
Covid-19: Liquidity support scheme for large businesses

This note reflects the position as at 19 May 2020. This note will be updated from time to time, including following release of any further information on the CCFF. The summary provided in this note is for general information purposes and does not constitute legal advice. Additional details or changes may be announced so it is particularly important to seek specific advice on the circumstances applicable to your business.

The Government, through HM Treasury, and the Bank of England (the Bank) have announced a number of schemes and measures to support business during the “Covid-19 shock”. This note considers the Covid Corporate Financing Facility (CCFF), intended to assist larger businesses with liquidity and working capital issues. The CCFF was originally described in a Market Notice issued on 18 March 2020. A further Market Notice was issued on 19 May 2020¹ reflecting changes since the original launch of the CCFF.

This note is designed both for those familiar with the money markets and those that may be looking at this kind of lending for the first time. We have provided both an overview and a more detailed explanation of some of the key points to assist a wide range of companies. We have also included a glossary to explain some of the terms used for those who are less familiar with this area.

INTRODUCTION

In headline terms, the CCFF involves funding for larger businesses through the purchase by a Government company (the Fund) of commercial paper (CP) issued by the relevant business.

CP is explained in more detail below. In broad terms, CP is simply a debt instrument, similar to bonds or loan notes in that it represents a promise by the issuer to repay an amount in the future. CP is usually issued on standard market form documents and has a maturity date of less than 12 months with fairly simple terms and limited default provisions.

While many of those looking at the CCFF may have issued CP before, it is open to businesses that have not done so and may not have participated in the money markets before. Companies using the scheme needed to be in sound financial strength before the COVID-19 shock and evidence of an investment grade credit rating, or broadly equivalent financial strength, will be required. Although companies with a credit rating may be able to access the CCFF more quickly, it is not necessary to have an existing credit rating.

The scheme formally launched on 23 March 2020. As at the close of business on 13 May 2020:

- 123 businesses had been approved for CCFF issuance
- 55 of them had borrowed under the CCFF and 68 of them were yet to use the facility
- a further 108 businesses had applied and been approved in principle
- although the previous confidentiality restrictions (discussed below) mean that no definitive list is yet available, companies confirming that they are eligible for the CCFF include easyJet, National Express, Whitbread and Wizz Air
- approximately £18.8 billion of lending was outstanding

The scheme has faced criticism given that many businesses will be unable to meet the eligibility requirements including, in particular, the requirement to be of investment grade financial strength. Although the Market Notice dated 19 May 2020 consolidates the various further details that had been

¹ <https://www.bankofengland.co.uk/markets/market-notices/2020/joint-hmt-and-boe-ccff-consolidated-market-notice-may-2020>

made available since the scheme was launched, the main characteristics of the scheme, including the eligibility requirements, have not changed materially since the original announcement in March.

This note covers the main issues around the CCFF, including:

- an overview of CP generally
- eligibility for the CCFF
- the terms of CP eligible under the CCFF
- documentation needed to be able to issue CP
- steps that a business should be taking to be in a position to use the CCFF

COMMERCIAL PAPER

CP is a form of debt instrument, with the same essential characteristics as a bond or loan note, with maturity of less than a year. As with other types of debt instruments such as medium-term notes (MTNs), CP is typically issued pursuant to a programme. CP is usually cleared through the main international clearing systems (Euroclear and Clearstream) – and CP under the CCFF needs to be issued this way – but is not usually listed on a stock exchange.

One or more “dealers” (generally investment banks) are involved in setting up and running the programme. Dealers act as the “interface” between the issuer and the CP purchaser. Where CP is purchased by the Fund under the CCFF immediately upon its issue in the primary market, the purchase must be carried out through dealers. They are also involved in documenting a CP programme.

Companies wanting to use the CCFF who do not already have a CP programme in place will need to speak to one or more of their relationship banks quickly to check that they would be able to help.

ELIGIBILITY FOR THE CCFF

The minimum size of an individual issue of CP eligible for purchase by the Fund is £1 million nominal. To be able to use the CCFF, a business:

- does not need to have issued CP previously, but will need to establish a CP programme if it does not already have one
- must make a material contribution to the UK economy
- must be a non-financial company (banks, building societies, insurance companies and other financial institutions regulated by the Bank of England or the Financial Conduct Authority are not eligible)

GLOSSARY

clearing systems: regulated electronic systems to facilitate sale and purchase (“settlement”) of debt instruments in the primary and secondary markets. The clearing systems evidence holdings of CP, rather than physical pieces of paper

CP or commercial paper: a debt instrument where the holder lends money to the issuer and the issuer promises to pay it back on a maturity date no later than 364 days from the issue date

credit rating: the assessment of the credit strength of a company or its debt. Credit ratings are most often given by a rating agency (the main ones being Standard & Poor’s, Moody’s, Fitch and DBRS Morningstar), but lenders such as banks will generally assess the creditworthiness of businesses they lend to, essentially carrying out their own rating process

dealers: dealers are banks (generally investment banks) involved in setting up and running programmes. Dealers act as the “interface” between the issuer and the CP purchaser

eligible counterparties: financial institutions that are regulated and meet other criteria set by the Bank of England

Euroclear and Clearstream: these are the main clearing systems

finance subsidiary: a company set up by a company specifically to raise debt. Debt issued in this way is usually guaranteed and it is a requirement of the CCFF that the “primary entity” in a group gives a guarantee

Fund: COVID Corporate Financing Facility Limited, the company established by HM Treasury and the Bank of England to buy the CP

global notes: a single document representing a whole CP issue, irrespective of how many people are CP purchasers/holders

ICMA: International Capital Market Association, a debt capital markets trade body (of which CMS is a member)

information memorandum: a document containing information on an issuer and its debt instruments, typically shorter than a full prospectus

investment grade: a strong credit rating, higher than a long-term rating of BBB-/Baa3/BBB- or a short-term rating of P-3/A-3/F3 (in each case from Standard & Poor’s, Moody’s or Fitch, respectively). Lower ratings are called non-/sub-investment grade, speculative or, more colloquially, “junk”

issuer: the entity that will become the debtor under the CP

primary market: the market where CP is purchased directly from the issuer, usually through dealers

programme: a debt issuance platform set up by an issuer to issue CP up to a set value. Programmes allow issuers to issue debt instruments over a period of time in “series” or “tranches” rather than on a one-off basis

prospectus: a detailed disclosure document explaining the terms, risks and other features relevant to someone considering subscribing (signing up for) a debt instrument. Contents are governed by the EU Prospectus Regulation. A prospectus isn’t needed for CP

secondary market: trading in debt instruments that have already been issued

- must not be a public body or a “public undertaking” (which is likely to include most companies majority public-owned in the UK or by an EU member state)
- must have been in sound financial health prior to the Covid-19 shock
- must use a UK-incorporated issuer (which can be a finance subsidiary, in which case a guarantee will be needed from the “primary entity” in the group) but can be foreign-owned with a “genuine business” in the UK

From 19 May 2020, issuers participating in the CCFF may be required to commit to “restraint on their capital distributions and on senior pay” if they issue CP maturing on or after 19 May 2021. The template undertaking letter provided by the Bank contains an undertaking that all distributions to shareholders (including dividends and share buybacks). “Pay restraint” means involve no pay rises or cash bonuses to senior management, including the board. The restrictions remain in place from when the business enters into any CCFF transaction maturing on or after 19 May 2021 and remain for so long as any such CP is outstanding.

Looking at some questions businesses are likely to have about eligibility:

- when assessing “material contribution to economic activity in the UK”, relevant factors will include
 - employment in the UK
 - whether the business headquarters are in the UK
 - the extent of UK revenues, customer base and operating sites
- unlike other support schemes, such as CBILS and CLBILS, there are no minimum or maximum turnover limits, though we would generally expect companies with turnover of less than about £100 million to find it difficult to satisfy the “material contribution” and “sound financial health” requirements
- CP issued by regulated entities including banks, building societies and insurance companies is not eligible, or if issued by leveraged investment vehicles or by companies in “groups which are predominantly active in business subject to financial sector regulation”
- although public entities are generally ineligible, housing associations with a V1 viability grade from the Regulator for Social Housing are eligible and the Government has confirmed that higher education bodies are, in principle, eligible
- the easiest way to evidence sound financial health is through a pre-COVID-19 shock credit rating. This means a short-term credit rating on 1 March 2020 of at least A-3/P-3/F-3/R3 from at least one of S&P, Moody’s, Fitch and DBRS Morningstar, the major rating agencies. If a company does not have a short-term rating:
 - if it has a long-term rating, the Bank will “read across” that rating to the equivalent short-term rating. The equivalent long-term ratings are BBB-/Baa3/BBB-/BBB low
 - if it has no rating, the Bank will consider whether it is able to assess whether it is of equivalent financial strength. There are two main options. The first option is that the Bank will rely on internal ratings of a business from banks. This can be evidenced either through a credit file of large UK corporates provided to the Bank by Credit Benchmark or the ratings from the company’s own banks. Generally, three banks need to consider the company to be investment grade, or two where they regard the company as strongly investment grade. The second option is for companies to contact one of the major rating agencies to seek an assessment of credit quality. The time and cost of such a ratings process will vary, although we understand that some rating agencies may charge considerably lower fees than for a “normal” ratings process (or even give a rating for free). On the Issuer Eligibility Form, the Bank of England asks issuers who do not have a rating whether they have started the process of getting one. If not, they ask for evidence of financial condition before 1 March 2020, suggesting that the Bank may be willing to carry out its own credit assessment independent of the rating agencies, perhaps where companies have particularly urgent liquidity needs

TERMS

Purchases can take place in the “primary market” by issuing directly to the Fund (technically via the dealers for the relevant CP programme, discussed further below) or in the “secondary market” from eligible counterparties who already hold CP. The Bank intends to close the CCFF to new purchases on 23 March 2021, but CP can be issued up to and including 22 March 2021 with a maturity beyond that date. New issuers will not be accepted after 31 December 2020.

To be purchased under the CCFF, CP needs to have a maturity of one week to 12 months, though for regulatory reasons discussed below, the maximum maturity will be 364 days. Drawings can be rolled while the CCFF is open, subject to eligibility. On 19 May 2020, the Bank announced that businesses can repay drawings under the CCFF early if they choose to do so. This will take effect as a standing offer by the Bank to sell CP back to the issuer in advance of its original maturity date, typically for a fee.

The CP must not have “non-standard” features. The Issuer Eligibility Form asks for confirmation that CP under the programme is “not complex”, including that the CP is not subordinated and does not contain features such as extendibility. As such, we think it unlikely that anything “structured”, including CP with security or involving intra-group arrangements and covenants other than in connection with a guarantee, will not be considered eligible. Although the CP itself is unlikely to be secured, the Bank of England might consider taking the benefit of existing security so that is not, in effect, subordinated to any other lenders a business may have.

Pricing is intended to achieve rough equivalency with market pricing pre-crisis. In technical terms, the Fund will purchase CP at a spread above a reference rate, based on the current sterling overnight index swap (OIS) curve. Spreads will be set with a view to achieving pricing close to the market spreads prevailing before the COVID-19 shock. Indicative spreads published by the Bank of England range from 20–60 basis points, depending on the credit strength of the relevant business. As a result, the CCFF is likely to represent relatively cheap funding for businesses who are able to use it.

CONFIDENTIALITY AND UNDERTAKINGS

Issuers need to sign an undertaking and confidentiality undertaking when applying to issue CP to the Fund under the CCFF. In this document, the company:

- gives confirmations that no insolvency events have occurred (or that they have occurred only as a result of Covid-19 and have been disclosed to the Bank)
- makes various representations and undertakings, including about the accuracy of financial statements and projections, its ability to enter into CCFF documentation and its ongoing eligibility for the CCFF
- agrees to give a guarantee from the “primary entity” in its group and, where that primary entity is incorporated outside England & Wales, a legal opinion
- undertakes to pay the Bank’s costs and expenses (including legal expenses) in connection with the CCFF (though the size of such expenses and whether the Bank will enforce this provision remain unclear)
- agrees to notify the Bank if, subject to certain exceptions, it grants security for any debt, unless the CP purchased by the Fund benefits from the same security
- agrees to the operating procedures of the CCFF and to any unilateral changes to the procedures or documentation that the Bank may make
- agrees, along with the Bank, to keep information confidential, including the fact that the issuer is participating in the CCFF (though we expect this undertaking to change, as discussed below)

Every Thursday at 3pm, the Bank publishes the aggregate amount of CP purchased under the CCFF up to Wednesday that week, along with other details including the number of eligible businesses².

² <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>

Originally, neither the names of businesses using the CCFF nor the amounts of their borrowing were published. On 19 May 2020, the Bank announced that, from 4 June 2020, it would be publishing names of businesses with outstanding borrowing under the CCFF and the amount of that borrowing. Listed businesses have duties to disclose price-sensitive information to the market. Many companies with access to the CCFF considered the need for additional liquidity, and the availability of that liquidity, as being information that needed to be disclosed to the market. This change is likely to be a response to discussions that took place between businesses and Bank on this topic and it will also increase transparency around a significant piece of the government support for business.

DOCUMENTATION

The documentation for a CP programme tends to be in relatively standard form, usually closely following the standard market forms published by ICMA. CP documents are generally not heavily negotiated, compared to the documents for a loan facility or longer-term debt instruments. The programme documentation generally includes:

- a dealer agreement governing the relationship between the issuer and its dealer(s). The terms of each CP issuance are agreed at the time of the issue and there are no commitment fees. Dealers are typically compensated by a commission on each CP issue or a fee based on the amount of CP outstanding. Fees for a CP programme created for the CCFF may be lower than for a “normal” CP programme because issuers should not need the dealers to source investors given that the Fund will be the purchaser
- an information memorandum containing details about the programme and the issuer. We would expect an information memorandum to incorporate by reference (if not physically include) the most recent audited financial statements and any available interim statements. A CP issuer is unlikely to need to produce extra financial statements as a result of having a CP programme under the CCFF. The Bank of England has published a short-form “information sheet” containing a summary of the CP programme and the issuer (and guarantor, if applicable). We would typically expect this information sheet to replace the longer information memorandum for CP programmes under the CCFF
- a guarantee, if applicable (for instance, if a finance subsidiary is the issuer, as is common and as is anticipated by the CCFF). The Issuer Eligibility Form asks whether the CP benefits from a guarantee “or similar arrangements” that have been provided to other creditors of the issuer. The form of guarantee that will be expected in connection with the CCFF is available on the Bank of England’s website³
- an issue and paying agency agreement governing the relationship between the issuer and the bank acting as agent to carry out certain mechanical tasks in connection with issuing the CP, holding the notes as depositary for the clearing systems and making payments on the CP (and the agent would usually be expected to be from the same bank group as the dealers, so the dealers would be expected to help with this)
- the legal documentation representing the CP itself, usually being one or more global notes. CP essentially represents a promise to repay the principal amount (the face value or “par”) of the CP at maturity; there are generally no, or limited, events of default, negative pledge or other covenants (and we note that the information released by the Bank of England, including the Issuer Eligibility Form, requires there to be no complex features). The notes normally contain a tax gross-up clause. For those familiar with other kind of debt issues like MTN programmes, there is no trustee or noteholder meeting provisions
- a deed of covenant, under which holders of CP are given direct rights of enforcement against the CP issuer or guarantor if the CP issuer defaults on payment
- legal opinions as to capacity and enforceability addressed to the dealers. Dealers may be willing to waive this requirement. Where a guarantee is provided by a company other than the CP issuer and the guarantor is not incorporated in England & Wales, a legal opinion will be needed. The form of this is provided on the Bank of England website⁴

³ <https://www.bankofengland.co.uk/-/media/boe/files/news/2020/march/ccff-proforma-guarantee.docx>

⁴ <https://www.bankofengland.co.uk/-/media/boe/files/news/2020/march/ccff-proforma-legal-opinion-on-the-guarantee.docx>

As expected, the Bank anticipates that CP programmes under the CCFF will closely follow the template suggested by ICMA that is familiar in the market. The ICMA templates were previously available only to members of ICMA, but they have made them available generally in light of the CCFF.⁵

The Issuer Eligibility Form asks for confirmation that the CP programme is “substantially in the form of the ICMA recommended template” and for details of any material deviations from them. Existing CP programmes that may be eligible under the CCFF would likely already be based on this template.

From a legal and regulatory perspective, issuing CP:

- does not need a detailed prospectus but may need a straightforward information memorandum. CP falls outside the scope of the Prospectus Regulation (which still applies in the UK during the EU withdrawal implementation period) because of its short maturity. This means that no prospectus is required under this legislation. By convention, a more straightforward information memorandum is prepared for a CP programme. Where CP is issued solely to the Fund, the shorter “information sheet” is likely to be sufficient
- would generally not require an issuer to be authorised by the FCA. So long as certain requirements are met, which we would expect to be standard requirements and features of CP programmes under the CCFF, issue of CP would not generally breach deposit-taking or financial promotion rules
- would, as with most issues of debt instruments, often be undertaken by a PLC, rather than a (non-public) limited company. This is not an absolute rule and companies proposing to use the CCFF would need to consider and take advice on this point
- can generally avoid withholding tax if interest-bearing (which is generally not the case as CP is typically offered at a discount). This is because interest paid on debt with a maturity of less than a year would not generally be expected to be “yearly interest” for the rules on withholding tax

From a timing perspective, we would usually expect the process of setting up a programme to take around 4–6 weeks. However, assuming that one or more banks have agreed to act as dealers, with appropriate focus and subject to any initial bottle-necks if several issuers want to access the CCFF immediately now that it has launched, it would be possible in theory to agree the documentation and set up the programme within a few days. Once the programme has been established, individual issues of CP can be carried out very quickly – potentially within hours of a decision to issue.

The Bank has said that if they confirm eligibility before 4pm on a working day, companies will be able to sell CP to the Fund via a dealer the next working day. Purchase decisions will be made by the Bank every working day between 10am and 11am.

STEPS TO TAKE

Companies planning to access the CCFF should:

- speak to your bank(s) to ensure that they are able to help with the establishment of a CP programme, provision of dealers and a paying agent and, if applicable, assist with the ratings confirmations (including in what timeframe and for what fees). We would recommend you contact your existing relationship managers in the first instance. UK Finance have also released details of banks who have indicated that they will be able to act as dealers⁶

⁵ <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/covid-19-market-updates/> under the “Market Practice” tab

⁶ <https://www.ukfinance.org.uk/covid-19-corporate-financing-facilities>

- consider the eligibility criteria and make contact with the Bank of England to discuss eligibility either directly on CCFFeligibleissuers@bankofengland.gsi.gov.uk or through your banks (and we note that the Bank of England generally encourages businesses to direct queries to their banks in the first instance)
- familiarise yourself generally with details of the CCFF, including the information available on the Bank of England website, such as the main CCFF application form and the guidance that accompanies it, issuer eligibility form, issuer undertaking and confidentiality agreement, form of guarantee and form of legal opinion that may be required
- ensuring financial statements and other key information about the business are available, particularly if the company does not already have a short-term rating
- checking the terms of other documentation, particularly loan agreements, intercreditor and security arrangements and other financing documents, to ensure that the issue of CP, which is a form of debt, is permitted (and, if so, considering seeking appropriate amendments or waivers)
- consider any constitutional restrictions or requirements applicable to the relevant issuer/guarantor companies, including whether any amendments may be needed to the articles of the company and what board or other authorisations may be required

HOW CMS CAN HELP

We have advised several clients in connection with applications to the CCFF and have extensive experience advising clients on previous government assistance programmes, interactions with the Bank and other regulators and on commercial paper programmes.

Although it is important that participants speak to one of more dealer banks and register their interest with the Bank, it is vital that they consider carefully what information (such as financial data) they need for a successful application and begin preparing this now in order to minimise any delays in the process. CMS can help you consider what steps you can be taking in this regard.

We can advise as you consider whether the scheme is right for your business (including how the CCFF compares with other government schemes such as the Coronavirus Large Business Interruption Loan Scheme, CLBILS) and whether you would be eligible for it, on the work you can be doing in advance of a potential application to participate in the CCFF, with applications to the Bank, with the establishment of your CP programme and on any state aid implications of participation in the CCFF.

We will continue to provide updates on any further announcements and developments. Our *Law-Now* service at www.cms-lawnow.com provides up to date information and advice on the implications of the outbreak.

To discuss any of the issues in this note in more detail, or for further advice, please contact any of us.



Michael Cavers
Partner, London

+44 20 7367 3413
michael.cavers@cms-cmno.com



Neil Hamilton
Partner, London

+44 20 7367 2755
neil.hamilton@cms-cmno.com



Stephen Phillips
Partner, Edinburgh

+44 131 200 7313
stephen.phillips@cms-cmno.com