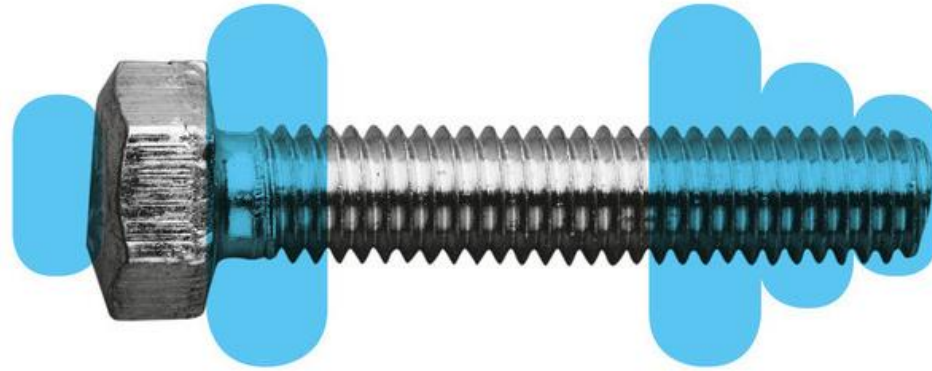


Built on strong foundations

COVID corporate financing facility (“CCFF”)





1. Background

- 1.1. The CCFF is a new UK governmental lending facility that has been made available to larger investment grade ("**IG**") businesses who meet the applicable eligibility criteria from 23 March 2020. The CCFF:
 - is operated by the Bank of England ("**BoE**");
 - will purchase commercial paper with a maturity of up to one year ("**CP**") from eligible companies; and
 - will be available to purchase new CP for at least 12 months up to 23 March 2021, and for as long as deemed necessary by the BoE.
- 1.2. According to the BoE, as at 19 May 2020, over 230 businesses have been approved as eligible to access the CCFF, with the CCFF having purchased circa £18.8bn of CP from 55 businesses and authorised the purchase of a further £38.8bn, including from another 68 businesses.
- 1.3. CP is a commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for meeting short-term liabilities.
- 1.4. CP is usually issued at a discount from face value and reflects prevailing market interest rates – this means the return to the investor is equal to the difference between the issue price and the face value of the CP.
- 1.5. The BoE has confirmed that this approach will also apply to CP eligible for purchased by the CCFF, with the CP being discounted using a rate based on the maturity-matched overnight index swap ("**OIS**") rate, as determined by the BoE on the day of purchase by reference to the credit rating of the issuing entity as follows:

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

- 1.6. 1.6 The maximum amount available under the CCFF is also calculated by reference to the credit rating of the issuing entity. An indicative guide to the maximum limit pre-approved for different ratings levels is set out in the table below, although applicants should note that the limits set will be adjusted down at the BoE's discretion in some cases (for example where they exceed 50% of the applicants' average revenues over recent years). These limits will be kept under constant review and applicants are encouraged to disclose to the BoE the total amount that they wish to borrow:

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

- 1.7. 1.7 In terms of availability, on 19 May 2020, prospective applicants should note that the BoE issued further guidance stating that any applicants who wish to issue CP to the CCFF for a term extending beyond 19 May 2021 will be expected to provide a letter addressed to HM Treasury that commits to showing restraint on the payment of dividends and other capital distributions and on senior pay during the period in which their CP is outstanding. This is a new requirement that does not currently apply to CP already issued or which will be issued but has a maturity falling before 19 May 2021.



2. Eligibility

- 2.1. HM Treasury, alongside the BoE, have confirmed that the CCFF will be available to companies which are "fundamentally strong" and make a "material contribution to the economy". UK incorporated companies (including those with overseas holding companies) with a genuine business in the UK, will normally meet this requirement, but the following will be taken into account, if the company:
 - 2.1.1. is a significant employer in the UK;
 - 2.1.2. has their headquarters in the UK;
 - 2.1.3. generates significant revenues in the UK; and/or
 - 2.1.4. has a significant customer base in the UK.
- 2.2. Applicant companies do not need to have issued CP previously but are required to demonstrate they were in sound financial health prior to the shock, allowing the BoE to look through temporary impacts on balance sheets and cash flows from the shock itself.
- 2.3. In practice, applicants will meet the "sound financial health" test if they can demonstrate that they held, as at 1 March 2020, a minimum short-term credit rating of A3/P3/F-3/R3 or above, or a long-term rating above BBB-/Baa3/BBB-) from at least one of Standard & Poor's, Moody's, Fitch or DBRS Morningstar (a "Public IG Rating"). Please note that where an applicant has different ratings from different agencies, and one of those is below IG, then it will not be eligible:
- 2.4. However, where prospective applicants do not have a Public IG Rating, there are two other options, which will be accepted by the BoE in lieu of a Public IG Rating:
 - 2.4.1. Option 1: Written confirmations from an applicant's primary lenders that they considered the applicant to be rated IG as of 1 March 2020. The BoE has clarified that an applicant should normally obtain IG confirmations from at least three banks and should not have been allocated a speculative (ie sub-IG) grade rating from any of its banks, however;
 - 2.4.1.1. an applicant who has been allocated a speculative grade rating from one or more of its lenders may be accepted provided that the average of all its bank ratings is at least BBB/Baa2/BBB/BBB; and
 - 2.4.1.2. the minimum number of IG confirmations that the BoE will accept is two, but only where both rate the applicant as strongly investment grade (BBB+/Baa1/BBB+/BBB(High) or above.

Applicants will be asked to confirm that they have disclosed all bank ratings related to their principal direct on-balance sheet borrowings (such as syndicated loans, bilateral loans and revolving credit facilities).
 - 2.4.2. Option 2: A private assessment of credit quality from one of the major credit rating agencies (CRAs). The credit assessment should be as at 1 March 2020 in a form that can be shared privately with the BoE and HMT for the purposes of accessing the CCFF. The largest CRAs have developed appropriate forms of credit assessment for this purpose and the forms that the BoE will accept are listed [here](#).
- 2.5. The BoE notes that Option 2 (obtaining a private credit assessment from a CRA) remains available to applicants even if the BoE has not deemed them to be IG-equivalent under Option 1 above, so recommends that applicants may wish to pursue Option 1 first.
- 2.6. Non-bank financial companies are in principle eligible to issue CP for purchase by the CCFF provided they make a material contribution to the UK economy as noted above. CP issued by banks, building societies, insurance companies and other financial sector entities regulated by the BoE or the Financial Conduct Authority ("FCA") will not be eligible for purchase by the CCFF. Leveraged investment vehicles or companies which are predominantly active in a business subject to financial sector regulation, will also not be eligible.
- 2.7. Large housing associations that continue to be assessed as V1 grade for viability from the Regulator for Social Housing should also be eligible to issue CP for purchase by the CCFF. The BoE will also assess housing associations' revenue streams. Further details specific to housing associations is set out [here](#).
- 2.8. We note that companies will need to consider what authorisations they require to issue the CP. Also, certain corporate reorganisation may be required to comply with the detailed criteria requirements.



3. Terms of the CP

- 3.1. The CCFF will purchase sterling-denominated CP from eligible companies if the CP:
 - 3.1.1. has a maturity of between one week to 12 months;
 - 3.1.2. is issued directly into Euroclear and/or Clearstream;
 - 3.1.3. is governed by English law and subject to the jurisdiction of the English courts;
 - 3.1.4. does not contain any non-standard features, e.g. extendibility or subordination; and
 - 3.1.5. if issued by a company which is not the primary entity in its group, is guaranteed by the parent company in a form acceptable to the CCFF.
- 3.2. From 19 May 2020, CP issued to the CCFF may be repaid early at the option of the issuer, subject to certain terms and conditions. Requests for repayment before the end of June 2020 will not be subject to additional fees, after which the BoE has stated that it will usually apply an early repayment fee of 5bps.
- 3.3. Eligible companies will be required to sign a confidentiality agreement with the CCFF. The form of this is accessible [here](#). Prospective applicants should note that while the names of issuers who have been approved as eligible but have not yet issued any CP will not be disclosed publicly, on 19 May 2020, the BoE announced that from 4 June 2020, the names of businesses that have issued CP to the CCFF, as well as the amounts issued will be published by the BoE on a weekly basis.



4. How to access the CCFF

- 4.1. The BoE notes that companies wishing to access the CCFF are required to do so via a bank (acting as dealer) and that such companies should, therefore, liaise with their investment bank, who will be able assist with their issuance of the CP. Not all banks have desks that deal with CP issuance. UK Finance provide a list of banks that are able to do so [here](#).
- 4.2. To discuss eligibility, potential issuers may contact:
CCFFeligibleissuers@bankofengland.co.uk
- 4.3. Applicants who have satisfied themselves that they will be considered eligible should complete the issuer eligibility form which can be downloaded [here](#). This should then be submitted to the BoE at Applications@bankofengland.co.uk, along with a signed copy of the issuer undertaking and confidentiality agreement and the other documents requested in the issuer eligibility form.
- 4.4. In order to issue CP, a company will need (unless it has an existing CP programme) to set up a CP programme, which is done by entering into a series of legal documents based on the standard form ECP documents published by ICMA, together with certain additional documents required by the CCFF, which are listed [here](#). Such CP programmes do not have to be set up for the exclusive purpose of accessing CCFF funding, so companies would be free to use them in the future for other short term debt fund-raising.
- 4.5. Once it has a CP programme in place and has been confirmed as eligible by the BoE, an eligible company that wishes to sell CP to the CCFF should submit its offer to the BoE's Sterling dealing desk between 10-11.00 am (London time) each day. Purchases by the CCFF will be subject to a minimum purchase amount per individual issue of CP from each issuer of £1,000,000 (nominal amount). The CCFF's purchase of commercial paper will normally settle two days after the trade date.
- 4.6. The full briefing note jointly published by the BoE and HM Treasury can be accessed [here](#) and further information can be accessed [here](#).



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