

Coronavirus – Finance overview of governmental economic support for industry – UK

Across the budget on 11 March 2020 and the subsequent COVID-19 briefing meetings the Chancellor of the Exchequer has announced a number of measures to ease the impact that COVID-19 and the accompanying social distancing measures is having and will continue to have on UK businesses. A range of measures have been announced targeted at both small and medium sized businesses and larger companies.

The key measures are:-

- 1)** the introduction of a new Covid Corporate Financing Facility designed to provide a quick and cost effective way to raise working capital for larger firms who are facing cashflow and working capital issues due to the COVID-19 outbreak;
- 2)** an extension of the new Business Interruption Loan Scheme to provide loans of up to £5,000,000 to small and medium sized businesses;
- 3)** a business rates holiday for nurseries and all businesses in the retail, hospitality and leisure sectors, so that no business rates will be payable for the 2020/2021 tax year;
- 4)** provision of grants of £10,000 to businesses eligible for small business rate relief or rural rate relief;
- 5)** businesses with a rateable value of between £15,000 and £51,000 will get a cash grant of £25,000;
- 6)** businesses and employers with fewer than 250 employees as of 28 February 2020 will be able to claim a refund of up to 14 days statutory sick pay and expenditure, for any eligible employee off work due to COVID-19;
- 7)** a deferral of all VAT payments for the period between 20 March 2020 and 30 June 2020 until January 2021;
- 8)** a Job Retention Scheme under which HM Treasury will pay 80% of salaries up to £2,500 for up to 3 months of persons who were employed and cannot work due to the COVID-19 outbreak (backdated to 1 March 2020); and
- 9)** all businesses and self-employed people in financial distress, and with outstanding tax liabilities, may be eligible to receive support with their tax affairs through HMRC's Time to Pay service.

There are concerns that whilst these are wide-ranging measures that there are gaps, in particular for the self-employed, those businesses that do not have a rateable value and mid-tier companies and further measures are expected.

Further details on the Covid Corporate Financing Facility and Coronavirus Business Interruption Loan Scheme are set out below.

Covid Corporate Financing Facility ("CCFF")

The CCFF is a new lending facility that is due to be available to larger businesses who meet the eligibility criteria from this week (week commencing 23 March 2020). The Covid Corporate Financing Facility (the "**CCFF**"), which will be operated by the Bank of England ("**BoE**"), will purchase commercial paper ("**CP**") from those eligible companies with a maturity of up to one year. The CCFF will operate for at least 12 months and for as long as deemed necessary by the BoE.

CP is a commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for meeting short-term liabilities. CP is usually issued at a discount from face value and reflects prevailing market interest rates – this means the return to the investor is equal to the difference between the issue price and the face value of the CP. The BoE has confirmed that this approach will also apply to CP eligible for purchase by the CCFF, with the CP being discounted using a rate based on the maturity-matched overnight index swap (OIS) rate, as determined by the BoE on the day of purchase.

Eligibility

HM Treasury, alongside the BoE, have confirmed that the CCFF will be available to companies which are "fundamentally strong" and make a "material contribution to the economy". UK incorporated companies (including those with overseas holding companies) with a genuine business in the UK, will normally meet this requirement, but the following will be taken into account, if the company:-

- 1)** is a significant employer in the UK;
- 2)** has their headquarters in the UK;
- 3)** generates significant revenues in the UK; and/or
- 4)** has a significant customer base in the UK.

Companies do not need to have issued CP previously but are required to demonstrate they were in sound financial health prior to the shock, allowing the BoE to look through temporary impacts on balance sheets and cash flows from the shock itself.

Non-bank financial companies are in principle eligible to issue CP for purchase by the CCFF provided they make a material contribution to the UK economy as noted above. CP issued by banks, building societies, insurance companies and other financial sector entities regulated by the BoE or the Financial Conduct Authority ("**FCA**") will not be eligible for purchase by the CCFF. Leveraged investment vehicles or companies which are predominantly active in a business subject to financial sector regulation, will also not be eligible.

Terms of the CP

The CCFF will purchase sterling-denominated CP from eligible companies if the CP:-

- 1)** has a maturity of between one week to 12 months;

- 2) where available, has a minimum short-term credit rating of A3/P3/F-3/R3 or above, or a long-term rating above BBB-/Baa3/BBB-, from at least one of Standard & Poor's, Moody's, Fitch or DBRS Morningstar as at 1 March 2020¹;
- 3) is issued directly into Euroclear and/or Clearstream;
- 4) does not contain any non-standard features, e.g. extendibility or subordination; and
- 5) if issued by a finance subsidiary, is guaranteed by the parent company in a form acceptable to the CCFF.

Eligible companies will be required to sign a confidentiality agreement with the CCFF. The form of this is accessible [here](#). Eligibility criteria for those companies without a credit rating is untested, but the BoE notes that a credit rating will be required to access the CCFF and therefore the BoE recommends contacting the rating agencies making it clear that this is being done so for the purposes of gaining access to the CCFF.

How to access the CCFF

The BoE notes that companies wishing to access the CCFF are required to do so via a bank (acting as dealer) and that such companies should, therefore, liaise with their investment bank, who will be able assist with their issuance of the CP. Not all banks have desks that deal with CP issuance. UK Finance provide a list of banks that are able to do so [here](#).

To discuss eligibility, potential issuers may contact CCFFeligibleissuers@bankofengland.gsi.gov.uk. The documents required are listed [here](#).

An eligible company that wishes to sell CP to the CCFF should submit their offer to the BoE's Sterling dealing desk between 10-11.00 am (London time) each day. Purchases by the CCFF will be subject to a minimum purchase amount per individual issue of CP from each issuer of £1,000,000 (nominal amount). The CCFF's purchase of commercial paper will normally settle two days after the trade date.

The CCFF will purchase securities at a spread above a reference rate, based on the current sterling overnight index swap (OIS) curve and pricing will be kept under review in light of market conditions. The intention is that pricing of the CP will be on terms comparable to those in the market prior to the COVID-19 outbreak, but it is not yet clear how the market rate will vary depending on the term of the CP.

Purchases of CP 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 and 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.

The names of issuers and securities purchased or eligible will not be disclosed publicly.

The full briefing note jointly published by the BoE and HM Treasury can be accessed [here](#) and further information can be accessed [here](#).

¹ If a corporation has different ratings from different agencies, and one of those is below investment grade then the CP will not be eligible.

Outstanding Issues

Whilst the BoE has published further information on the nature of the scheme since it was announced last week, there remain a number of unanswered questions on how the CCFF will operate, for example:-

- 1)** if not using an existing CP issuance facility, the form of documentation that should be utilised to issue the CP and whether there is a preferred standard form for issuance to the CCFF (the BoE has so far published the form of guarantee that would be required where the issuing entity is not the primary entity in a group, and the form of legal opinion required in respect of such guarantee from external legal counsel); and
- 2)** whether, given that CP is typically issued on a rolling basis, repeat issuance during the term of the CCFF's availability will be permitted.

Further information is expected in the coming days.

Coronavirus Business Interruption Loan Scheme ("CBILS")

A temporary loan scheme delivered by the British Business Bank will launch for the week commencing 23 March 2020 to support small and medium sized businesses, who would otherwise not have the required security to access bank lending and overdrafts. To be eligible for the CBILS, the business must:-

- 1)** be UK based with a turnover of £45,000,000 or less per annum;
- 2)** operate within an eligible industrial sector;
- 3)** have not received state aid of more than €200,000 over the previous 2 financial years; and
- 4)** have a strong borrowing proposal, but insufficient security to meet the lender's requirements.

A list of ineligible businesses can be found on the British Business Bank's website which can be accessed [here](#).

Key Features of the CBILS

- 1)** loans of up to £5,000,000 will be available;
- 2)** the loan may be up to 6 years in term for loan and asset finance facilities and 3 years for overdrafts and invoice finance facilities;
- 3)** lenders will not be charging any fees to companies under the scheme, but will pay a fee to the government for provision of the guarantee;
- 4)** the government will cover the first 12 months of interest payments and any lender-levied fees;
- 5)** the scheme may be used for unsecured loans of up to £250,000. For any loans over £250,000, if there is sufficient security to enable the lender to lend on normal finance terms (i.e. outside the CBILS) the government guarantee will not be

available. Only if there is a lack of sufficient security to meet the lender's terms will the government guarantee be available; and

- 6) the companies still remain liable for 100% of the debt.

The lender must be a partner of the British Business Bank and a list of finance providers can be found [here](#). To access the CBILS, companies should contact the lenders directly.

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