

## HM Treasury and The Bank Of England Throw Combined Weight Behind New Coronavirus (COVID-19) Commercial Paper Programme

March 23, 2020

The Bank of England has emphasized that the economic shock from coronavirus (COVID-19) will pose a challenge for the maintenance of liquidity and working capital by UK companies. With the objective of easing the cashflow difficulties likely to be widely faced by the UK corporate sector in the coming months, HM Treasury and the Bank of England have announced the launch of the Covid Commercial Financing Facility (the "CCFF").

The CCFF will purchase sterling-denominated commercial paper of up to one-year maturity that is issued by businesses making a "material contribution" to the UK economy. Such purchases will be financed from the Bank of England's reserves, and the pricing and settlement of the paper will be administered by the Bank's existing sterling desks. Subject to HM Treasury's evolving policy position in relation to coronavirus (COVID-19) as a whole, the CCFF is expected to operate until at least March 2021. The Bank has pledged to purchase paper through the CCFF at spreads that approximate to prevailing market conditions prior to the impact of coronavirus (COVID-19), in order to maximise the liquidity benefits for issuers. This pricing framework may of course be subject to adjustment in the months ahead.

While details continue to emerge, initial communications by the Bank have indicated that the overall strength of an issuer's UK nexus is likely to be crucial to its admissibility to the CCFF. UK incorporated and/or headquartered companies should typically be eligible for participation. Foreign-incorporated entities with significant UK revenues, employees, customers or operations may also be eligible if such entities are deemed to result in a "material contribution" to the UK economy. Moreover, non-bank financial companies will, in principle, be able to participate in the CCFF provided that they can demonstrate a material contribution to UK corporate finance activity. However, banks and leveraged funds will be excluded from the CCFF. In any individual instance, the Bank's risk management personnel will weigh the competing considerations around a potential issuer's links with the UK economy and will have discretion to make the resulting decision concerning eligibility.

The CCFF will also require the commercial paper issued under an eligible issuer's existing commercial paper programme to exhibit certain features. The paper should have a maturity of between one week and twelve months, and, where available, have a minimum short-term credit rating of A-3 /P-3/ F-3/R-3 from at least one of Standard & Poor's, Moody's, Fitch or DBRS Morningstar as at March 1 2020. The paper should also be issued into Euroclear/Clearstream. The CCFF will purchase paper from dealers in the primary market, and will also make purchases in the secondary market from those eligible counterparties which are appropriately authorised to conduct such business under the UK's Financial Services and Markets Act 2000.

Interestingly, the Bank has indicated that the CCFF may also be extended to eligible companies that do not currently issue commercial paper, but are capable of doing so. The precise nature of the requirements for companies that are not current issuers of commercial paper (above and beyond the criteria for determining eligible issuers and eligible securities, as outlined above) has not yet been communicated by the Bank, which has nevertheless encouraged potential non-issuers to contact the Bank to discuss a potential application.

The Bank published detailed terms and conditions of participation in the CCFF, together with an application form and associated procedural details, on March 23 2020.

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If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

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