



CHANGES TO UK GOVERNMENT'S CCFF AND CLBIL SCHEMES TO SUPPORT LARGE BUSINESSES

19 May 2020

Strings attached? Changes to the UK Government's CCFF and CLBIL schemes to support large businesses

HM Treasury announced some [important changes to the Covid Corporate Financing Facility](#) this morning including

- a requirement for new issuers and certain existing issuers to suspend the payment of dividends and restrict senior pay
- details of an early repayment option
- the Bank of England's intention publicly to disclose issuer names and the extent of their CCFF issuance.

Details of the changes to the CCFF are set out in [the CCFF issuer information page](#) of the Bank of England website and [revised Bank of England CCFF Operating Procedures](#).

HM Treasury also announced [changes to the Coronavirus Large Business Interruption Loan Scheme](#). The maximum loan size is to be increased to £200million alongside restrictions on the payment of dividends and on senior pay.

Full details of the changes to the CLBILS will be published on 26th May.

The headline changes to both schemes are summarised below.

CCFF: restrictions on dividends and senior pay

- New issuers and certain existing issuers must provide a 'restraint letter' to HM Treasury, committing to suspend the payment of dividends and other capital distributions and "pay restraint for company management" during the period their commercial paper is outstanding.
- This requirement applies to existing issuers that wish to draw from the CCFF for a term extending beyond 19 May 2021 and issuers that are granted an increase in their initial borrowing limit.
- A template restraint letter is available on the CCFF page of the Bank of England's website ([under the answer to A7](#)).

SLAUGHTER AND MAY/

The authorities have not made clear what “pay restraint” means in practice. The template letter indicates that the Bank expects firms to commit to no pay rises or cash bonuses to “senior management”, including “the Board and company management”, but provides no guidance on what those terms mean, putting the onus on issuers to suggest how they intend to meet this requirement. This will need to be explored by issuers and prospective issuers in conjunction with their advisers and the Bank of England.

This change will not impact issuers that have already issued commercial paper under the CCFF maturing prior to 19 May 2021 unless they intend to roll the commercial paper beyond 19 May 2021 or extend their initial borrowing limit. It will also not impact issuers that issue new commercial paper over the next twelve months, provided it is due to mature prior to 19 May 2021 and they stay within their initial borrowing limit.

CCFF: clarification of process for increasing borrowing limits

- Issuers must demonstrate that the increased limit will be used to support them through the COVID-19 crisis and should expect detailed engagement with HM Government including in relation to alternative sources of financing and repayment strategies.
- The cost of any additional borrowing will be higher than borrowing within the original limit. The Bank of England currently envisages the imposition of a fee equivalent to an additional five basis points on the yield on the transaction.

CCFF: early repayment option

- The Bank of England will sell back commercial paper to the issuer, subject to the terms and conditions (including settlement mechanics, notice periods and minimum amounts) set out in the CCFF Operating Procedures.
- The commercial paper for resale will be offered at a price determined by the Bank of England, based on the higher of either (a) the amortised cost from the price at which the commercial paper was purchased, or (b) the current price as given by the method used for primary market purchases of equivalent maturity from the same issuer.
- Requests for repayment by 30 June 2020 will not be subject to additional fees (after which the Bank of England will usually apply an early repayment fee of five basis points).

The intention of HM Treasury is that this early repayment option will give issuers greater flexibility to exit the CCFF in an orderly way where they are able to access alternative sources of funding, for example in capital markets. In light of the other changes made to the CCFF, some issuers may already be considering the early repayment option.

Public disclosure of CCFF borrowers

- From 4 June 2020, the Bank of England will publish weekly (i) the names of CCFF issuers with commercial paper outstanding and (ii) the quantity of commercial paper each issuer has outstanding with the CCFF.
- Clause 11 (Confidentiality) of the Issuer Undertaking and Confidentiality Agreement has been amended to reflect this change (possible because the Bank of England has always reserved the right to do so).

This change will be less of a concern for those issuers that have already made public their CCFF involvement (for example, by way of a MAR announcement). For those issuers that have borrowed under the CCFF and have not to date made any public announcement related to their CCFF participation, this will be the first time that their involvement in the CCFF becomes public.

CLBILS extension

- The maximum loan size available through the CLBILS will increase from £50 million to the lower of £200 million or 25 per cent of turnover.
- Full details will be announced on 26 May when the changes take effect.
- Like CCFF issuers, companies accessing CLBILS will also be asked to restrict the payment of dividends and other capital distributions and senior pay.
- The announcement indicates that the senior pay restrictions will not apply where they (i) were declared before the CLBILS loan was taken out, (ii) are in keeping with similar payments made in the preceding 12 months, and (iii) do not have a material negative impact on the borrower's ability to repay the loan.

It appears that the announced restrictions on dividends and pay are intended to apply to loans in excess of £50million although this remains to be clarified.

Further information

We are a leading law firm in relation to the CCFF and related CP Programmes. We advised HM Treasury on the implementation of the CCFF scheme in coordination with the Bank of England. We have advised more than 50 companies on access to the CCFF. We are also advising multiple companies on access to the CLBILS.

For further information on matters raised in this briefing, please get in touch with your usual Slaughter and May contact or any of the following:

Matthew Tobin

Matthew.Tobin@SlaughterandMay.com

Philip Snell

Philip.Snell@SlaughterandMay.com