



**Office of Inspector General**

Board of Governors of the Federal Reserve System  
Bureau of Consumer Financial Protection

## MEMORANDUM

**DATE:** July 14, 2021

**TO:** Mark E. Van Der Weide  
General Counsel  
Board of Governors of the Federal Reserve System

**FROM:** Khalid Hasan *Khalid Hasan*  
Senior OIG Manager for Information Technology  
Office of Information Technology

**SUBJECT:** Results of Analytical Testing of the Board’s Publicly Reported Data for the Secondary Market Corporate Credit Facility

### Executive Summary

We are issuing this memorandum to communicate opportunities to enhance the clarity and transparency of the Board of Governors of the Federal Reserve System’s publicly reported transaction disclosure data for the Secondary Market Corporate Credit Facility (SMCCF). Specifically, we identified transactions that appear to have been documented twice in the publicly reported transaction-specific disclosures published in April 2021. In addition, we identified instances in each of the publicly reported transaction-specific disclosures published from January through April 2021 in which transactions for partial bond redemptions were not clearly labeled and did not include redemption amounts.<sup>1</sup> We identified these transactions during the survey phase of our ongoing evaluation of third-party cybersecurity risk management processes for vendors supporting the Main Street Lending Program (MSLP) and the SMCCF. After informing Board and Federal Reserve Bank of New York (FRB NY) officials of these potentially duplicate entries, they took immediate steps to strengthen internal review processes to ensure that these transactions are appropriately recorded in the SMCCF public disclosure data. Additionally, these officials confirmed that these issues did not result in any numerical inaccuracies in the Board’s public reporting.

This memorandum includes two items for management’s consideration related to enhancing the clarity and transparency of the Board’s publicly reported transaction disclosure data for the SMCCF. Specifically, clarifying the public reporting regarding partial redemptions and correcting the identified duplicates

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<sup>1</sup> These public reports can be found at <https://www.federalreserve.gov/monetarypolicy/smccf.htm>.

related to bonds that matured could provide the Board with greater assurance that it is meeting the needs of the public and Congress.

Our final report for this evaluation may include recommendations related to the issues described in this memorandum. This memorandum is provided for informational purposes, and a response is not required.

## Background

In response to the economic effects of the COVID-19 pandemic, the Board established several emergency lending programs and facilities to provide loans to employers, certain businesses, and communities across the country to support the U.S. economy.<sup>2</sup> The Coronavirus Aid, Relief, and Economic Security (CARES) Act authorizes the U.S. Department of the Treasury to invest in these facilities. Section 4026 of the CARES Act mandates the public reporting of information about the government's pandemic response. Specifically, this section requires the Board to provide reports to Congress on outstanding loan and guarantee programs every 30 days, among other things.<sup>3</sup> These reports are to be publicly released within 7 days of delivery to Congress.<sup>4</sup> To meet CARES Act reporting requirements, the Board provides periodic updates on each of the lending facilities, including the SMCCF, as required by section 13(3) of the Federal Reserve Act, at least every 30 days.

### *Secondary Market Corporate Credit Facility*

The Board established two facilities to support credit to large employers: the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the SMCCF to provide liquidity for outstanding corporate bonds (together, corporate credit facilities, or CCFs). FRB NY established one special purpose vehicle to manage and operate the CCFs, which ceased purchasing eligible assets on December 31, 2020.<sup>5</sup> A key purpose of the SMCCF was to support market liquidity by purchasing, in the secondary market, corporate bonds issued by investment-grade U.S. companies as well as U.S.-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. Specifically, the Board designed the SMCCF to create a portfolio that tracked a broad, diversified market index of U.S. corporate bonds.

## Objectives, Scope, and Methodology

In February 2021, we announced an evaluation of third-party cybersecurity risk management processes for vendors supporting the MSLP and the SMCCF. As part of our objective, we plan to evaluate the risk management processes designed to ensure that effective information security and data integrity controls

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<sup>2</sup> The Board established these emergency lending facilities under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343).

<sup>3</sup> Section 4026 of the CARES Act requires the Board to submit reports on any programs or facilities it establishes to the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee.

<sup>4</sup> These public reports can be found at <https://www.federalreserve.gov/monetarypolicy/smccf.htm>.

<sup>5</sup> No transactions occurred under the PMCCF while it was operational. Accordingly, there are no transaction-specific disclosures for the PMCCF.

are implemented by the third parties supporting the administration of the MSLP and the SMCCF. We are currently conducting fieldwork to meet this objective.

As part of our planning work, we reviewed the monthly SMCCF transaction-specific disclosures from January through April 2021.<sup>6</sup> We used an analytics and visualization tool to perform data accuracy and completeness checks of the transaction-specific disclosure data, such as ensuring that transaction identifiers were unique. In addition, we met with Board and FRB NY officials to discuss our analysis.

## The Clarity and Transparency of Publicly Reported SMCCF Transaction Disclosure Data Can Be Enhanced

We found that there were transactions that appear to have been recorded twice in each of the transaction-specific disclosures for the SMCCF for January through April 2021. Specifically, we identified 12 instances in which information in the *CUSIP Number*, *Coupon Rate*, and *Maturity Date* fields appears to have been duplicated, affecting 24 transactions over the course of these 4 months (table 1).<sup>7</sup>

**Table 1. Transactions at Issue in the Publicly Reported Transaction Disclosures for the SMCCF**

Report date	Total records	Unique CUSIPs	Number of transactions affected	Explanation
January 11, 2021	1,320	1,317	3	The duplicate CUSIPs represented bonds that were partially redeemed within the reporting period.
February 9, 2021	1,293	1,291	2	The duplicate CUSIPs represented bonds that were partially redeemed within the reporting period.
March 11, 2021	1,280	1,279	1	The duplicate CUSIPs represented bonds that were partially redeemed within the reporting period.
April 12, 2021	1,268	1,262	6	Three of the duplicate CUSIPs represented bonds that were partially redeemed within the reporting period; the other three represented bond positions that matured and were not aggregated for reporting.

Source: OIG analysis of publicly reported SMCCF transaction data.

<sup>6</sup> On April 14, 2021, we issued a memorandum documenting inaccuracies we identified in the Board's publicly reported transaction disclosure data for the MSLP. This memorandum can be found at <https://oig.federalreserve.gov/reports/board-main-street-lending-program-april2021.htm>.

<sup>7</sup> A *CUSIP* number is a unique identification number assigned to all stocks and registered bonds in the United States and Canada. These numbers are used to help facilitate trades and settlements by providing a constant identifier to help distinguish the securities within a trade. Each trade and the corresponding CUSIP number are recorded for the purpose of tracking actions and activities.

We noted that two main types of transactions raised issues:

- **Bonds that appeared to be partially redeemed within the reporting period**<sup>8</sup>—For each set of related transactions, one transaction recorded the bond’s par value and amortized cost while the other simply noted that the bond had been redeemed.<sup>9</sup> These transactions were determined not to be duplicates; however, additional clarity is needed to explain why CUSIPs appear twice within the report when a bond is partially redeemed.
- **Bonds that matured within the reporting period**—For each set of duplicates, all reported information was identical for each transaction with no values recorded.

Full details on the identified transactions are available in the attachment to this memorandum.

After notifying FRB NY officials of these transactions, they initiated a review to determine the validity and the root cause of the issues we identified. FRB NY officials informed us that 9 of the 12 sets of transactions at issue were related to partial redemptions. When a bond is partially redeemed within a reporting period, there are two entries for the same bond within the transaction disclosure report: one entry to document the bond position still held and one entry to document the partial redemption. In addition, FRB NY officials informed us that the report was meant to be interpreted as having two distinct sections to differentiate between bond positions and corporate actions; however, we believe this distinction is unclear because there are no report headers or table notes to distinguish these report sections. Clarifying the publicly reported transaction data to account for partial bond redemptions more clearly would improve the transparency of the publicly reported SMCCF data.

Further, FRB NY officials confirmed that the three duplicates from the April report resulted from an internal error during report creation. Specifically, these officials explained that the same bonds were often bought on different dates, which led to the raw data containing multiple line items for the same bond that would be aggregated for public reporting. FRB NY uses a manual review process to ensure that maturity, call, and exchange transactions are aggregated and reported as accurately as possible; however, this process did not catch these three duplicates. To address this issue, FRB NY has implemented additional manual checks to its process to ensure that these types of errors are caught.<sup>10</sup> While these duplicates did not result in any inaccuracies in the values reported for par value or amortized cost, correcting the identified duplicates in publicly reported transaction disclosure data would improve the clarity and transparency of the publicly reported SMCCF data.

Ensuring the clarity and transparency of publicly reported SMCCF data will provide the Board with greater assurance that it is meeting the needs of the public and Congress. We are not issuing formal recommendations in this memorandum. As part of our ongoing evaluation, we intend to further evaluate the controls in place for the systems and processes involved in the reporting of SMCCF data.

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<sup>8</sup> FRB NY officials confirmed that these transactions represented bonds that were partially redeemed within the reporting period.

<sup>9</sup> Transactions noting that a bond had been redeemed did not include par value or amortized cost information.

<sup>10</sup> We verified that the May 10, 2021, report did not contain any duplicated transactions that should have been aggregated for reporting. The report did contain one transaction that was reported twice because of a partial redemption.

## ***Actions Taken by the Board and FRB NY***

After informing Board and FRB NY officials of these issues, they took immediate steps to strengthen internal review processes to ensure that these transactions are appropriately recorded in the SMCCF public disclosure data. Specifically, Board and FRB NY officials noted that beginning with the July 2021 report, the SMCCF publicly reported transaction disclosure data will contain a separate tab that more clearly presents information regarding redemptions (including partial redemptions), maturities, and exchanges. In addition, Board officials noted that they plan to disclose the transactions from the April 2021 transaction disclosure report that were reported in duplicate to ensure that no confusion results from the errors.

## **Closing**

This memorandum includes two items for management's consideration related to ensuring the clarity and transparency of the Board's publicly reported transaction disclosure data. We are reporting on these issues prior to the completion of our evaluation so that you can take any additional corrective actions on the Board's public reporting under the CARES Act that may be needed. A formal response to this memorandum is not required. Our associated evaluation report may include recommendations related to the issues described in this memorandum.

We appreciate the cooperation we received from Board and FRB NY officials during this review. If you have any questions concerning the matters discussed in this memorandum, please contact Paul Vaclavik, OIG manager for information technology, or me.

### Attachment

cc: Patrick J. McClanahan  
Sharon Mowry  
Matthew J. Eichner  
Andreas Lehnert  
Lawrence Mize  
Timothy Kirby  
Steve Bowne  
Sarah Podrygula  
Helen E. Mucciolo  
Michael A. Held  
Angela Sun  
Alex Leonard  
Andrew Danzig  
Keith Pulsifer  
Peter Seigel  
Clive Blackwood

**Attachment****Additional Details**

Table 2 details the transactions at issue that were identified within the publicly reported SMCCF transaction disclosures.

**Table 2. Transactions at Issue in the Publicly Reported Transaction Disclosures for the SMCCF**

<b>Month of report</b>	<b>Issuer</b>	<b>CUSIP number</b>	<b>Coupon</b>	<b>Maturity date</b>	<b>Relevant issue</b>
January	Becton Dickinson and Co	075887BT5	2.894	06/06/2022	Bond partially redeemed
January	Republic Services Inc	760759AM2	4.750	05/15/2023	Bond partially redeemed
January	WEC Energy Group Inc	976657AL0	3.550	06/15/2025	Bond partially redeemed
February	CenterPoint Energy Inc	15189TAU1	3.850	02/01/2024	Bond partially redeemed
February	Continental Resources Inc/OK	212015AH4	5.000	09/15/2022	Bond partially redeemed
March	Equitable Holdings Inc	054561AC9	3.900	04/20/2023	Bond partially redeemed
April	Bristol-Myers Squibb Co	110122CZ9	3.250	02/20/2023	Bond partially redeemed
April	Cigna Corp	125523AF7	3.750	07/15/2023	Bond partially redeemed
April	Ford Motor Credit Co LLC	345397XW8	3.336	03/18/2021	Internal reporting error

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<b>Month of report</b>	<b>Issuer</b>	<b>CUSIP number</b>	<b>Coupon</b>	<b>Maturity date</b>	<b>Relevant issue</b>
April	Interpublic Group of Cos Inc/The	460690BL3	4.200	04/15/2024	Bond partially redeemed
April	Nationwide Financial Services Inc	638612AK7	5.375	3/25/2021	Internal reporting error
April	Stryker Corp	863667AM3	2.625	3/15/2021	Internal reporting error

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Source: OIG analysis of publicly reported SMCCF transaction data.