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South Korea: Corporate Liquidity Support Organization[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 around the world. In response, the Korean government enacted a variety of direct and indirect measures to promote the smooth flow of credit to households and businesses. Most of these measures focused on highly rated companies. 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 10 trillion Korean won (KRW) (USD 8.3 billion) of corporate bonds, commercial paper (CP), and short-term bonds that did not meet the eligibility criteria for other support programs. 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. 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 on December 31, 2021.

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

[1]This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering market support programs in response to COVID-19. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

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. Central banks around the world began to intervene in the corporate bond and commercial paper (CP) markets to ensure the supply of credit to households and businesses. 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 2020a).

The Bank of Korea (BoK) and the Korean government sought to support mid-sized and large corporations whose liquidity stresses might have spilled over to the real economy and affected employment (NABO 2020a). Officials from the BoK, the Financial Services Commission (FSC), and the 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).[5]

As a result of these market interventions, issuance of blue-chip corporate bonds rebounded in April 2020. Still, the market

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 bonds, including junk-rated bonds excluded from the Bond Market Stabilization Fund and other government interventions.

Launch dates	Announced: April 22, 2020[3] Authorized: May 20, 2020
Operational Date	July 14, 2020[4]
End Date	July 14, 2024
Legal Authority	Article 80 of the Bank of Korea Act
Source of Funding	Bank of Korea Korea Development Bank
Administrators	Bank of Korea Financial Services Commission Government of Korea
Overall Size	Initially KRW 10 trillion with the potential to increase to KRW 20 trillion
Purchased Assets	Corporate bonds rated AA to BB; CP rated A1 to A3; short-term bonds with maturities up to three years
Peak Utilization	KRW 4.5 trillion as of end-December 2021

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

[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).

[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.

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 2020d).

These two factors compelled the Bank of Korea to create the Corporate Liquidity Support Organization, Co., Ltd., a special-purpose vehicle (SPV) designed to purchase lower-rated corporate bonds and CP. 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 (USD 8.3 billion)[6] in funds from the BoK and KDB. 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. Citing volatile market conditions, the BoK extended the purchasing window twice, first to July 13, 2021, and ultimately to December 31, 2021 (BoK 2020e; BoK 2021a). By the end of July 2021, the SPV had purchased KRW 4.0 trillion worth of corporate bonds and CP (BoK 2021g).

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 after July 2020 to its market stabilization measures, noting that by the end of 2020, spreads had rapidly narrowed for both premium bonds (AAA through AA+, or A1) and non-premium bonds (A through BBB, or A2/A3)[7]. 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 2021b).

The National Assembly Budget Office (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. 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. 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. 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 2020a).

[6] Per Yahoo Finance, USD 1 = KRW 1,200 on March 2, 2020.

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

Context: South Korea 2019–2020	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$1.6 trillion in 2019 $1.6 trillion in 2020
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$31,937 in 2019 $31,631 in 2020
Sovereign credit rating (five-year senior debt)	Data for 2019: Moody's: Aa2 S&P: AA Fitch: AA- Data for 2020: Moody's: Aa2 S&P: AA Fitch: AA-
Size of banking system	$2.6 trillion in 2019 $2.9 trillion in 2020
Size of banking system as a percentage of GDP	159.6% in 2019 174.3% in 2020
Size of banking system as a percentage of financial system	Data not available for 2019 Data not available for 2020
Five-bank concentration of banking system	Data not available for 2019 Data not available for 2020
Foreign involvement in banking system	Data not available for 2019 Data not available for 2020
Government ownership of banking system	Data not available for 2019 Data not available for 2020
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: 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.**

Despite the recovery in the market for higher-rated corporate bonds, the market for those rated A or lower remained weak. This compelled the government to create a special-purpose vehicle (SPV) to purchase lower-rated corporate bonds and commercial paper (CP) (FSC 2020d). The asset purchase program complemented other market liquidity interventions by assisting lower-rated issuers that were excluded from participation in the bond market stabilization fund (BMSF) and other financial support programs. 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-premium bonds and to ensure stability in the credit and securities markets" (BoK 2020c).

2. **Part of a Package: The Korean government established a variety of liquidity support programs to stabilize financial markets at the outset of COVID-19.**

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. These interventions included a 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).[8] 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[9] and Korea Guarantee Fund (KODIT) for corporate commercial paper and electronic short-term bonds.

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 2020d).

3. **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,

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[8] For more information, please see the Appendix.

[9] 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.

juridical persons or individuals other than banking institutions. 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 2020j, 47; BoK 1950).

The Monetary Policy Committee offered two motives to support its decision. First, despite gradual signs of improvement in the premium corporate bond and CP markets, it determined that companies with low credit ratings needed further assistance to reactivate the non-premium bond market. 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 2020j).

4. 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. 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). Because the SPV held short-term debt on behalf of the central bank, the BoK took active steps to evaluate asset and portfolio risk. 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 2020c). The SPV would also have to comply with any BoK requests for data or other information about its operations.

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. In general, the BoK expected the SPV to make "every effort" to repay the BoK loans as soon as possible (BoK 2020c). If, at any point, losses were expected over the course of the SPV's operation, the BoK would intervene to decide whether to continue the program. However, although the SPV was expected to minimize losses and discuss its operational direction with the BoK, the BoK would not discontinue the program if losses were to occur above a certain amount (Kwon 2022). 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.

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.

5. **Administration: An initial operating committee composed of officials from the government, BoK, and KDB was responsible for the design and establishment of the SPV. Additionally, the BoK created a Board of Directors and Investment Management Committee to advise the program.**

The Board of the SPV was charged with making investment decisions. It was composed of three directors and was charged with management-related matters, such as approving the facility's budget, overseeing changes to the articles of incorporation, and capital or redemption issues (Kwon 2022).

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 BoK. As a complement to the Board's oversight, 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 2020d).

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 because of the lack of liquidity in short-term funding markets. 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 2020d; BoK 2020e; BoK 2021a).

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. 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 2021b).

7. **Disclosure: The BoK regularly reported on the SPV's operations in its annual reports, while the National Assembly Budget Office provided additional information and analysis to the public.**

The BoK adhered to Articles 101 and 102 of the Bank of Korea Act, requiring the publication of balance sheets on a monthly basis, monetary policy reports, and annual reports. These included information on BoK's share of the total loan to the SPV, while program usage was periodically published in public press releases. The National Assembly Budget Office occasionally published reports on the BoK's activities as well as press releases informing the public about operational updates.

8. Use of SPV: Because Article 79 of the Bank of Korea Act restricted the central bank's ability to purchase corporate bonds and CP directly, the Korean government created an SPV 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 2020d).

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 (Kim 2020; MoEF 2020).

9. 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 initial operating committee, comprising officials from the government, BoK, and KDB (FSC 2020d; Kwon 2022).

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

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

10. Source of Funding: The BoK committed to lending 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. 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 up to KRW 8 trillion (80%) in senior loans.

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.

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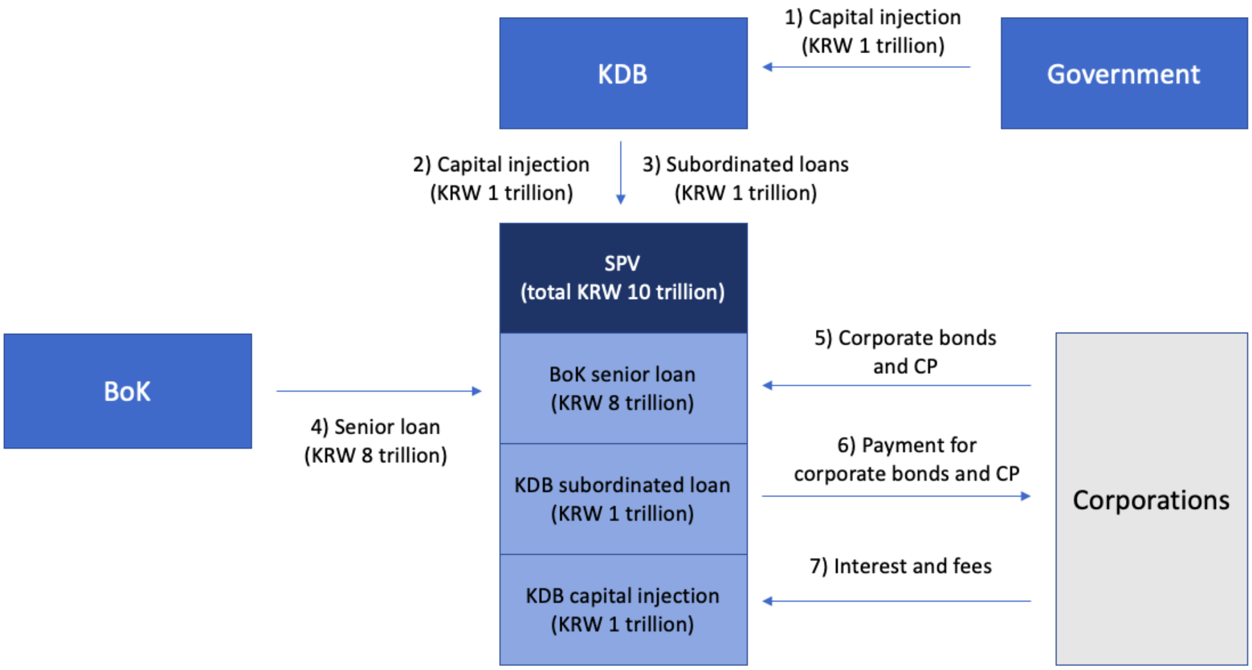
[10] The Fair Trade Commission designates certain groups of companies as restricted groups for mutual investment (BoK 2020c).

Figure 1: SPV Financing Structure



Source: BoK 2020b, 2.

The BoK's loans to the SPV earned an interest rate obtained by adding the average five-day spread of one-year Monetary Stabilization Bonds (MSB)[11] to the BoK base rate. The SPV paid interest every three months. The loans had a maturity of one year and were collateralized by all assets of the SPV. Upon receiving the loan, the SPV issued a bill to the BoK in order to fund the purchases of corporate bonds and CP. The initial loan execution deadline was set six months from the SPV's date of establishment (July 14, 2020). The creditors of the SPV expected repayment in one lump sum at the time of maturity, although early repayment was also allowed (BoK 2020c).

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 2021b).

Of the initial KRW 3 trillion, KRW 2.5 trillion (82.4%) had been exhausted by December 24, 2020. 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 and KRW 0.22 trillion in

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

subordinated loans from KDB. By the end of January 2021, the SPV had purchased KRW 2.5 trillion worth of corporate bonds and CP (BoK 2021c).

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 set to July 13, 2021. The SPV could have re-loaned funds that borrowers had already repaid from the initial round of loans, but ultimately it did not do so (BoK 2021a).

11. Eligible Institutions: The SPV targeted lower-rated companies that 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 2020j). Companies that had had an interest coverage ratio of 100% or less for two consecutive years (pre-COVID-19) were also barred from participation (BoK 2020c).

International companies were not eligible for participation in the program (Kwon 2022).

12. 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.

13. 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 bonds to the publicly funded facility.

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

The SPV accepted short-term bonds with maturities of up to three years.[12] 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. Ratings were based on those provided by domestic Korean rating agencies (Kwon 2022). The SPV also accepted CP issued by corporations rated A1 to A3.

[12] Short-term bonds, as defined by the Capital Markets Act, were essentially the same as CP but were issued and distributed electronically according to standardized procedure to increase market transparency and investor protection. They were formerly referred to as "electronic short-term bonds" (Kwon 2022).

The BoK instituted portfolio allocation targets by credit rating. It announced 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 2020c). 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.

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. 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 2020e).

The BoK ultimately never ended up purchasing short-term bonds (Kwon 2022).

15. Purchase Price: The BoK imposed purchase prices at discount rates that were slightly higher than market rates in order to encourage businesses to seek funding on the capital markets.

The BoK privately determined purchase prices by adding penalty spreads to market rates depending on the credit ratings of the assets (Kwon 2022). According to the FSC, this pricing scheme was intended to "encourage" business to raise funding on the capital markets (FSC 2020d).

16. Haircuts: This Key Design Decision does not apply to asset purchase programs.

Haircuts apply only to programs that involve lending to counterparties.

17. Interest Rates: This Key Design Decision does not apply to asset purchase programs.

Interest rates apply only to programs that involve lending to counterparties.

18. Fees: The BoK did not charge eligible issuers any fees for accessing the SPV.

Sources consulted did not describe any administrative or participation fees.

19. Term/Repayment: This Key Design Decision does not apply to asset purchase programs.

This refers to the loan maturity and applies only to programs that involve lending to counterparties.

20. 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 April 22, 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 2020c). 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.

21. Regulatory Relief: Eligible issuers did not receive regulatory relief for participating in the program.

Participation in the program did not entitle eligible issuers to regulatory relief.

22. International Coordination: The BoK did not coordinate with any international jurisdictions to establish or operate the SPV.

The SPV was a domestic program that did not necessitate international coordination.

23. Duration: 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.

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 2020d).

On December 24, 2020, the BoK, the government, and the KDB jointly decided to lengthen the purchasing timeframe by six months, to July 13, 2021, while also expanding the share of non-premium bond purchases. In announcing the extension, which also prolonged the holding and resolution timeline, the BoK cited its intention to continue supporting low-rated companies “facing difficulties from the prolonged COVID-19 pandemic” (BoK 2021c, vi).

On June 30, 2021, the BoK announced that it had again extended SPV purchasing operations, this time until December 31, 2021. 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 2021a).

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Appendix

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 and FSC 2020, 7). The facility, which had initially been designed during the Global Financial Crisis (GFC), began purchasing assets on April 1, 2020 (BoK and 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 2020j, 49). The BMSF did not purchase non-investment-grade assets (BoK 2020j, 49). Because of the BMSF's 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 2020a, 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 and 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 and 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 2020a). 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 2020a). 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 2020a). Eligible institutions included 16 banks and 23 branches of foreign banks, securities companies,[13] 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 2020a). 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 2020a). Borrowers could receive up to 25% of their equity capital in loans from the CBBLF, paying a constant interest rate equal to 85 bps over the yield on Korean Monetary Stabilization Bonds (182 days) (BoK 2020a). Given the persistent volatility in financial markets throughout 2020, the BoK decided to extend the CBBLF's operations twice (BoK 2020j, 39). It ultimately ended the program 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 2020f, 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 2020d). 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 2020d). 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 2021c, 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 2020j, 39). During the summer of 2020, the BoK focused particularly on enhancing primary dealers' ability to underwrite Treasury bonds (BoK 2020j, 39).

[13] 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 2020a).