Bank of England – Covid corporate financing facility

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In brief...

On 17 March 2020, the Chancellor the Rt. Hon. Rishi Sunak MP announced that HM Treasury would provide an unprecedented level of support for UK business in response to the economic impact of Coronavirus. The total value of the package announced was GBP330 billion, 15% of UK GDP. The package included two mechanisms for businesses to access finance; the Covid Corporate Financing Facility for larger investment grade businesses; and the Coronavirus Business Interruption Loan Scheme for smaller businesses with turnover under GBP45 million per annum. It also included business rates relief for retail, hospitality and leisure businesses and grants for small business and businesses in the retail, hospitality and leisure sector.

It is striking that large sub-investment grade businesses were not directly provided for in this package with no meaningful provision for businesses that would typically access the high yield or sub-investment grade capital markets, leaving them to rely on continued support from equity holders and commercial lenders.

What is the Covid Corporate Financing Facility?

Liquidity support for large investment grade businesses will be provided by the Covid Corporate Financing Facility Limited (CCFF) operated by the Bank of England (BOE) on behalf of HM Treasury.

The CCFF will provide finance to businesses across a range of sectors by purchasing Commercial Paper with an initial term of up to 12 months. The CCFF scheme itself will operate for at least 12 months and "for as long as steps are needed to relieve cash flow pressures". The BOE will provide 6 months' notice of the withdrawal of the CCFF.

The Fund will purchase Commercial Paper in sterling during a defined period each business day. The Fund will purchase, at a spread based on pre-Covid spreads over the current sterling overnight index swap rate , newly issued Commercial Paper in the primary market and after issuance from eligible counterparties in the secondary market.

Further details on the Bank of England's Covid Corporate Financing Fund for investment grade non-financial issuers were announced on Monday 23 March. The banks that were approved to act as dealers are the following: Barclays, HSBC, Lloyds Banking Group, Natwest, Bank of America, Citi, Goldman Sachs, JP Morgan, Morgan Stanley and Standard Chartered. Contacts have been provided for all except, at the time of writing this, Standard Chartered and are available here.

Who can apply?

The funding will be available to:

1. non-financial companies who make a material contribution to the UK economy; and
2. that had, prior to being affected by COVID-19, a short or long term rating of investment grade, or financial health equivalent to an investment grade rating.

It is therefore a requirement that companies accessing the CCFF make a material contribution to the UK economy. This test is explained as follows:

"In practice, firms that meet this requirement would normally be: UK incorporated companies, including those with foreign-incorporated parents and with a genuine business in the UK; companies with significant employment in the UK; firms with their headquarters in the UK. We will also consider 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. "

Companies that do not currently issue Commercial Paper but are capable of doing so will in principle be eligible to utilise the facility provided that they meet the eligible securities criteria. Issuers must have a minimum short term credit rating of A-3/P-3/F-3/R3 or above or a long-term rating of BBB-/Baa3/BBB-/BBB low or above from at least one of Standard & Poor's, Moody's, Fitch and DBRS Morningstar as at 1 March 2020. This reference point is deliberately set prior to the possible impact of COVID-19 on businesses' credit rating. Where an existing credit rating is not available, companies should speak to their existing lenders and if those banks advise that the company was viewed internally as equivalent to investment grade as at 1 March 2020, then the BoE should be contacted to discuss potential eligibility. The BoE will then make an assessment of whether the BoE can assess that the issuer is of equivalent financial strength. This rating or equivalent requirement means that access to the facility will not be available to sub-investment grade issuers and hence not available to leveraged loan and high yield issuers.

Such companies must be "fundamentally strong" but be experiencing short-term funding pressures caused by the current economic conditions. As yet, there is no guidance on how this can be demonstrated as part of the application process. However, we would suggest that companies interested in the CCFF get a clear view (as far as possible) on liquidity requirements so that they are able to make an appropriate and measured request for funding.

On the eligibility criteria for companies that do not have a credit rating, the guidance is to contact one of the major credit rating agencies to seek an assessment of credit quality in a form that can be shared with the Bank of England and HM Treasury, noting that the company is doing so to use the CCFF. Here they envisage, in addition to public credit ratings, accepting the following (for those approaching credit rating agencies for the first time):

- from Moody's Investor Services: (Private) 'Indicative ratings' at a recent point-in-time
- from Standard & Poor's Ratings Services: 'Credit Assessments' (CAs) at a recent point-in-time
- from Fitch: (Private) Credit opinion at a recent point-in-time. A form of Fitch 'credit opinion' incorporating a rating rationale would be preferred, if available.
- from DBRS Morningstar: Point in time private credit assessment (for those approaching CRAs for the first time)

The rating agencies have established stream-lined processes to enable private determinations to be made within a couple of weeks.

How is the scheme accessed?

The guidance from the Bank of England is to speak first to one of the dealer banks and then to get more information on eligibility the Bank can be emailed on ccffeligibleissuers@bankofengland.co.uk.

Accessing the scheme requires completion of an Issuer Eligibility Form. Details of the CP programme to be established are to be included in the form. Questions to be answered include the following:

- Nature of UK business activity: For example, number of UK employees and UK generated revenue
- If the Issuing Entity has no current credit rating, confirmation of whether the process to obtain a private rating has been initiated

- If the Issuing Entity has no current credit rating, evidence of the Issuing Entity's financial condition prior to 1 March 2020, including any Group support
- Confirmation that there is no financial covenant breach or default continuing under any of the Group's financing arrangements, or likely to occur as a result of issuing this CP programme
- Confirmation whether drawing the CP programme results in the breach of any borrowing limit of the Group
- Confirmation that the Group's revenues are experiencing disruption as a result of the COVID-19 outbreak
- Details of the CP programme (and dealer who will be trading it) and confirmation that it is substantially in the form of the ICMA recommended template
- Confirmation that CP issued under the programme ranks at least pari passu with unsecured and unsubordinated indebtedness of the Group

There is also a form of Issuer Undertaking and Confidentiality Agreement to be entered into which the Bank of England have prepared. This includes representations as to solvency and to the accuracy of the eligibility form information submitted (which includes representations as to financial statements and to any financial projections or forecasts) and an undertaking to notify the Bank if it grants security interests over any of its assets to secure financial indebtedness unless the Bank purchased CP also benefits from such security. It also contains an undertaking to pay the Bank's costs and expenses and charges including legal expenses. There is a confidentiality undertaking which does not have an express carve-out for disclosures under the DTRs but does have a carve-out for disclosures agreed to or disclosures "required to be disclosed by law, regulation or any governmental or competent regulatory authority". Finally, if the CP is to be issued by an entity other than the primary entity in the group, there is also a form of guarantee and associated legal opinion to be given.

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