



# THE COVID CORPORATE FINANCING FACILITY

23 March 2020

On 17 March 2020, the Chancellor of the Exchequer announced the establishment of the Covid Corporate Financing Facility (the “CCF Facility”). The CCF Facility will be operated by the Bank of England on behalf of H.M. Treasury and is designed to address the potential economic impacts of Covid-19 by providing funding to companies making a “material contribution” to the UK economy.

On 23 March 2020, the Bank of England published its guide to accessing the CCFF and made the related documentation available to the market.

## How the CCF Facility will operate

The CCF Facility will be implemented by the Bank of England (the “Bank”) on behalf of H.M. Treasury. The Bank will operate the CCF Facility via a special purpose entity, Covid Corporate Financing Facility Limited (“CCFFL”).

Subject to defined eligibility criteria, as discussed below, CCFFL will purchase commercial paper issued by firms making “a material contribution to the UK economy”. Offers to sell CP to CCFFL should be submitted, by telephone, to the Bank’s Sterling dealing desk between 10am and 11am each day. All sales of CP to CCFFL must be done via a dealer. However, an existing CP programme is not a prerequisite - see further “Documentation and the establishment of new CP programmes” below.

Names of issuers and securities purchased will be kept confidential by the Bank (but see further “Other key considerations” below).

## What is commercial paper?

Commercial paper (“CP”) is a debt security that has a maturity of less than one year, usually issued by highly-rated corporates or financial institutions. There is typically no legal, regulatory, tax or commercial requirement for commercial paper to be admitted to listing or trading and it is not usually listed.

CP is invariably issued under a programme, allowing for quick and easy issuance. Like a Medium Term Note programme, a CP programme comprises a set of master documentation containing contractual provisions and standard terms and conditions pursuant to which the issuer can issue any amount of CP in the future, subject to a maximum programme limit.

## Eligible participants in the CCF Facility

The CCF Facility will be available to entities making “*a material contribution to the UK economy*”. UK-incorporated companies with a genuine business in the UK will likely be considered to meet this requirement, whether or not they have a foreign-incorporated parent company. However, eligibility decisions will be made in the discretion of the Bank on a case-by-case basis and applicants will be required to explain the basis of their contribution in their application. Examples of relevant factors include the company’s headquarters, revenues generated in the UK, the number of customers served in the UK, the number of UK employees and the number of operating sites in the UK.

The CCF Facility is not available to banks, building societies, insurance companies or other financial sector entities regulated by the Bank or the Financial Conduct Authority. The Bank has also specified that the CCF Facility will not be available to “*leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation*”.

The CCF Facility is designed for firms which were in sound financial health prior to the economic shock of Covid-19. Accordingly:

- companies with short term ratings of A-3/P-3/F-3/R3 from at least one of S&P, Moody’s, Fitch and DBRS Morningstar as at 1 March 2020 will qualify, subject to meeting the other eligibility criteria;
- companies with split ratings (i.e. where one or more is below investment grade) will not qualify;
- the Bank and H.M. Treasury will consider the eligibility of companies at the lowest credit rating that were on negative watch/outlook as at 1 March 2020; and
- for issuers that have no short term rating, the Bank will consider whether long-term ratings can be used on a case-by-case basis.

If no short term credit rating is available, the CCFF application requires companies to confirm they have initiated the process to obtain such a rating and to provide evidence of their financial condition prior to 1 March 2020. Such cases will be considered in the discretion of the Bank on a case-by-case basis and it is expected that further criteria will be developed between the Bank and H.M. Treasury in due course. The Bank has stated that one potential route for a company to evidence its credit status is the relevant company (or its Dealer) contacting a credit rating agency and asking for assessment of credit quality in a form which can be sent to the Bank and HMT. Further detail on this can be found in the Bank’s guidance dated 20 March 2020 (see further “*Key Sources*” below).

An issuer downgrade after 1 March 2020 will not itself render a company ineligible to participate in the CCFF. However, the ongoing participation of such issuers (including rolls of existing CP) will be subject to H.M. Treasury approval.

Potential participants in the CCFF can contact the Bank to discuss eligibility using [CCFFeligible.issuers@bankofengland.co.uk](mailto:CCFFeligible.issuers@bankofengland.co.uk).

## Eligibility of commercial paper issuances

To be purchased by CCFFL, CP must:

- be in a minimum amount of £1,000,000 (with increments of £100,000);
- have a minimum maturity of one week and a maximum of 364 days;
- be issued directly into Euroclear or Clearstream; and
- not be the subject of “*certain non-standard features*” such as extendibility and subordination.

CP will also need to be guaranteed to the extent that it is issued by a finance company or where a guarantee is required to ensure the CP ranks *pari passu* with the senior unsecured debt of the issuer’s group.

H.M. Treasury and the Bank may impose limits on individual issuers - these will be communicated privately by the Bank.

## Documentation and the establishment of new CP programmes

Subject to the eligibility criteria discussed above, companies with existing CP programmes will be able to access the CCFF immediately. However, the application process will require self-certification that the CP is not complex (i.e. it does not contain any “*certain non-standard features*”, as discussed above) and to provide details of material deviations from the templates produced by ICMA.

An existing CP programme is not a pre-requisite to participation in the CCFF and new issuers will be able to establish new programmes specifically for the purpose of accessing the CCFF. The documentation will consist of:

- a dealer agreement, governing the relationship between the issuer, the arranger and the dealer (or dealers);
- an issue and paying agency agreement, governing the relationship between the issuer (and any guarantor) and the issue and paying agent;
- a deed of covenant, under which CP holders are given direct rights of enforcement against the issuer should the issuer default on a payment;
- a deed of guarantee, as required (see further “*Eligibility of commercial paper issuances*” above); and
- a global note, representing all the notes to be issued under the programme and containing the relevant terms and conditions of the CP.

While not mandated by law or regulation, it would usually be the case that an information memorandum would be required as a marketing matter. While a full information memorandum is not mandatory for participation in the CCFF, companies will be required to provide an information summary containing certain basic details - in particular a summary of the terms and conditions, a description of the issuer and guarantors (if any) and details as to where financial statements can be obtained.

Any CP issued into the CCFF will be held via Euroclear or Clearstream (the clearing systems). The dealer (or dealers) will make the necessary arrangements as part of the establishment process.

We have prepared a set of *pro forma* documentation for the purpose of expediting the establishment of programmes. Utilising these documents as a starting point, we would anticipate that a CP programme could be put in place in as little as 2 weeks.

## Pricing

CP issued in the UK markets is traditionally issued on a discounted basis, rather than bearing interest. This is reflected in the CCFF's approach to pricing - in particular:

- CP will be purchased in the primary market using an indexed rate, rate based on the overnight swap rate, plus a spread. The Bank has stated that the applicable spread will be set such that pricing is close to the market spreads prevailing before the economic shock of Covid-19. The applicable spreads, set by reference to the credit rating of the relevant company, will be detailed on the Bank's website; and
- CP purchased in the secondary market will be purchased at the lower of amortised cost from the issue price and the price as given by the method used for primary market purchases as set out above. The Bank will apply an additional small fee for use of the secondary facility, as will be detailed on the Bank's website.

## Other Key Considerations

### Disclosure

While the Bank will keep the names of issuers and securities purchased by CCFFL confidential, participants in the CCFF will be required to consider their disclosure obligations in the usual way. This includes consideration of obligations under the Market Abuse Regulation and disclosure in financial statements.

### Exit from the CCFF

CP is, by nature, a short-term funding instrument. While the CCFF allows issuances of CP to be rolled, by issuing more CP to refinance maturing CP, this is subject to the continued operation of the scheme (see further "*How long will the CCFF operate for?*" below). Prior to participation in the CCFF, companies should accordingly consider how they will exit the scheme in due course. The ability of a company to refinance CP issued into the CCFF will also likely be a focus of the rating agencies and the wider market - particularly where the relevant company does not have customary liquidity in place to back-stop the issuance.

### Impact on existing financial instruments

It will be important for any new issuers of CP to consider the impact an issuance will have on its existing financial instruments. In particular, CP is likely to be considered as debt / financial indebtedness for the purpose of financial covenants and there may be limitations on the provision of guarantees (if required).

## How long will the CCFF operate for?

The CCFF “*will operate for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy.*” The Bank has stated its intention to provide 6 months’ notice of the withdrawal of the Scheme. It is anticipated that H.M. Treasury and the Bank will develop further procedures for encouraging and facilitating orderly exit from the CCFF in due course.

## Further information and applications

We recommend that companies looking to establish a new CP programme to access the CCFF should contact their relationship banks as soon as possible. If those banks are unable to assist, a list of banks which are able support the establishment are available at <https://www.ukfinance.org.uk/covid-19-corporate-financing-facilities>.

Potential participants in the CCFF can contact the Bank to discuss eligibility using [CCFFeligible.issuers@bankofengland.co.uk](mailto:CCFFeligible.issuers@bankofengland.co.uk).

The Bank’s guide to accessing the CCFF is available via the Bank’s website at: <https://www.bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility>. This link also contains the relevant application forms, completed versions of which should be sent to [CCFF-Applications@bankofengland.co.uk](mailto:CCFF-Applications@bankofengland.co.uk).

Please do not hesitate to contact a member of the Slaughter and May team to the extent you require any further information or assistance.

## Key Sources

- Bank of England Market Notice 18 March 2020: <https://www.bankofengland.co.uk/markets/market-notice/2020/ccff-market-notice-march-2020>
- Bank of England guidance dated 20 March 2020: <https://www.bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility>
- UK Government website: “Support for larger firms through the COVID-19 Corporate Financing Facility): [www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses](http://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses)
- Letter from Andrew Bailey, Governor of the BoE, to Rishi Sunak, Chancellor of the Exchequer: [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/873217/5E70FECD.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873217/5E70FECD.pdf)
- The International Capital Markets Association (ICMA) Primary Market Handbook.
- UK Finance commentary, including Dealer contacts: <https://www.ukfinance.org.uk/covid-19-corporate-financing-facilities>.

If you would like further information about the impact of COVID-19 on your business, please speak to your usual Slaughter and May contact.