



The Bank of England's Covid Corporate Financing Facility

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INTRODUCTION

The Bank of England (the “**Bank**”) and HM Treasury have launched the [Covid Corporate Financing Facility](#) (“**CCFF**”) to provide funding to businesses by purchasing commercial paper of up to one-year maturity issued by firms making a “*material contribution*” to the UK economy.

The CCFF is designed to provide short-term financial assistance to a wide range of firms that were on a stable financial footing prior to COVID-19. This assistance is designed to help those businesses to pay wages and suppliers, among other matters, while they are experiencing severe disruption to cashflows.

This note sets out the main specificities of the CCFF, which issuers are eligible to benefit from it, and the commercial paper requirements laid out by the facility.

The core takeaways of the note are as follows:

- **Who is eligible?**

The CCFF is available to:

- all **non-financial** businesses;
 - making a **material contribution** to the UK economy; and
 - being in **sound financial health** before the COVID-19 crisis, meaning a short or long-term investment grade rating by S&P, Moody’s, Fitch or DBRS Morningstar as at 1 March 2020. Unrated businesses will need to provide their banks’ internal ratings to assess credit status or acquire a rating from credit rating agencies.
- **foreign-incorporated parents** with a genuine business in the UK, companies with **significant employment** in the UK, and firms with their **headquarters** in the UK are likely to be eligible provided they satisfy the requirements above.
- **non-bank financial companies** will in principle be eligible, subject to the Bank being satisfied that the issuer makes a material contribution to corporate financing in the UK and were of sound financial health before the COVID-19 crisis.
- **1 March 2020 ratings** - Prima facie eligible businesses which are downgraded **after 1 March 2020** will remain eligible for the facility.

The following companies are not eligible:

- leveraged investment vehicles, banks, building societies, insurance companies, other financial sector entities regulated by the Bank or the FCA, or companies within groups that are predominantly banks, investment banks or building societies.

- **Which securities are eligible?**

The Bank will purchase securities from eligible issuers provided that they comply with the following characteristics:

- **Sterling denominated;**
- maturity of **one week to 12 months;**
- governed by **English law** and subject to the jurisdiction of **English courts;**

- where available, with a minimum **short-term credit rating of A-3 / P-3 / F-3 / R-3** from at least one of Standard & Poor's, Moody's, Fitch or Morningstar DBRS as at 1 March 2020, if not available firms can use long term ratings of BBB-/Baa3/BBB- to demonstrate "sound financial health". Firms without credit ratings have been advised to contact credit rating agencies to seek an assessment of credit quality;
 - issued directly into **Euroclear and/or Clearstream**;
 - issued on a **discounted basis**, meaning no monthly interest payments;
 - at a **minimum individual size of £1 million** with larger offers rounded to the closest £0.1 million;
 - **no unusual features** such as extendibility or subordination. Businesses with existing security over their assets will need to consider arrangements for sharing the security or for the CP programme to accede as a secured creditor.
- **How long will the CCFF operate?**

The CCFF will operate for a minimum of **12 months** and for as long as steps are needed to relieve cash flow pressures on eligible issuers. The Bank will give **6 months' notice** before withdrawing the facility. On 19 May 2020, the Bank indicated that the CCFF would close to new drawings in March 2021.

SPECIFICS OF THE CCFF

Timing

Purchases under the CCFF are intended to be effected every working day between 10:00 a.m. and 11:00 a.m.

Pricing

The Bank will purchase securities at a minimum spread above a reference rate, based on the current sterling overnight index swap (OIS) curve. The intention is for spreads to be set so that pricing is close to the market spreads prevailing before the economic shock from COVID-19. The Bank has indicated that it will keep its pricing under review in light of market conditions and its experience in operating the facility.

Commercial paper purchased in the primary market will be discounted using a rate based on the maturity-matched overnight index swap (OIS) rate, as determined by the Bank at 9:45 a.m. on the day of purchase. For secondary market purchases, commercial paper will be priced at the lower of (i) amortised cost from the issue price and (ii) the price as given by the method used for primary market purchases as set out above. In addition to this, the Bank will apply an additional small fee (currently set at 5bps and subject to review) for use of the secondary facility, payable separately.

As they currently stand, and as published on 23 March 2020, the respective spreads are:

Rating	Spread to OIS
A1/P1/F1/R1	20 bps
A2/P2/F2/R2	40 bps
A3/P3/F3/R3	60 bps

The minimum size of individual securities purchased by the Bank is £1 million nominal with higher purchases to be rounded up to the nearest £0.1 million. The Bank has indicated that it will purchase commercial paper up to each individual issuer's limit, which will include factors such as the relevant issuer's credit rating. The indicative guide below sets out pre-approved maximum limits as agreed with HM Treasury, but the Bank encourages issuers to disclose and discuss their

liquidity needs and the total amount they wish to borrow. Any extension of these pre-approved limits would require further risk assessment and discussions with the issuing company.

Rating (or equivalence to rating)	Initial issuer limit
A1/P1/F1/R1	Up to £1bn
A2/P2/F2/R2	Up to £600m
A3/P3/F3/R3	Up to £300m

The Bank has announced that it will, as of 4 June 2020, publish the names of businesses that have drawn under the CCFF as well as amounts borrowed in order to increase transparency. The Bank will publish this information each Thursday at 3:00 p.m. along with, in aggregate, (i) the total amount of commercial paper purchased each week and (ii) the total amount of commercial paper purchased to date, minus the amount of commercial paper that has matured.

ELIGIBLE ISSUERS

The CCFF is available to UK incorporated non-financial companies that make a “*material contribution*” to the economy and funding must be requested through an eligible issuer’s bank. In practice, the Bank has indicated that the range of companies falling under the scheme can include companies with foreign-incorporated parents and with a genuine business in the UK, companies with significant employment in the UK, and firms with their headquarters in the UK. Other significant factors include whether the company generates significant revenues in the UK, serves a large number of customers in the UK, or has a number of operating sites in the UK.

It is crucial that companies be able to demonstrate that they were in “*sound financial health*” before or on 1 March 2020. Sound financial health is best demonstrated by means of a short or long-term investment grade rating, or equivalent, as of 1 March 2020. For such companies, investment grade means:

- a short-term rating of A3/P3/F3/R3 or above; or
- a long-term rating of BBB-/Baa3/BBB-/BBB low or above

by at least one of the major credit ratings agencies: S&P, Moody’s, Fitch or DBRS Morningstar.

If companies have different ratings from different agencies and one of those is below investment grade, commercial paper issued by these companies will not be eligible.

Companies that were already in or heading towards a precarious financial situation as of 1 March 2020 will be excluded from the scheme, however companies which have been downgraded after 1 March 2020 will still be eligible to draw funds under the CCFF.

Companies who did not have a credit rating as at 1 March 2020 should provide the Bank with their banks’ internal ratings to assess their credit status. To be considered investment grade based on this method, companies will need to provide at least three investment grade bank ratings and no speculative grade bank ratings as at 1 March 2020. Companies with a single speculative grade rating will not be excluded provided that the average of bank ratings available is at least BBB/Baa2/BBB/BBB. Companies with only two bank ratings will not be excluded provided that they are rated BBB+/Baa1/BBB+/BBB.

Companies who have not been deemed to be investment grade equivalent based on their banks’ internal ratings can contact one of the relevant credit rating agencies in order to obtain a retrospective assessment of credit quality as at 1 March 2020 which can be shared with the Bank and HM Treasury.

Companies should also check the permitted indebtedness provisions of existing financing facilities to ascertain whether they are contractually permitted to participate in the scheme.

The Bank has indicated that commercial paper issued by non-bank financial companies will in principle be eligible, subject to the Bank being satisfied that the issuer makes a material contribution to corporate financing in the UK. Commercial paper issued by leveraged investment vehicles, banks, building societies, insurance companies, other financial sector entities regulated by the Bank or the FCA, or from companies within groups that are predominantly banks, investment banks or building societies will not be eligible.

More information and a detailed FAQ as to the relevant eligibility requirements can be found on the Bank's [website](#).

ELIGIBLE SECURITIES

The CCFF will purchase sterling-denominated commercial paper, with the following characteristics:

- Maturity of one week to twelve months.
- Issued directly into Euroclear and/or Clearstream.
- Issued on a discounted basis.
- Governed by English law and subject to the jurisdiction of the English courts.

The Bank has announced on 19 May 2020 that issuing companies wishing to draw from the CCFF for a term extending beyond 19 May 2021 will be expected to provide a letter to HM Treasury that commits to show restraint on the payment of dividends and other capital distributions and on senior pay during the period in which their commercial paper is outstanding. The Bank indicated that these commitments are intended to create incentives for, and promote the ability of, businesses to repay their borrowings from the CCFF where they mature after the CCFF is expected to close.

As of 19 May 2020, eligible issuers are able to repay drawings early if they choose to do so. This is intended to grant issuers greater flexibility to exit the CCFF in an orderly way and seek alternative sources of funding such as the capital markets, if available.

Eligible issuers do not need to have issued commercial paper before, however they should contact their bank if they wish to set up a new commercial paper programme. UK Finance has set up a [list](#) containing contact details of the relevant desks of the UK's major banks which would be able to assist in setting up a novel commercial paper programme.

If requested by the Bank or if necessary to ensure that the securities rank in substance at least *pari passu* with the senior unsecured indebtedness of the issuer's group, the issuer must provide an English law governed guarantee and accompanying legal opinion. Pro forma documentation provided by the Bank is available on the Bank's [website](#) and in the table below.

The Bank will not accept commercial paper with non-standard features such as extendibility or subordination, for example. However, we are of the opinion that secured commercial paper is likely to be eligible, as it is not prejudicial to the Bank. Furthermore, commercial paper does not need to be listed and we would recommend avoiding this in order to speed up access to funding.

Commercial paper must be issued using ICMA market standard documentation, which is available on [ICMA's website](#). In addition, the Bank has indicated that it will accept simplified versions of the ICMA commercial paper documentation in order facilitate companies who are seeking to quickly set up new commercial paper programmes. This simplified documentation is available on the Bank's [website](#) and in the table below.

While pre-approved versions are recommended, the Bank has also indicated it may consider accepting other simplified versions based on ICMA standard documentation.

The Bank and HM Treasury reserve the right to deem any security ineligible for purchase for any reason (including previously purchased securities) although the Bank will not unilaterally require the issuer to amend or repurchase any issued commercial paper.



RELEVANT LINKS FOR ELIGIBLE ISSUERS AND BANKS

Information package	Coronavirus - Business support to launch from today
Documentation for funding (Eligible issuers)	Issuer Eligibility Form
	Issuer Undertaking and Confidentiality Agreement
	Documentary evidence as to the signatory's authorisation
	Guarantee and Legal opinion (in case of issuance by another group entity)
Documentation for funding (Banks)	CCFF Application form and Guidance
	Admission Letter agreeing to the Terms and Conditions
	Issuer Eligibility Form (secondary market) (for offers on the secondary market.)
	CCFF Transaction Form (if banks wish to offer commercial paper in the markets)
Simplified ICMA Documentation	Standard Form Global Note
	Standard Form Dealer Agreement
	Standard Form Information Summary

Hogan Lovells International LLP can assist in acquiring funding for companies via the CCFF, either through an existing or a new commercial paper programme. Please get in touch with [Julian Craughan](#) or any other member of the International Debt Capital Markets team if you wish to discuss this further.

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