

April 7, 2020

U.K. Covid Corporate Financing Facility

U.K. Government Initiative Offers Short-Term Sterling Liquidity for Non-Financial Companies That Make a Material Contribution to Economic Activity in the U.K.

SUMMARY

On March 23, 2020, HM Treasury (the “**Treasury**”) and the Bank of England (the “**BoE**”) launched the Covid Corporate Financing Facility (“**CCFF**”) to provide short-term liquidity for businesses making a material contribution to the U.K. economy.

Under the facility, which is implemented by the BoE on behalf of the Treasury, the BoE will acquire short-dated commercial paper in the primary and secondary markets issued by eligible companies who had an investment grade credit rating or equivalent on March 1, 2020. The CCFF is one component of a broader set of U.K. Government-sponsored measures aimed at supporting U.K. businesses through the economic disruption caused by COVID-19.

KEY FEATURES OF THE CCFF

1. **What is the CCFF?** The CCFF seeks to alleviate temporary illiquidity for businesses making a material contribution to the U.K. economy which held an investment grade credit rating prior to the COVID-19 crisis. The BoE will acquire commercial paper with a maturity of up to one year both on the secondary market and directly from eligible companies.

The BoE has stated that it intends the CCFF to operate for an initial period of 12 months.

2. **Which companies are eligible to participate in the CCFF?** Non-financial companies (and their finance subsidiaries) that make a material contribution to economic activity in the U.K. are eligible to participate so long as they can demonstrate sound financial health prior to the COVID-19 crisis. The BoE will determine the eligibility of a company to participate in the CCFF,

taking into account whether the company generates significant revenues, serves a large number of customers or has a number of operating sites in the U.K.. However, the BoE has stated that eligible companies will generally include U.K.-incorporated companies, including those with foreign-incorporated parents, with a genuine business in the U.K., as well as companies with “significant employment” or headquarters located in the U.K. Companies can obtain an early indication from the BoE whether they will be eligible prior to establishing a commercial paper program, although the BoE is currently advising companies who think that they may be eligible to participate in the CCFF to first liaise with their bank.

Companies do not need to have previously issued commercial paper in order to participate.

Leveraged investment vehicles or companies within groups that are predominantly banks, investment banks or building societies are not eligible, and neither are companies over which the U.K. or an EU member state (or regional or local authorities of the U.K. or an EU member state), directly or indirectly, exercises dominant influence by virtue of their ownership of it, their financial participation therein or the rules which govern it.

3. *What securities are eligible to be acquired under the CCFF?* The CCFF will only acquire commercial paper, which is short-term unsecured debt issued under a commercial paper program. To be eligible for the CCFF, commercial paper must:

- a.** be sterling denominated;
- b.** have a maturity of between one week and 12 months;
- c.** either (i) where available, have a minimum short-term credit rating of A3/P3/F3/R3 from at least one of Standard & Poor’s, Moody’s, Fitch or DBRS Morningstar as at March 1, 2020 or (ii) otherwise satisfy the BoE as to its credit status (see also question 4 below);
- d.** be guaranteed by the primary entity in the group (if relevant);
- e.** not have non-standard features (such as extendibility or subordination to unsecured and unsubordinated debt of the group); and
- f.** be issued directly into Euroclear and/or Clearstream.

The BoE will purchase commercial paper that meets the eligible securities criteria set out above in the primary market from banks who act as principal and in the secondary market from eligible institutions. A company wishing to participate in the CCFF must therefore involve a bank which is participating in the CCFF. The banks who are currently participating in the CCFF are Bank

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of America, Barclays, BNP Paribas, Citi, Credit Suisse, Goldman Sachs, HSBC, JP Morgan, Lloyds, Morgan Stanley, NatWest and Standard Chartered.

4. ***What credit rating is required for participation in the CCFF?*** To be eligible for participation in the CCFF, a company must have had a short-term rating of A3/P3/F3/R3 or above, or a long-term rating of BBB-/Baa3/BBB- or above by at least one of S&P, Moody's, Fitch or DBRS Morningstar. If a company has short-term ratings from different agencies and one of these is below investment grade then the commercial paper will not be eligible.

However, subject to approval by the Treasury, a company which has demonstrated sound financial health prior to March 1, 2020 will remain eligible if there is a ratings downgrade effective after March 1, 2020.

A company which does not have an existing credit rating may approach a ratings agency for either a public rating or (if they have not previously approached a ratings agency) a private point in time credit opinion or assessment in a form that can be shared with the Treasury.

Alternatively, the BoE has indicated that it may deem a company to be equivalent to having a public investment grade credit rating where the company's bank confirms to the BoE that the company was viewed internally by its commercial bank counterparties as equivalent to investment grade as at March 1, 2020. The BoE has advised that its assessment in this situation will draw on a range of information, including the range of banks' internal ratings across all of a company's commercial bank counterparties, and that a company will need to be rated consistently by its banks as investment grade in order to be deemed equivalent to having a public investment grade rating.

5. ***What terms will the CCFF offer?*** Commercial paper will be acquired in the primary market at a spread over a reference rate, based on the current sterling overnight index swap rate ("OIS") on the relevant dealing date. The spreads are subject to review but as at March 23, 2020 were:

<i>Rating</i>	<i>Spread to OIS</i>
A1/P1/F1/R1	20 bps
A2/P2/F2/R1	40 bps
A3/P3/F2/R2	60 bps

Commercial paper that is acquired in the secondary market will be purchased at the lower of: (i) the price calculated on the same basis as primary purchases set out above; and (ii) amortized cost from the issue price. The BoE will apply a small additional fee to the company for use of the secondary facility (as at March 23, 2020 this was set at five bps).

6. *How much commercial paper can be issued?*

For primary market purchases, the BoE has published an indicative guide to the maximum limit of commercial paper that an individual issuer can issue. The limits can be adjusted downwards at the BoE's discretion and are subject to review, but as at April 3, 2020 were:

<i>Rating</i>	<i>Initial issuer limit</i>
A1/P1/ F1/ R1	Up to £1bn
A2/P2/F2/R2	Up to £600m
A3/P3/F3/R3	Up to £300m

7. *What documents are required to participate in the CCFF?*

To participate, a company must complete a set of standard application materials available on the [BoE's website](#). These comprise an issuer eligibility form and supporting evidence, an issuer undertaking and confidentiality agreement, a guarantee (if the primary group company is not the issuer) and a legal opinion from external counsel (on the capacity of the issuer and the guarantor, if applicable).

In addition, where a company has not previously issued commercial paper, it must establish a commercial paper program. The mechanics for establishing a program are similar to those required for EMTN or similar programs, although the program documents are in a shorter form. The BoE has stated that it will accept commercial paper with standard features that is issued using ICMA market standard documentation (ICMA is making the Euro Commercial Paper materials from the ICMA Primary Market Handbook available to non-ICMA members [here](#) to facilitate this). The program documents principally comprise a dealer agreement, information memorandum, global note and associated corporate authorizations and legal opinions.

Provided that the program documents are in place, issuers should be able to participate in the CCFF promptly. The BoE has stated that it aims to confirm whether commercial paper is eligible as soon as possible and, provided confirmation is received before 4 p.m. on a working day, the company will be able to sell commercial paper to the BoE the next working day.

8. *What public disclosure implications are there from participation in the CCFF?*

The BoE will publish on a weekly basis the total aggregate amount of commercial paper purchased that week (for the week ending on April 1, this amount was £1.908 billion). The BoE has stated that it will not publicly identify those companies who participate in the CCFF.

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Disclosure considerations for individual companies which are subject to public reporting requirements will vary from case to case.

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