

COVID-19: COVID Corporate Financing Facility Explained

Updated July 15, 2020

The coronavirus (“COVID-19”) outbreak has been disruptive on an unprecedented scale and presents multiple challenges to UK businesses. On March 18, 2020, the Bank of England (the “Bank”) and HM Treasury jointly published a notice detailing the Covid Corporate Financing Facility (“CCFF”).¹ The facility, which is one of the various relief measures UK regulators have announced to support UK non-financial firms, is designed to provide liquidity support to larger UK businesses, to mitigate the effects of temporary disruptions of cashflow as a result of supply changes and weaker activity.

This memorandum provides an overview of the CCFF and summarizes the responses to key questions firms and banks seeking to participate in the CCFF may have. For a further discussion of the other measures UK regulators have adopted to support UK business, please refer to our earlier alert memorandum (available [here](#)).

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¹ <https://www.bankofengland.co.uk/markets/market-notice/2020/ccff-market-notice-march-2020>.



Q&As

Question: What is the CCFF?

Answer: The CCFF is a lending facility jointly-organised by the Bank and HM Treasury. It is designed to help non-financial firms that make material contributions to the UK economy bridge disruptions to their cash flows resulting from the COVID-19 outbreak by issuing short-term debt.

Under the CCFF, Covid Corporate Financing Facility Limited (“CCFFL”), will provide funding to qualifying businesses by purchasing their commercial paper of up to one-year maturity. CCFFL will purchase, at a minimum spread over reference rate, newly issued commercial paper in the primary market via dealers and after issuance from eligible counterparties in the secondary market.

The CCFF came into operation on March 23, 2020. The conditions for use under the CCFF were later updated on May 19, 2020.

Question: Who can use the CCFF?

Answer: Companies, and their finance subsidiaries, that make a material contribution to the UK economy are eligible to participate in the CCFF.

Firms that meet this requirement will 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; or
- firms with their headquarters in the UK.

Therefore non-UK incorporated companies may in principle be eligible.

Eligibility decisions will be made by the Bank’s risk management staff, taking into account a number of different factors, including whether a 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.

The CCFF is open to firms that can demonstrate they were in sound financial health prior to the COVID-19 outbreak; namely, companies that had a short or long-term rating of investment grade, as at March 1, 2020, or equivalent (see “*What does it mean to be in sound financial health?*” below).

Question: Who will not be eligible for the CCFF?

Answer: Other than firms not meeting the eligibility requirements above, commercial paper issued by any of the following will not be eligible:

- banks, building societies, insurance companies and other financial sector entities regulated by the Bank or the Financial Conduct Authority;
- leveraged investment vehicles;
- companies within groups that are predominantly banks, investment banks or building societies; or
- publically owned entities and partially owned entities.

Question: What is commercial paper?

Answer: Commercial paper is a short-term debt instrument.

CCFFL will purchase sterling-denominated commercial paper, with the following characteristics:

- maturity of one week to twelve months;
- where available, a credit rating of A-3 / P-3 / F-3 / R3 from at least one of Standard & Poor's, Moody's, Fitch and DBRS Morningstar as at March 1, 2020; and
- issued directly into Euroclear and/or Clearstream (international securities settlement systems).

The CCFF will not accept commercial paper with non-standard features such as extendibility or subordination. The information provided by the Bank also envisages that the commercial paper would be unsecured.

If the commercial paper will be issued by an entity other than the primary entity in the group (e.g., a finance subsidiary), then a guarantee from the primary entity may be needed.

Question: What does it mean to be in sound financial health?

Answer: Companies that had a short-term rating of A-3 / P-3 / F-3 / R3 or above, or a long-term rating of BBB- / Baa3 / BBB- or above by at least one of the major credit ratings agencies listed above, as at March 1, 2020, or equivalent, will be considered to be in sound financial health.

Where a company has multiple ratings from different agencies that differ, so long as one of those ratings is below investment grade, the commercial paper will not be eligible. The Bank will consider the eligibility of issuers that were at the lowest rating and on negative watch or negative outlook as at March 1, 2020.

If a company's rating is downgraded after March 1, 2020, or its financial health deteriorates, provided it can demonstrate good financial health prior to March 1, 2020, it will remain eligible to participate in the CCFF.

Question: What do I do if my company does not have a credit rating?

Answer: Companies without an existing credit rating should contact their relationship bank in the first instance. If it is that bank's view that the company was equivalent to investment grade as at March 1, 2020, the company may contact the Bank at CCFFeligibleissuers@bankofengland.co.uk to discuss its potential eligibility. The Bank will then make an assessment of whether the company can be deemed as equivalent to having a public investment grade rating. This assessment will draw on a range of information, including the range of banks' internal ratings across all of a company's commercial bank counterparties.

Companies may alternatively contact one of the major credit rating agencies ("CRAs") to seek an assessment of their credit quality, noting that they are doing so because they wish to use the CCFF. This assessment must be in a form that can be shared with the Bank and HM Treasury.

For those approaching CRAs for the first time, Moody's and Fitch provide private 'indicative ratings' and credit opinions (respectively) at a recent point-in-time. Similarly, S&P provides 'Credit Assessments' at a recent point-in-time.

Question: What information about the issuer's existing financing will need to be provided to the Bank?

Answer: Among other things, the issuer would have to confirm:

- 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 the commercial paper; and
- whether the issuance would result in the breach of any borrowing limit of the issuer or the group.

Question: Do I need to have issued commercial paper before to use the CCFF? How do I set up a commercial paper programme?

Answer: No, you do not need to have issued commercial paper prior to using the CCFF.

In connection with the CCFF, the International Capital Markets Association (“[ICMA](#)”) is making the Euro commercial paper (“ECP”) materials from the ICMA Primary Market Handbook generally available to non-ICMA members (which were previously available only to ICMA members). The Bank has confirmed to ICMA that it will accept commercial paper issued on the basis of the ICMA standard templates, though parties may wish to use these materials as a base to develop more tailored / narrower use documentation. It should be noted, however, that material deviations will need to be explained. The ECP materials are available under the ‘Market practice’ tab on ICMA’s [COVID-19 updates page](#). ICMA is currently considering the interest rate provisions in the documentation (in light of benchmark reform regulations).

Question: Can an eligible issuer sell eligible commercial paper directly to CCFFL?

Answer: No. CCFFL will only purchase from eligible dealers. Companies must therefore use a bank to participate in the CCFF. UK Finance has provided a [list of banks](#) that are able to assist. (See further below)

Question: Will CCFFL purchase existing commercial paper?

Answer: The information provided by the Bank indicates that commercial paper purchased by CCFFL in the primary market must be newly issued but it is not clear whether eligible dealers may offer existing commercial paper in the secondary market.

Question: May investors sell commercial paper to CCFFL?

Answer: CCFFL will purchase in the secondary market from eligible dealers alone. (See further below)

Question: What will the pricing be for commercial paper issued under the CCFF?

Answer: For primary market purchases, CCFFL will purchase commercial paper at a spread above a reference rate based on the current sterling overnight index swap (“[OIS](#)”) rate. The respective reference OIS rate will be determined at 9:45 am (London time) on the day of the operation. Spreads will be set such that pricing is close to the market spreads prevailing before the economic shock from COVID-19.

For secondary market purchases, CCFFL will purchase commercial paper at the lower of amortised cost from the issue price and the price determined for primary market purchases as set out above. The Bank will apply an additional small fee (currently set at 5bps and subject to review) for use of the secondary facility, payable separately.

The respective spreads, which are subject to review, are currently set at:

Rating	Spread to OIS
A1/P1	20 bps
A2/P2	40 bps
A3/P3	60 bps

Question: How long will the CCFF be in operation?

Answer: The Bank's intention is that the CCFF will operate for at least twelve months. The Bank and HM Treasury will keep the CCFF under review and may propose extensions or variations of the CCFF in the future. The Bank will provide 6 months' notice of the withdrawal of the CCFF.

Offers to sell commercial paper to CCFFL must be received and accepted by December 31, 2020. In any event, companies are encouraged to apply as early as cash flow pressures arise.

Question: Can commercial paper be rolled over?

Answer: Yes. Under the CCFF, issuances of commercial paper may be rolled by issuing more eligible commercial paper to refinance the maturing commercial paper, while the CCFF is open (see "*How long will the CCFF be in operation?*" above).

Companies should consider their eventual exit from the CCFF and whether or not they will be able to refinance the commercial paper. This may be a focus of CRAs and the market.

Question: How much commercial paper may issuers sell to CCFFL?

Answer: The minimum size of an individual security that CCFFL will purchase from an individual issuer is £1 million nominal. CCFFL requires offers to be rounded to the closest £0.1 million.

Purchases of commercial paper in the primary markets may be limited by issuer. Any such limits applying to individual issuers will be made available, on request, to the issuer only.

Where two or more issuers are part of the same group, an aggregate limit may be applied within which any limits applying to the individual issuers are wholly or partly fungible.

Question: Is there a limit to the size of the CCFF?

Answer: Neither the Bank nor HM Treasury has specified a maximum amount of funding to be provided by the CCFF. When HM Treasury announced the CCFF and the Coronavirus Business Loans Interruption Scheme, it indicated that the two schemes would together provide £330 billion in funding.

Question: Are there other restrictions to be aware of that may apply to the issuer under the CCFF?

Answer: Yes, issuers making use of the CCFF beyond 12 months from May 19, 2020 may be asked to agree to not pay dividends and to exercise restraint when it comes to senior remuneration.

Issuers will be required to provide a letter of commitment in relation to the above if:

- an increase in an issuer's CCFF limit, over and above that suggested by the issuer's investment rating, is requested and approved; and/or
- a CCFF transaction is entered which involves CP maturing on or after May 19, 2021.

HM Treasury reserves the right to publish this letter, should HM Treasury become aware that the terms of the letter have not been complied with.

Question: What is the application process for the CCFF for issuers?

Answer: If a company thinks it may be eligible, it should reach out to its bank about participating in the CCFF.

Companies that are still unsure of their eligibility after speaking with their bank may contact the Bank directly to discuss eligibility at CCFFeligibleissuers@bankofengland.co.uk.

If, after speaking with its bank, a company believes it is eligible, it will need to complete the following documents, as applicable:

- [Issuer Eligibility Form](#) (xls)
- [Issuer Undertaking and Confidentiality Agreement](#) (docx)
- [Pro forma guarantee](#) (docx) and
- [Form of legal opinion in connection with guarantee](#) (docx)

Evidence of authority for the selected signatory to sign on behalf of the company must also be provided. Guidance on the type of evidence we need can be found [here](#). Issuers, or banks on their behalf, may send the completed documentation to CCFF-Applications@bankofengland.co.uk.

Confirmation of eligibility will be provided bilaterally to the counterparty submitting the request. When the Bank confirms their eligibility before 4:00 pm (London time), commercial paper will be eligible for sale to CCFFL from the following business day.

Companies wishing to offer the Bank commercial paper on the secondary market will also need to complete an Issuer Eligibility Form for this commercial paper (attached [here](#)).

Question: Who are eligible counterparties under CCFF and what is the application process for such counterparties?

Answer: Counterparties must, inter alia, be appropriately authorised for the purposes of the Financial Services and Markets Act 2000 ("FSMA").

Eligible dealers who wish to apply must complete:

- the [CCFF Application Form](#);
- and if accepted into the scheme will be asked to sign an [Admission Letter agreeing to the CCFF Terms & Conditions](#); and
- The CCFF Application Form also includes a section on Authorised Signatory Evidence and guidance on completing this section is available [here](#).

Eligible dealers that wish to offer commercial paper to CCFFL in the secondary market must confirm the eligibility of specific securities with the Bank prior to offering them for sale, using the [Issuer Eligibility Form \(secondary market\)](#).

Question: Will non-UK dealers be eligible?

Answer: Assuming that the dealer is appropriately authorised for the purposes of FSMA, there would seem to be no bar in principle to a non-UK firm being an eligible dealer.

Question: Will the issuers using the CCFF, and the commercial paper CCFFL has purchased under the scheme, be made public?

Answer: The names of participating issuers and the commercial paper purchased will not be made public.

The Bank will require issuers to sign a confidentiality agreement (available [here](#)). The original position in broad terms, was that either party would be prohibited from disclosing information relating to the other party or to the CCFF, including the issuer's access to and participation in the CCFF, save for, inter alia, where such disclosure is made with the prior written consent of the other party, or where such disclosure is required by law, regulation or any governmental or regulatory authority (which would permit any required disclosure under the Market Abuse Regulation or equivalent). This requirement, however, also raises the question as to whether and how a secondary market is expected to develop. Further information on this aspect is required.

The new position, with effect from June 4, 2020, is that the Bank will publish additional firm-level data each Thursday at 3:00pm (London time) as follows: (i) the names of those businesses who have outstanding CP issue into the CCFF; and (ii) the amount of CP each business has outstanding under the CCFF.

The Bank plans to publish each Thursday at 3:00pm (London time) general information on the use of the CCFF as follows: (i) the total amount of commercial paper purchased that week up until the previous day, in terms of the amount paid to the sellers; (ii) the sum of commercial paper purchased, less redemptions, to date; (iii) the nominal sum of drawing capacity of all CCFF approved businesses on the date shown; (iv) the number of businesses approved for CCFF issuance on the date shown; (v) the number of businesses approved for CCFF issuance that have outstanding issued to the CCFF; (vi) the number of businesses approved for CCFF issuance that have not issued CP to the CCFF; and (vii) in addition to the business approved for CCFF issuance, the number of businesses that have applied to the CCFF and have been approved as eligible in principle but have yet to be fully approved for CCFF issuance, since the CCFF began.

Question: How is an offer submitted?

Answer: Offers to sell commercial paper to CCFFL 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 (London time).

For primary market sales, counterparties must provide details of the issuing entity and the nominal amount offered. Maturity dates will follow the "modified following" convention. For secondary market sales, counterparties must provide the ISIN/ticker of the security, the money market yield on an amortised cost basis, the maturity date and the nominal offered.

The Bank's sterling dealers will confirm whether an offer has been accepted (either by phone or other appropriate means) and will confirm the cash amount and, for primary market sales, maturity date.

Question: How will commercial paper purchases be settled?

Answer: The Bank will send a written electronic confirmation of each transaction on the day of purchase. Purchases will normally settle on a T+2 basis. Counterparties must comply with the Bank's settlement procedures.

Question: Will CCFFL hold purchased commercial paper to maturity?

Answer: This has not been made clear.

Question: What other options are available for firms that are not eligible to use the CCFF?

Answer: Small and medium-sized businesses ("SMEs") that do not generate sufficient revenue or employment or otherwise satisfy the requirement to be considered to make a "material contribution to the UK" or that did not have a short or long-term rating of investment grade, or equivalent, as at March 1, 2020 may consider the [Coronavirus Business Interruption Loan Scheme](#) ("CBILS").

The CBILS provides government-backed finance of up to £5 million through a wide range of business finance facilities (including term loans, overdrafts, asset finance and invoice finance). The CBILS is intended for use by smaller businesses across the UK who are experiencing lost or deferred revenues, leading to disruptions to their cashflow. Under the scheme, lenders will be provided with a government-backed, partial guarantee of 80% against the outstanding facility balance and is made available through the British Business Bank's [40+ accredited lenders](#).

To be eligible for a facility under the CBILS, an SME must:

- be UK-based in its business activity with annual turnover of no more than £45 million; and
- have a borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by the lender, and for which the lender believes the provision of finance will enable the business to trade out of any short-to-medium difficulty.

Smaller businesses from any sector can apply for the full amount of the facility.

Overall, [UK regulators](#) have been clear on their position that businesses and jobs need support and protection and have announced a set of unprecedented measures to do so, such as releasing the countercyclical capital buffer and the new Term Funding Scheme (with additional incentives for SMEs). Banks are being given a number of regulatory incentives to ensure they can continue to lend to businesses who are only struggling because of COVID-19 and need to bridge across this period of economic disruption.

More information on the relief measures that have been announced can be found in our previous alert memorandum (attached [here](#)).

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