Financial Services Commission

Press Release

May 6, 2021

ADJUSTMENTS MADE TO THE CORPORATE BOND AND CP PURCHASE PROGRAM FOR LOW-RATED COMPANIES

The FSC and the state-backed financial institutions announced that they will bolster support for low-rated companies through the pandemic-related support measures already put in place last year, which include a special purpose vehicle (SPV) aimed at purchasing low-rated corporate bonds and CP, primary collateralized bond obligations (P-CBOs) and the corporate bond and CP refinancing support program.

In response to the spread of market anxieties in the wake of the COVID-19 pandemic, the government launched the corporate bond and CP market support programs covering businesses with credit ratings ranging from AA or above to A to BB. As a result, the corporate bond and CP markets have been stable thus far. However, there have been rising concerns about credit downgrades, limited support available through P-CBOs and the redundancy in the utility of some of the programs. As such, the authorities will make following adjustments to the programs to bolster support for SMEs.

KEY MEASURES

(SUPPORT FOR LOW-RATED BUSINESSES) First, more flexible eligibility requirements will be applied to low-rated companies. For the so-called fallen angels whose credit rating has declined after the announcement was made on the government's plan to operate an SPV on April 22, 2020, the provision of support will continue to be available for BB rated companies. For companies facing the risk of credit downgrades, state-backed financial institutions will provide comprehensive consulting services on their management status, financial structure, etc.

(TEMPORARY EXPANSION OF P-CBO SUPPORT) First, individual companies' sales cap will be expanded for SMEs that have seen their sales drop fifty percent or more and for low-rated (BB ratings) SMEs. The current standard of measuring their sales performance that is based on the estimated sales expected for the upcoming year will be changed to an arithmetic mean from the past three years. The sales cap on low-rated SMEs will also be expanded based on their fields, growth potential, etc.[1] Second, the maximum amount of P-CBO support available for businesses by affiliation will be expanded from KRW250 billion to KRW400 billion for large companies and from KRW150 billion to KRW200 billion for middle market enterprises, respectively. Third, the cost burden associated with subordinated debt takeover will

[1] Manufacturing and promising/specialized services sectors: from 1/4 of sales turnover to 1/3 of sales turnover
All other sectors: from 1/6 of sales turnover to 1/4 of sales turnover

be reduced. The temporary expansion of P-CBO support will be available until the end of 2021 with the possibility of extension before expiration.

(Corporate bond and CP refinancing support) The scope of businesses eligible for support will be expanded by (a) including the newly issued securities as well as refinancing issuance and (b) easing credit ratings requirements from A or above to BBB or above for corporate bonds and from A2 or above to A3 or above for CP, respectively. In order to provide support for long-term refinancing, Korea Development Bank will support the issuance of privately placed corporate bonds with refinancing purpose.[2] In addition, the KDB will actively seek to purchase corporate bonds and CP in the sectors that have already exceeded the SPV's sectoral maximum cap of KRW300 billion.

Schedule

The adjustments made to the programs will take effect immediately from May 7 to ensure a preemptive response to the credit ratings adjustments expected in May-June. The government will closely monitor the implementation of revised programs and decide whether to extend the operation of the SPV and make necessary adjustments to the corporate bond and CP market support programs.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

[2] With an SPV, refinancing issuance is only possible for up to one year. CP have on average 3-month maturity but can be refinanced through privately placed corporate bonds for a period of more than one year.