



UK Government Announces Support for Business Affected by COVID-19

By: Matthew Daffurn

Introduction

On 17 March 2020, HM Treasury announced a number of measures designed to support UK businesses struggling as a result of the impact of COVID-19. In this Locke Lord Quickstudy, the author considers two of the key measures set out in the Chancellor's support package: (i) the Covid Corporate Financing Facility (the "CCFF"); and (ii) the Coronavirus Business Interruption Loan Scheme (the "CBILS").

Support for large/investment grade corporates: the Covid Corporate Financing Facility

The CCFF, coordinated jointly by HM Treasury and the Bank of England (the "BoE"), is intended to support liquidity among larger firms, helping them to bridge coronavirus disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. During a defined period each business day, the Covid Corporate Financing Facility Limited (the "CCFFL"), operated by the BoE on behalf of HM Treasury, will purchase newly issued commercial paper in the primary market via dealers and from eligible counterparties in the secondary market. The CCFF is intended to operate for an initial period of 12 months (or as long as necessary) and the BoE will provide six months' notice of the withdrawal of the CCFF.

Commercial paper: key considerations

Commercial paper is an unsecured, short-term debt instrument issued by a company. The BoE has indicated it will purchase sterling-denominated commercial paper that has the following characteristics:

- a 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 1 March 2020 (though the BoE has confirmed that procedures and methodologies will be in place to allow corporates that didn't previously have a rating to demonstrate sound financial health);
- issued directly into Euroclear and/or Clearstream;
- otherwise standard features (for example, no extendibility or subordination);
- if issued by a finance subsidiary, guaranteed by the parent company in a form acceptable to BoE; and
- a minimum size per individual security of £1 million nominal (rounded to the closest £0.1 million).

Eligibility

The BoE has indicated that companies and their finance subsidiaries that make a material contribution to the UK economy and that can demonstrate that they were in sound financial health prior to the crisis are able to participate in the CCFF. In guidance BoE suggests that firms that meet this requirement would 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; firms with their headquarters in the UK. We will also consider whether the 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."

Importantly, commercial paper issued by banks, building societies, insurance companies and other financial sector entities regulated by the BoE or the Financial Conduct Authority will not be eligible; nor will commercial paper issued by leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation.

For secondary market offerings, eligible counterparties will need to confirm the eligibility of specific securities with BoE prior to offering them for sale. If BoE confirms eligibility before 16:00, the securities will be eligible for sale to CCFFL from the next business day. Counterparties must be appropriately authorised under the Financial Services and Markets Act 2000.

CCFF applications and documentation

Final documentation for the scheme, including a pricing schedule, relevant application forms and full terms and conditions, is expected to be published in the week commencing Monday 23 March, which is when the CCFF will open for drawings.

Support for SMEs: the Coronavirus Business Interruption Loan Scheme

The Chancellor has introduced the CBILS, provided by the British Business Bank (the "BBB"), to provide facilities of up to £5m for SMEs in the UK who are experiencing lost or deferred revenues, and cashflow disruption. The CBILS will extend to several finance products, including term loans, overdrafts, invoice finance and asset finance. The CBILS provides accredited lenders with a government-backed guarantee potentially allowing that lender to be able to offer financing arrangements in circumstances where it might not be able to make a favourable credit decision. Importantly, the borrower always remains 100% liable for the debt.

Key terms of the CBILS

- Facility size: The maximum value of a facility provided under the CBILS will be £5m, available on repayment terms of up to six years.
- Government guarantee: The CBILS provides the lender with a government-backed, partial guarantee (80%) against the outstanding facility balance, subject to an overall cap per lender at portfolio level.
- Interest and additional fees: The Government will make a 'Business Interruption Payment' to cover the first 12 months of interest payments and any fees levied by lenders (though a number of lenders have indicated that they do not intend to charge arrangement or early repayment fees). Businesses will benefit from no upfront costs and lower initial repayments.
- Terms: Finance terms are up to six years for term loans and asset finance facilities. For overdrafts and invoice finance facilities, terms will be up to three years.
- Security: At the discretion of the lender, the CBILS may be used for unsecured lending for facilities of £250,000 and under. For facilities above £250,000, the lender must establish a lack or absence of security prior to the application to use the CBILS.

Eligibility for the CBILS

Subject to certain exceptions, SMEs from all sectors can apply for the full amount of the facility. Decision-making is fully delegated to the relevant accredited lender, but to be eligible for a facility under the CBILS, the BBB has indicated an SME must:

- be UK-based in its business activity, with annual turnover of no more than £45m; and
- have a borrowing proposal which "*were it not for the current 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 term difficulty*".



The BBB has indicated that if an accredited lender can offer finance on normal commercial terms without the need to make use of the scheme, they will do so.

Next steps

Locke Lord has considerable experience in advising borrowers and lenders on a wide variety of financing products. UK-based lenders and corporates requiring more information on: (i) the Covid Corporate Financing Facility; or (ii) the Coronavirus Business Interruption Loan Scheme are advised to contact [Matthew Daffurn](#), [Joanne Davis](#), [Neale Downes](#), [Rachael Browning](#) or your regular Locke Lord attorney.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact the author.

Matthew Daffurn | +44 (0) 20 7861 9289 | matthew.daffurn@lockelord.com

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