

COVID-19 Corporate Financing Facility and Coronavirus Business Interruption Loan Scheme to Help Fight COVID-19 Impact on U.K. Businesses

March 20, 2020

Rishi Sunak, the U.K. Chancellor, has announced an “unprecedented package of government-backed and guaranteed loans to support businesses” to get through the COVID-19 shock.

The main components of the U.K. rescue package announced to date are:

- The COVID-19 Corporate Financing Facility (CCFF) set to launch on Monday March 23, 2020.
- The Coronavirus Business Interruption Loan Scheme (CBILS) expected to become available in the week commencing March 23, 2020.
- £20 billion in relief, including grants of up to £25,000 for small firms, and a full year without business rates for certain retail, hospitality and leisure businesses.

This alert focuses on the CCFF and CBILS, and provides further details on these schemes (to the extent available) as well as information on eligibility and the application process.

CCFF

HM Treasury and the Bank of England (the “Bank”) announced on March 17, 2020, that they will be launching a COVID-19 CCFF. The CCFF will be available for drawings on **March 23, 2020**. The CCFF is intended to provide additional funding to businesses in the U.K. to assist with cash flow pressures following the COVID-19 shock. The CCFF appears to be one aspect of the £330 billion package of government guarantees which was also announced on March 17, 2020.

The below information is taken from letters published between the Chancellor and the Governor of the Bank of England on March 17, 2020, announcing the scheme, and the related market notice published on March 18, 2020. Further details of the facility, including applications forms, terms and conditions and operating procedures will be published on the Bank of England’s website on **Monday, March 23, 2020**.

Overview:

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- The scheme will be implemented by the Bank as operating agent for HM Treasury and will be funded by the issuance of additional bank reserves. HM Treasury will indemnify the Bank for its operations under the facility.
- The facility will offer financing on terms comparable to those prevailing in markets in the period before the COVID-19 shock, and **will be open to U.K. businesses that can demonstrate they were in sound financial health prior to the shock** (based on a minimum short-term credit rating, where available).
- Financing will be made available by purchasing sterling denominated commercial paper up to one-year maturity issued by investment grade nonfinancial firms making a material contribution to the U.K. economy.
- The CCFF will purchase, at a minimum spread over reference rates, newly issued commercial paper in the primary market via dealers and after issuance from eligible counterparties in the secondary market.
- The scheme will operate for an initial period of 12 months. The Bank will provide six months' notice of withdrawal of the facility.

Eligibility of Participants:

- The CCFF will in principle be available to companies that make a material contribution to economic activity in the United Kingdom. U.K. incorporated companies, including those with foreign-incorporated parents and with a genuine business in the U.K., will normally be regarded as meeting this requirement. The CCFF will also be available to non-bank financial companies that make a "material contribution to corporate financing in the U.K. Eligibility decisions will be made on a case-by-case basis and will be finally be determined by HM Treasury.
- The Bank will take into account the following factors when determining if a company has "**genuine business in the U.K.**":
 - Whether the relevant company has significant employment in the U.K.
 - Is headquartered in the U.K.
 - Whether the company generates significant revenues in the U.K.
 - Serves a large number of customers in the U.K.
 - Has a number of operating sites in the U.K.
- Commercial paper issued by leveraged investment vehicles or from companies within groups that are predominantly banks, investment banks or building societies **will not be eligible**.
- Companies that do not currently issue commercial paper but that are capable of doing so will in principle be eligible for the CCFF, provided they meet the eligible securities criteria outlined below.

Other terms and requirements applicable:

- **Eligible securities:** The CCFF will purchase the sterling-denominated commercial paper of eligible issuers with the following characteristics:
 - maturity of one week to 12 months if issued to the Bank at issue via a dealer;

- where available, a minimum short-term credit rating of A-3 / P-3 / F-3 from at least one of Standard & Poor's, Moody's and Fitch as at **March 1, 2020**. Issuers with split ratings where one or more rating is below the minimum are not eligible;
- where a short-term credit rating is not available, the Bank will consider whether a long-term credit rating can be used to assess eligibility and pricing, or whether the Bank can assess that the issuer is of equivalent financial strength;
- issued directly into Euroclear and / or Clearstream.

In addition:

- If an issuer is downgraded after March 1, 2020 below the minimum credit ratings set out above, the issuer will remain eligible for primary and secondary market purchase in the facility, subject to HM Treasury approval.
- Securities issued by a finance subsidiary should be guaranteed by their parent company in a form acceptable to the Bank.
- Eligible counterparties that wish to offer commercial paper to the Bank in the secondary market must confirm the eligibility of specific securities with the Bank prior to offering them for sale, using a specific template which will be made available by the Bank.
- The Bank may not approve as eligible any commercial paper which has certain non-standard features (e.g. extendibility, subordination etc.).
- **Eligible counterparties:** The CCFF will purchase commercial paper that meets the eligible securities criteria outlined above and that has been in the primary market from dealers acting as principal or in the secondary market from eligible institutions. Counterparties must also be appropriately authorised for the purposes of the Financial Services and Markets Act 2000.
- **Prices:** The CCFF will purchase securities at a spread above a reference rate, based on the current sterling overnight index swap curve, which will be set so that the pricing is close to the market spreads prevailing before the shock from COVID-19. Different pricing arrangements are provided depending on whether commercial paper is being purchased by the Bank in the primary or secondary market.
- **Offer details:** The minimum size of an individual security that the CCFF will purchase from an individual participant is £1 million nominal. When submitting an offer, the offer amount should be expressed in increments of £0.1 million nominal.

Timing and process:

- **Process:** Offers to sell commercial paper to the CCFF should be submitted by phone to the Bank's sterling dealing desk (or as advised on the Bank's wire services page) as set out in the operating procedures, between 10.00am and 11.00am. The Bank's dealers will confirm as soon as possible by return phone, or other appropriate means, whether an offer has been accepted and will confirm the cash amount and, for primary market sales, maturity date. For primary market sales, counterparties must provide details of the issuing entity and the nominal amount offered. For secondary market sales, counterparties must provide the ISIN/ticker of the security; the market yield on an amortised cost basis; the maturity date and the nominal amount offered.

- **Timing:** The facility will be open for drawings on Monday, **March 23, 2020**. The Bank will send a written electronic confirmation of each transaction on the day of purchase. The CCFF's purchases of commercial paper will normally settle on a T + 2 basis.
- **Publicity:** Every Thursday at 3.00 pm the following information on the use of the CCFF will be made publically available: (i) the total amount of commercial paper purchased that week up until the previous day, in terms of the amount paid to the sellers; and (ii) the sum of the commercial paper purchased, less redemptions, to date.

CBILS

The below information is taken from the websites of the British Business Bank and Gov.UK. We expect that further details of the scheme, including terms and conditions and operating procedures will be published on both of these websites during the week of **Monday, March 23, 2020**.

Overview :

- At Budget 2020 on Wednesday, March 11, the Chancellor announced a "Coronavirus Business Interruption Loan Scheme" ("CBILS"). The scheme is intended to offer more attractive terms for both businesses applying for new facilities and lenders, with the aim of supporting the continued provision of finance to U.K. businesses during the COVID-19 shock.
- The scheme will be provided by the British Business Bank through participating providers (which includes many of the leading banks), and provides the lender with a government-backed guarantee against an outstanding facility balance potentially enabling a "no" credit decision from a lender to become a "yes".
- CBILS supports a wide range of business financing including term facilities, overdrafts, invoice finance facilities and asset finance facilities.
- The Government will cover the first 6 months of interest payments, so businesses will benefit from lower initial repayments.
- The business remains liable for repayments of the debt.
- The maximum value of a facility provided under the scheme will be £5 million pounds (this has been increased from a maximum value of £1.2 million which was suggested in the Chancellor's initial announcement).

Eligibility of participants:

- Companies will be eligible to apply for a CBIL-backed facility if the relevant company:
 - has a turnover of no more than £41 million per annum;
 - operates within an eligible industrial sector. Almost all business sectors are eligible, however there are a number of sectors that are not eligible for support e.g. financial services, insurance, education and care sectors are not eligible;
 - has not received state aid beyond EUR 200,000 (equivalent) over the current and previous two fiscal years;

- has a sound borrowing proposal, but insufficient security to meet the lender's requirements.
- Full eligibility criteria is expected to follow shortly. We will update this note once further information becomes available.
- **Other terms:** Finance terms are from three months up to ten years for term loans and asset finance and up to three years for revolving facilities and invoice finance.
- **Timing and process:** To apply for an CBILS-backed facility, businesses may wish to consider approaching one or more participating lenders to discuss their borrowing needs. The scheme is expected to become available in the week commencing March 23, 2020.

While we appreciate that the Chancellor's announcement and subsequent press releases leave open a number of questions, in particular around eligibility criteria and practical application, it is hoped that further clarification will be provided in subsequent announcements by the Bank and government. It is expected that further information will be made available on **Monday, March 23**.

We are monitoring developments closely and will update this alert when further information is provided. Should you have questions regarding this alert, please feel free to contact us.

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