 1.78 trillion in senior loans from the BoK (BoK 2021c, 58) and KRW

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[10] This is calculated based on the average of four private bond rating agencies (KIS Bond Rating, Korea Asset Rating, NISPI, and F&I (BoK 2020d).

0.22 trillion in subordinated loans from KDB (BoK 2021b, vi). By the end of January 2021, the SPV had spent the entire KRW 5 trillion from the two capital calls (BoK 2021b, vi).

After the second capital call, the BoK determined that conditions in the corporate bond and CP markets had stabilized. It announced it would no longer make new loans to the SPV and would keep the loan execution deadline at July 13, 2021 (BoK 2021d). The SPV could have re-loaned funds that borrowers had already repaid from the initial round of loans, but ultimately did not do so (BoK 2021d).

9. **Eligible Institutions: The SPV targeted lower-rated companies who were not eligible for participation in other BoK programs.**

Because domestic financial institutions had access to other sources of funding and operated according to their own risk management frameworks, the BoK excluded them from eligibility (BoK 2020e, 48).

Companies that had had an interest coverage ratio of 100% or less for two consecutive years (pre-COVID-19) were excluded from participation (BoK 2020d).

10. **Auction or Standing Facility: The SPV was designed as a standing facility to which participants could issue eligible assets at any time during operation.**

The SPV carried out purchasing operations as funding from capital calls became available (FSC 2020c).

11. **Loan or Purchase: The BoK and KDB funded an SPV with loans that were then used to purchase eligible assets on behalf of the BoK.**

The program allowed lower-rated companies to issue corporate bonds, CP, and short-term debt to the publicly funded facility (BoK 2020d).

12. **Eligible Assets: The SPV mainly purchased corporate bonds, short-term electronic bonds, and CP issued by non-financial institutions, while also purchasing short-term debt.**

The SPV accepted short-term debt with maturities of up to three years (FSC 2020c). The BoK required issuers to be investment grade (rated at least BBB) before April 22, 2020, focusing mostly on A-rated bonds. However, it also committed to lend to “fallen angels,” that is, issuers whose credit ratings were downgraded to junk status (BB) after April 22, 2020, because of the Covid-19 crisis (BoK 2020d). The SPV also accepted CP issued by corporations rated A1 to A3 (FSC 2020c).

The BoK instituted portfolio allocation targets by credit rating. It said in a July 17, 2020, press release that the proportion of holdings “should not deviate significantly” from the following: “30% or more of AA grade (including A1 grade), 55% of grade A (including A2 grade), and 15% or less of BBB grade or lower (including A3 grade)” (BoK 2020d). The central bank sought to balance the SPV’s holdings by selling debt in accordance with these guidelines after six months of the facility’s establishment (BoK 2020d).

Citing both improved conditions in the corporate bond market and the need to better support CP issuance, the BoK announced on December 24, 2020, that it would rebalance its allocations (BoK 2020g). It reduced the proportion of premium bond (AA) purchases from 30% to 25% while expanding the share of non-premium bonds (A to junk) from 70% to 75% (BoK 2020g).

13. **Purchase Price: The BoK imposed a purchase price slightly higher than market prices in order to encourage businesses to seek funding on the capital markets.**

According to the FSC, this pricing scheme was intended to “encourage” business to raise funding on the capital markets (FSC 2020c).

14. **Fees: It appears that the BoK did not charge eligible issuers any fees for accessing the SPV.**

Sources consulted did not describe any administrative or participation fees.

15. **Other Restrictions on Eligible Participants: The government encouraged minimum employment thresholds for middle-market enterprises and large corporations issuing debt to the SPV.**

In its initial press release announcing the establishment of the SPV on May 20, 2020, the FSC stated that the government would promote “a certain level of employment for a specific period of time” if the number of entities issuing to the SPV exceeded a particular threshold (FSC 2020b). Subsequent press releases and other sources consulted did not specify whether this was a formal stipulation that had ever been imposed during the SPV’s operations.

16. **End Date of the Program: Although the SPV was initially designed to conduct purchases for six months, its operations were extended twice to terminate on December 31, 2021.**

The facility was originally scheduled to operate for a total of four years from its date of establishment: six months for purchases, three years for holding assets, and six months for resolution (BoK 2020e, 48).

The initial press release dated April 22, 2020, announced that the SPV would conduct purchases for six months from the date of establishment on July 14, 2020, “with the possibility of extension based on market conditions” (FSC 2020c).

On December 24, 2020, the BoK, the government, and the KDB jointly decided to prolong the purchasing timeframe by six months, to July 13, 2021, while also expanding the share of subprime bond purchases (see KDD 12) (BoK 2021b, vi). In announcing the extension, the BoK cited its intention to continue supporting low-rated companies "facing difficulties from the prolonged COVID-19 pandemic" (BoK 2021b, vi).

On June 30, 2021, the BoK announced that it had again extended SPV purchasing operations, this time until December 31, 2021 (BoK 2021d). However, the central bank did not extend the duration of a new loan provision to the SPV beyond July 13, 2021, citing improved market conditions and the belief that the SPV would be sufficiently funded through the end of the year (BoK 2021d).

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Appendix A: Korean Government Interventions to Support Short-Term Funding Markets during COVID-19

Bond Market Stabilization Fund (BMSF)

On March 24, 2020, the FSC announced plans to revive the BMSF to supplement market demand for corporate bonds and CP issued by blue-chip companies (BoK/FSC 2020, 7). The facility, which had initially been designed during the Global Financial Crisis (GFC), began purchasing assets on April 1, 2020 (BoK/FSC 2020, 7). Unlike the wholly government-backed

SPV for lower-rated companies, the BMSF sourced its funding through the KDB and capital calls from 84 financial institutions (i.e., banks, securities companies, and insurance corporations) (Jung, Lee, and Song 2020, 890). The government initially allocated KRW 10 trillion to the Fund, with the possibility of expanding the capital base to KRW 20 trillion if market conditions warranted (FSC 2020a). Eligible assets were limited to prime (at least AA) corporate bonds or prime CP (at least A1), but some exceptions were made for subprime corporate bonds rated up to A+ issued by credit-specialized financial companies and 'fallen angels' affected by the COVID-19 crisis (BoK 2020e, 49). The BMSF did not purchase non-investment grade assets (BoK 2020e, 49). Because of its limited purchasing scope, market participants did not consider the program to have been very impactful, providing only KRW 1.95 trillion in its first two months of operation (Yoon 2020; NABO 2020b, 150).

Stock Market Stabilization Fund (SMSF)

The FSC announced in the same March 24, 2020, press release plans for the establishment of a KRW 10.7 trillion Stock Market (or 'Securities Market') Stabilization Fund (SMSF) backed voluntarily by five major financial holding companies, 18 "leading" financial companies in each industry, and four securities institutions (such as the Korea Exchange) (FSC 2020a; BoK/FSC 2020, 10; Jung, Lee, and Song 2020, 891). Contributions to the SMSF, raised through capital calls beginning in April 2020, were then invested in the KOPSI 200 index (FSC 2020a). Participating corporations received regulatory relief in order to reduce the risk of investment loss (BoK/FSC 2020, 10).

Corporate Bond-Backed Lending Facility (CBBLF)

Invoking its authority under Articles 64 ("Credit Operations with Banking institutions") and 80 ("Credit to For-Profit Enterprises") of the *Bank of Korea Act*, the BoK announced on April 16, 2020, that it would begin making loans to financial institutions through an SPV (BoK 2020b). The BoK stated in its initial press release that the measure was "expected to contribute to stabilizing the corporate bond market," and "[alleviate] market anxiety by setting up a standing lending facility" (BoK 2020b). Although the BoK initially allocated KRW 10 trillion to the CBBLF and set operations to expire three months from the date of establishment, it reserved the right to increase the amount of lending or extend the timeframe based on market conditions (BoK 2020b). Eligible institutions included 16 banks and 23 branches of foreign banks, securities companies,[11] and six insurance companies that had previously signed agreements for current account transactions with the BoK and that had equity capital of at least KRW 3 trillion (BoK 2020b). The facility provided loans with terms of up to six months to eligible institutions in exchange for high-quality corporate bonds (rated at least AA-) with at least five years of maturity remaining (BoK 2020b). Borrowers could receive up to 25% of their equity capital in loans from the CBBLF, paying a constant interest rate equal 85 bps over the yield on Korean Monetary Stabilization Bonds (182 days) (BoK 2020b). Given the persistent volatility in financial markets throughout

[11] This group included the Korea Securities Finance Corp. and 15 securities companies that were either primary dealers or counterparties eligible for outright transactions or RP transactions (BoK 2020b).

2020, the BoK decided to extend the CBBLF's operations twice (BoK 2020e, 39). It ultimately ended the program on on February 3, 2021, citing stabilized financial markets, improved liquidity conditions for financial institutions, and the existence of the SPV for lower-rated corporate bond and CP purchases (BoK 2020a, vi).

Outright purchases of Treasury bonds

The BoK decided to carry out direct purchases of Treasury bonds to stabilize the market and preemptively address the potential imbalance in supply and demand as regular sources of short-term corporate funding dried up (BoK 2020f). Purchases were conducted around the end of the month by competitive bid with multiple interest rates; the size of the purchase was announced one business day ahead of the auction (BoK 2020f). The total amount of outright purchases conducted by the BoK over the course of 2020 reached KRW 11 million, with the final purchase conducted on November 27, 2020 (BoK 2021b, vi). While the central bank began in March 2020 by purchasing mostly benchmark bonds, its focus shifted to non-benchmark bonds with low transaction volume in April as market conditions stabilized (BoK 2020e, 39). The BoK focused particularly during the summer of 2020 on enhancing primary dealers' ability to underwrite Treasury bonds (BoK 2020e, 39).