



# Bank of England moves to ease corporate financing conditions

On 6 February the Bank of England announced further details of its Asset Purchase Facility. The Bank has been authorised by the government to purchase up to £50bn of investment grade private sector assets with the broad aim of improving financing conditions for companies that make a material contribution to the UK economy. Purchases under the scheme will be made by Bank of England Asset Purchase Facility Fund (the Fund), a wholly owned subsidiary of the Bank.

## Introduction

The initial focus of the Asset Purchase Facility (see [www.bankofengland.co.uk/markets/marketnotice090206.pdf](http://www.bankofengland.co.uk/markets/marketnotice090206.pdf)) is on commercial paper (CP), for which the Bank expects its facility to be operational on 13 February, and on corporate bonds, for which the Bank is consulting on a scheme to launch as soon as possible. While firm details are already available for the CP facility, the Bank has set out only a high-level scheme for corporate bonds and is seeking views from market participants on a range of issues.

Other assets that the Bank is authorised to purchase are:

- paper issued under the government's credit guarantee scheme (CGS);
- syndicated loans; and
- asset-backed securities created in viable securitisation structures.

Again, the Bank is seeking views from interested parties and is keen to engage in discussion on these classes of asset.

## The CP facility

Under the CP facility, the Fund will purchase investment grade sterling CP issued by UK corporates, both in the primary market via dealers and in the secondary market from other eligible counterparties. The Fund will purchase CP daily. The purpose of the facility is to improve corporate access to the capital markets by channelling funds directly to parts of the corporate

sector, while underpinning secondary market activity and helping to enlarge the private issuance market.

## Who can issue CP into the facility?

For a company to be an eligible issuer it must make a material contribution to economic activity in the UK. The Bank states that UK incorporated companies (including those with a non UK parent) of sufficient size to maintain a CP programme and with a genuine business in the UK will normally be regarded as meeting this requirement. CP may be issued by a finance subsidiary if appropriately guaranteed. A company does not need to have an existing CP programme to be able to use the facility.

## CP eligibility criteria

To be eligible, CP must:

- have a maturity of three months or less (or a residual maturity of three months or less if purchased in the secondary market);
- have a minimum short term credit rating of A-3/P-3/F-3 from at least one of Standard & Poor's, Moody's and Fitch;
- be issued directly into CREST, Euroclear or Clearstream; and
- not bear certain non standard features (eg extendibility or subordination).

A company that wishes its CP to be offered in the facility should contact the Bank directly at [APF\\_applications@bankofengland.co.uk](mailto:APF_applications@bankofengland.co.uk) to discuss its eligibility and to provide the necessary documentation (including a confidentiality agreement).

Although asset backed CP is not eligible, the Bank is willing to discuss with market participants the possible extension of the facility to this type of CP.

### Eligible counterparties

Any person who is authorised for the purposes of the Financial Services and Markets Act 2000 (which includes those EEA institutions that passport into the UK) is able to become a counterparty for the CP facility. A dealer or investor wishing to participate in the CP facility is required to complete the application form available at [www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm).

### Corporate bond secondary market scheme

The Bank has also published a high-level design for a scheme in which the Fund will make regular small purchases of a wide range of investment grade corporate bonds. The purpose of the scheme is to aid secondary market liquidity, initially by facilitating market making by banks and dealers. Bonds could be purchased bilaterally or through a reverse auction process. The Bank's proposals are less developed than those in relation to CP and it is seeking views of market participants on various aspects of the proposal.

### Who can issue bonds?

As with the CP facility, a company will be eligible to have its bonds purchased in the scheme if it makes a material contribution to economic activity in the UK. The Bank states that UK incorporated companies (including those with a non UK parent) capable of issuing a bond into the capital markets and with a genuine business in the UK will normally be regarded as meeting this requirement. Bonds may be issued by a finance subsidiary if appropriately guaranteed.

### Eligible bonds

To be eligible for purchase by the Fund, bonds must be sterling corporate bonds of eligible issuers that:

- are conventional, senior, unsubordinated debt;
- have a minimum long term credit rating of BBB-/Baa3 from two or more of Standard & Poor's, Moody's and Fitch;
- are issued directly into CREST, Euroclear or Clearstream;
- have a minimum size (perhaps £100m);

- are listed; and
- do not have complex and non standard structures (convertibles and exchangeables are excluded).

### Eligible counterparties

Initially, it may be that the Bank will purchase bonds only via firms that can be market makers to facilitate their activities in supporting secondary market liquidity. If so, the Bank is likely to permit as counterparties only those firms that are also counterparties in its gilt-purchase open market operations. However, the Bank would consider extending the range of counterparties to certain regulated investors, in particular if market making did not revive.

### What next?

If a corporate is interested in issuing CP or bonds for purchase by the Fund in the facility it should:

- check that it meets the eligibility criteria for participation as an issuer;
- consult with the Bank of England; and
- consult with its advisers on the securities to be issued.

For further information please refer to your usual partner contact.

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