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Submitted Electronically

Mr. John C. Williams, President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Williams,

The Bond Dealers of America (BDA) offers its thoughts and recommendations on the Federal Reserve's Secondary Market Corporate Credit Facility (SMCCF). BDA is the only DC-based group exclusively representing the interests of securities dealers and banks focused on the US fixed income markets.

BDA supports the creation of the SMCCF. The fixed income markets have been severely disrupted as a result of the uncertainty associated with the coronavirus crisis. The corporate bond market is not operating effectively enough to support the needs of issuers and investors. Liquidity and issuance have been severely hampered. We believe the Fed's temporary support of the corporate market will help ensure the market's vitality and ability to support the nation's economic recovery.

For the SMCCF to be successful, it is important that the program is operated with several principles in mind, including transparency, fairness, and anonymity. As you finalize the details of how the facility will work and the role and function of Blackrock or other hired portfolio managers in the program, we ask that you incorporate several features into the facility.

Diversity of participants. The corporate bond market is broad and diverse. The issuance market represents companies of all sizes and types from locations around the country. Buyers include institutional investors of all sizes like insurance companies and mutual funds, and retail investors directly hold around $1 trillion of the $14.2 trillion of corporate and Yankee bonds outstanding at the end of 2019. The trading market includes hundreds of banks and broker-dealers as liquidity providers and intermediaries, including firms of all sizes and business models. If the SMCCF is to be successful, it is important that it support all segments of the corporate market, including Medium Term Notes and other term program issuance products. It most definitely should not be limited to index-eligible corporate bonds.

It is especially important that the Fed's portfolio manager is directed to potentially trade with all market participants. Broker-dealers tend to focus on different segments of the market's issuers and investors. Some serve large institutions, some serve medium and small institutions, some serve retail, and some serve all segments. For the Fed to support the market broadly, it will be necessary for your portfolio manager to direct their investments across the full spectrum of issuers and intermediaries. Perhaps the

Fed should consider hiring a second portfolio manager for this facility, since Blackrock is sometimes perceived as focusing on the largest segments of the corporate market. A second manager with a focus on the less covered segments of the market could help the success of the program.

Transparency in operations. It will be important for market participants to know what sectors of the corporate market the Fed is focused on. While we recognize that the Fed will concentrate on the investment grade market with up to five years left to maturity, there is a lot of diversity within those parameters. Which industries and maturities will the Fed focus on? Will the Fed have a minimum trade size or issue size?

We urge the Fed to publish target sectors or characteristics on a periodic basis. Those reports would cover points such as, for example, industry sector, rating range, and target maturities. We also urge the Fed to publish a list of all trades conducted by your portfolio manager on an end-of-day basis. These reports would include CUSIP identifiers for all securities bought and sold, the price/yield of each trade, and the trade size. This transparency will help market participants gauge the extent of the Fed's participation in the market. The Fed has provided this level of transparency for other extraordinary market support programs. Under the Fed's Term Securities Lending Facility operated from 2008-2010, for example, the Fed published details of every transaction executed under the facility.[1]

All-to-All, Anonymous Trading. While the corporate bond market still relies on voice trading for a significant portion of its volume, electronic trading has made a huge impact on the market over the last 20 years and especially the last five. For the investment-grade sector of the corporate bond market, nearly any bond can be traded on any of several electronic platforms that have become essential to how the market operates.

Electronic trading has grown in popularity because it offers an efficient way for market participants to access liquidity and trade anonymously. We urge the Fed to direct its portfolio manager to execute trades on any of several well used electronic trading platforms that support corporate bonds. The Fed should post requests for quotes to the entire platform rather than a select group of dealers. And the Fed should receive offers without knowing the identities of the offerors. This will help ensure that the Fed trades solely on the basis of best bid and offer with no favoritism shown to any market participants.

Fairness. All corporate bond issuers, investors and intermediaries are suffering from the market disruption. Harm has not been limited to the largest market participants. It is important that the Fed's market support helps issuers, investors and intermediaries across the board. without features that ensure the fairness of the facility, the market and the general public may see the program as favoring a few market participants to the detriment of a vast majority of others. The most severe critics of the program could argue that without including the full range of market participants, this program could be seen as favoring just a few large participants.

In addition to the SMCCF, the Fed has also created the Primary Dealer Credit Facility (PDCF), a temporary program to provide securities inventory financing to the New York Fed's 24 Primary Dealers. BDA supports this program because we believe it will help restore liquidity to stressed capital markets.

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[1] Board of Governors of the Federal Reserve System, "Term Securities Lending Facility (TSLF) And TSLF Options Program (TOP)," www.federalreserve.gov/regreform/reform-tslf.htm.

However, the PDCF is too limited, especially for the corporate and municipal securities markets. These markets, and especially municipals, are decentralized characterized by a high degree of retail participation. These markets depend for liquidity on a much broader and deeper community of banks and dealers who make markets for small and medium size institutional investors and retail. In order for the facility to be as effective as possible, we urge the Fed to expand the PDCF to include non-Primary Dealers as well.

We believe the SMCCF has the potential to help the corporate bond market return to normal conditions quickly. The program demonstrates the Fed's commitment to supporting the capital markets during the virus crisis. For the facility to be successful, it is necessary that the Fed support the full breadth of the corporate bond market, including the full range of issuers, issues, investors, and intermediaries.

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Thank you for the opportunity to provide these comments. We look forward to the opportunity discuss our concerns with you.

Sincerely,

Mike Nicholas
Chief Executive Officer
Bond Dealers of America