Re: A question...

From **Date** 05 March 2020 11:46
To D Cameron;Cunliffe, Jon
Cc
Journal Recipients

DC and Sir Jon,

and I have agreed that DC will call Jon this Saturday afternoon, 7th, on .

If there is a specific time that’s best on Saturday, please let us know.

Best wishes,

On 05/03/2020, 11:40, "D Cameron" wrote:

Great. Copied to to fix. Thanks Dc.

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> On 5 Mar 2020, at 10:55, Cunliffe, Jon                                    wrote:
>
> David
>
> Of course.                                          can I get my office to arrange a call?
>
> Jon
>
> -----Original Message-----
> From: D Cameron
> Sent: Thursday, March 5, 2020 9:44 AM
> To: Cunliffe, Jon
> Subject: A question...
>
>
> Jon
>
> Hope all is well.  I have a quick question for you, concerning what the Governor meant in his remarks about Supply Chain Finance.
>
> I do a lot of work with Greensill Capital, now the world leaders in this space.  We would be keen to help...
>
> Do you have a moment for a quick word?   I am on my old number              or can call you whenever convenient.
>
> All good wishes.  Dc.
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> ************************************************************************************
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>
> The Bank of England is located at Threadneedle Street, London EC2R 8AH. The Prudential Regulation Authority is located at 20 Moorgate, London EC2R 6DA. Please vi
> ************************************************************************************
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Message: RE: Supply Chain Finance, Bank of England and Greensill Capital

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RE: Supply Chain Finance, Bank of England and Greensill Capital

From Benford, James Date 05 March 2020 18:23

To D Cameron;Lex Greensill

Cc ;Mutton, Tom;Phillips, Rhys

(re-sending with Tom, Rhys now cc'd)

Thank you David.

Could I suggest that Lex/his team speak to Tom Mutton and Rhys Phillips who, respectively, head up our Fintech Hub and our Sterling Markets division. I have cc'd them on this email. Tom's team have been looking at a data-based finance platform for SMEs, where it sounded like there was a read-across to the fund's approach to investing.

Best wishes,

James

James Benford
Private Secretary to the Governor
Bank of England | Threadneedle Street | London EC2R 8AH | +44 20 3461 |

-----Original Message-----
From: D Cameron
Sent: Thursday, March 5, 2020 5:27 PM
To: Benford, James ; Lex Greensill
Cc:
Subject: Supply Chain Finance, Bank of England and Greensill Capital

James,

Thanks for the opportunity to speak this afternoon. As I said, best of luck with the arrival of the new governor.

The purpose of this email is to introduce you to Lex Greensill, founder and CEO of Greensill Capital (GC). As I explained on the call, GC is now the world's largest provider of Supply Chain Finance and has the mandate for the UK government. I am an advisor to the company. We would be keen to step and help during the current difficulties. Perhaps a first stage would be for Lex and/or some of his team to meet with some of your experts to discuss how the market works and the role of GC within it.

I will leave to the two of you to fix, but happy to help in any way I can. This is copied to .

With all good wishes,

David Cameron

From:
Sent: 09 March 2020 20:59
To:
Cc: Benford, James
Subject: Readout - Jon/David Cameron call

Jon and Cameron spoke on Saturday.

The conversation was very similar to that between Cameron and James Benford.

- Jon noted that Mark Carney had mentioned the range of tools available at the Bank's disposal in case of disruption from coronavirus, including various Bank facilities, at his recent TSC hearing. Jon noted that the Bank had taken similar action post-referendum.
- Jon also noted that Andrew Bailey had also mentioned potential Bank support for supply chain finance at TSC. Jon couldn't say what exactly Andrew had in mind, but it seemed to be a reference to the crisis experience.
- Jon acknowledged that non-bank credit suppliers play a role in bridging temporary supply chain disruption.
- Cameron noted that the world of supply chain finance had changed since the crisis and was keen the Bank was aware of this point. Cameron explained how Greensill Capital worked, and asked if he and Lex Greensill could come in to brief Jon and other about this. Jon agreed.
- Separately, Greensill were following up at a working level on the SME data-based finance platform agenda.

From: Lex Greensill
Sent: 15 March 2020 15:11:14 (UTC) Dublin, Edinburgh, Lisbon, London
To: Cunliffe, Jon
Cc: D Cameron;
Subject: Re: Meeting up.

Many thanks, Jon.

Standing by.

Warmest regards,

Lex

From: Cunliffe, Jon
Sent: Sunday, March 15, 2020 3:10:14 PM
To: Lex Greensill
Cc: D Cameron

Subject: Re: Meeting up.

Lex

Will set something g up for tomorrow.

On 15 Mar 2020, at 14:30, Lex Greensill wrote:

Dear Jon,

I understand the meeting we had scheduled for Monday has been moved.

The disruption to supply chains and the financing of them is real. In the last week we have seen a great many fixed income investors who support the asset class step back - meaning liquidity could well become a major issue in the coming days.

You will recall that the Bank established a supply chain finance facility back in 2010 (as a part of your asset purchase facility). We think there is an urgent need to re-establish same - given the millions of businesses that now rely on supply chain finance.

In that light, could you find a few minutes tomorrow (or even today, if you prefer) for us to speak please?

Should you wish to call directly, my number is below.

Warmest regards,

Lex

Lex Greensill CBE
Chief Executive Officer
London

<image001.png.attachctrl><https://eur03.safelinks.protection.outlook.com/?url=http%3A%2F%2Fwww.greensill.com%2F&data=01%7C01%7Clex%40greensill.com%7Cf7d40571243540ac5fef08d7c8f2f9bd%7C4844208067c94dde9718feabb03fb4ad%7C1&sdata=odysrlWu2jjGS%2FAN%2Fr87W6ki1MXUvAL1IS3fGGJnvrA%3D&reserved=0>

-----Original Message-----
From: Cunliffe, Jon
Sent: 08 March 2020 09:49
To: D Cameron
Cc: Lex Greensill

Subject: Re: Meeting up.

Thanks,

Copying in and in my office.

> On 8 Mar 2020, at 10:47, D Cameron wrote:

>

> Jon, Lex

>

> This is to re-introduce you to each other.

>

> As I have discussed with both of you, I think it would be good to get together to discuss what more can be done to help companies with supply chain finance, and to understand the new shape and scale of the market.

>

> I have copied this to Chiefs of Staff in my and Lex’s office. Jon, if you could do the same we can try and make this work relatively rapidly.

>

> All good wishes.

>

> Dc.

>

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16 March 2020

Sir Jon Cunliffe
Deputy Governor
Bank of England
Threadneedle St
London EC2R 8AH

Dear Jon,

I much look forward to our call at 10:30 tomorrow morning. Thank you for making time on such short notice. I have attached a detailed outline of our proposal, which is summarized as follows.

The stress resulting from the COVID-19 pandemic will have a drastic impact on the supply chains that underpin the UK economy.

It is essential that these supply chains remain funded in order to continue to deliver goods and services to our businesses and communities. Many suppliers are SMEs and do not qualify as investment grade companies, making it extremely difficult for them to obtain capital. Clearly bank capital allocation rules disincentivize banks from funding SMEs. Supply chain finance has therefore assumed a critical role in the financing of the SME sector.

This proved to be the case in the financial crisis when, faced with a similar economic challenge, the Bank of England established its Asset Purchase Facility, enabling the Bank to treat supply chain and accounts receivable finance as eligible assets. Since the financial crisis, Greensill has become the market-leading provider of working capital finance for companies globally. We are the sole provider of HMG's supply chain finance programmes across all areas of local and central government under the Crown Commercial Service's Supplier Early Payment Scheme (SEPS). We work particularly closely with the NHS to finance UK family-owned pharmacies and have agreed to pay all NHS employees and contractors daily. In the private healthcare sector, we finance the AstraZeneca global supply chain. We work across all major industrial sectors.

Since inception in 2011, Greensill has funded over 2.6 million suppliers in 175 countries. In 2019 Greensill provided USD143bn in capital to businesses throughout the world (most of these SMEs).

In recent years the supply chain and accounts receivable financing markets have matured significantly. They are now strongly supported by major institutional investors, such as pension funds and insurance companies, as well as bank investors. They invest through notes and are attracted by the short dated, self-liquidating and trade credit insured characteristics of these assets. During the financial crisis the market was materially smaller than it is today and was bank focussed. In current markets investors are unsettled and seeking redemptions. It is critical to stabilise the supply chain finance investor base at a matter of urgency.

The Bank of England can again play a crucial role in keeping the market to fund supply chains open to capital markets and bank investors if it is able to treat these as eligible assets available for purchase. Trade credit insurance enables non-investment grade suppliers to secure an investment grade rating, thereby meeting the Bank's eligible collateral requirements under the Sterling Monetary Framework.

Knowing that the Bank stands ready to buy these assets will provide the necessary confidence to institutional investors that will enable them to continue to finance supply chains with the knowledge that there is a strong source of liquidity. In our judgement, the initial size of this facility needs to be of the order of GBP10 – 20 billion if it is to provide the necessary level of confidence to the capital markets that will ensure effectiveness in this extraordinary time.

We look forward to our discussion tomorrow.

With kind regards,

Yours sincerely,

Lex Greensill CBE
Chief Executive Officer

Bank of England Asset Purchase Facility Extension Proposal

Context

The CoVid-19 pandemic poses an existential risk to the global economy. Even before the current outbreak, it was widely considered that we were approaching the end of a prolonged economic upswing, with global demand beginning to soften and economic headwinds threatening a supply side shock. This outbreak, combined with a tepid economic backdrop could spell disaster to thousands of supply chains, businesses, their employees and wider economic stability. Demand is plunging as self-isolation, travel restrictions and quarantine measures begin to bite into consumer spending. The same is true of business spending, reduced productivity and availability of credit for businesses. All of this will lead to the opening of an earnings gap and liquidity squeeze that could push many otherwise well run, stable and profitable businesses into insolvency.

Supply chains are global

Corporate supply chains are increasingly global, with unfinished goods crossing borders multiple times in many supply and value chains. To ensure UK based companies are supported we must consider the supply chain as a whole and not a company in isolation. The vast majority of supply chain disruption occurs beyond the visibility barrier (e.g. a supplier's supplier) and may not be within the same country; however, is vital to the success of the whole supply chain and therefore UK companies.

Investment grade debt instruments to fund the supply chain

Greensill have pioneered the use of short dated notes to fund supply chains. The notes reflect single obligor risk and are tenor matched directly to one or many transactional invoices between Buyers and Suppliers. These notes take the form of zero-coupon bonds, issued at a discount, with a maturity payment due directly from the Buyer. This infers that the credit risk of the notes is equivalent to that of the obligor. We use this note issuance mechanism to support Supply Chain Finance (SCF) and Trade Account Receivables (AR) programmes.

Both these products provide low cost liquidity to the entire supplier base of large, often Investment Grade (IG) companies by settling invoices ahead of maturity. This is superior to encouraging lending to SMEs as it is linked to underlying trading activity, matched to genuine cashflow needs and gets cash directly to Suppliers. Where the underlying risk is non-IG risk enhancement methods (like Trade Credit Insurance) are used to ensure that investors only take IG risk.

Using the Asset Purchase Facility to support supply chains

By engaging in a purchase programme for SCF and AR assets (akin to the Secured Commercial Paper programme in the Asset Purchase Facility (APF) in 2009 which had these as eligible assets) the Bank of England (BoE) can provide stability in the economy by ensuring that capital flows through supply chains to help companies trade through this tough economic period. This would help BoE's stability objective whilst at the same time purchasing high quality IG assets and would complement the other initiatives announced including the new Term Funding Scheme with additional incentives for SMEs.

Greensill proposes that the Bank of England makes the purchase of SCF and AR assets that have an IG risk (either directly because of the rating of the underlying Obligor or where this is due to Trade Credit Insurance from an Investment grade underwriter) eligible assets in the APF.

Appendix

1. Greensill

Background

Greensill is the market-leading provider of working capital finance for companies globally, with a specific focus on SMEs.

Founded in 2011 by Lex Greensill, the company is headquartered in London and employs over 650 people throughout the globe (the majority based in London and Warrington). Greensill provides capital to customers across Europe, North America, Latin America, Africa and Asia and works with a host of banks and institutional investors to provide consistent funding streams to underpin the process.

Since inception, Greensill has funded over 8 million suppliers in 175 countries. In 2019 alone, Greensill injected USD143bn into businesses throughout the world. Greensill's technology ensures businesses of any size can access low cost capital, not just the largest and most credit worthy companies.

Greensill Pay

Greensill recently launched a new product that allows employees to access their wages as soon as they are earned. Greensill's flagship product, Supply Chain Finance, allows suppliers to obtain early payment. Greensill Pay extends this service to a company's most important supplier – its employees. Greensill Pay aims to end payday poverty and further strengthen its mission to make finance fairer for all.

Bank of England Partnership

Greensill unlocks capital for customers that employ over 10 million people around the globe. A Greensill and Bank of England partnership would make a meaningful positive impact to businesses and employees throughout the UK and create the liquidity and credit needed to sustain the current economic cycle.

2. Effects on Credit Markets in the past few weeks/months

The influence of corporate credit rating on capital availability and cost

The benefits of corporates achieving an Investment Grade (IG) external credit rating are well known and facilitate access to a deeper pool of capital than Non-Investment Grade (NIG) or non-rated (NR) peers. This is in part attributable to the inferred probability of default of each underlying rating following an upward sloping exponential curve as the credit rating declines, so a 2-notch decline in rating is approximately equivalent to a doubling of the probability of default.

This capital market segmentation provides two main benefits to IG names. First, in the event of market turbulence, liquidity remains relatively abundant to IG names. In the event of heightened levels of corporate defaults, it is still highly unlikely that any IG defaults will be observed, therefore investors maintain willingness to purchase IG risk through the economic cycle. Secondly, there is a significant pricing benefit that stems from the deep liquidity pool; order books are often many times oversubscribed, keeping yields low on their paper.

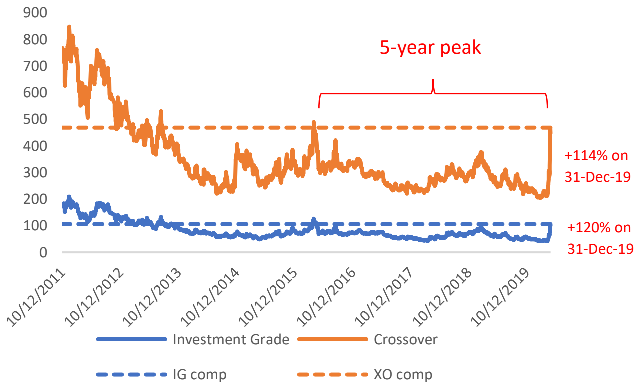
The category of corporates just below the IG names are the crossover (XO) names that are just below the IG or are split IG/NIG across rating agencies. Their access to liquidity is generally poorer than the IG names but often significantly better than the NIG/NR names.

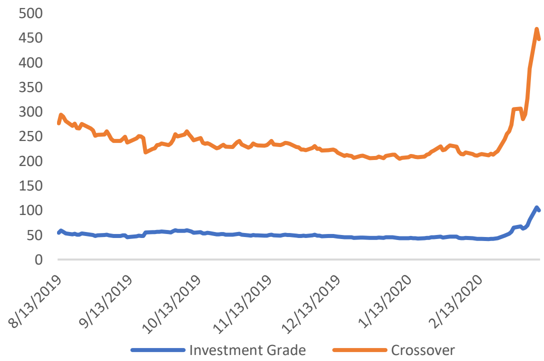
In the event of economic stress IG and XO companies are far better positioned to withstand shocks than NIG or NR companies due to both their superior access to, and favourable pricing of capital.

This view is substantiated by recent movements in the 5-year iTraxx IG and crossover indices. These indices measure the 125 and 75 most liquid IG and XO/NIG on-the-run iTraxx CDS contracts in European markets. The spread on CDS contracts provide an indication of the market view on the likelihood of a default event and therefore the access and cost of capital.

Given that there is no real tracker for NIG/NR names, it could be inferred that the effect on access/price of capital for such names will be further exaggerated and therefore their access and cost of capital will be affected even greater than the XO names.

The figures below show the CDS spreads since the CoVid-19 outbreak with the March 2020 spikes in spread.





3. Need for the continuance of credit

Supply Chains are global and the role of SMEs

Corporate supply chains are becoming increasingly global, with unfinished goods crossing borders multiple times common place in many supply, and value, chains. To ensure UK based companies are supported through any future macroeconomic shocks we must consider the supply chain as a whole and not a company in isolation. The vast majority of supply chain disruption occurs beyond the visibility barrier (e.g. a supplier's supplier) and may not be within the same country; however, is vital to the success of the whole supply chain and therefore UK companies.

It is worth noting the composition of a supply chain. The majority of tier 2+ suppliers being classified as SMEs (<£25m turnover) and will predominantly be NIG or NR, therefore will be subject to the capital market constraints highlighted above.

The health of UK SMEs

The SME Finance Monitor is a quarterly survey of c.5,000 UK based SMEs to assess business sentiment and access to finance. It is the widest independent report of its kind and collates data from all the main banks as well as Government departments and trade bodies. These independent reports are used by banks, government, the Bank of England MPC and industry bodies. The latest full report (Q2-19) highlights some points of concern when considering supply chain resilience and the role UK SMEs play in this.

The first point of interest is the growing number of SMEs that classify themselves as Permanent Non-Borrowers (PNBs, 44% at H1-19). These are SMEs that are not using finance and show no appetite to do so. SMEs are choosing to self-fund and redeploy any cash generated back into the business in lieu of both short- and long-term debt in their capital structure. This also restricts the availability of working capital as cash, a key component of working capital, is deployed in place of long-term debt to fund capital expenditure. PNBs are much less likely to be planning to grow than peers who use debt (37% vs 59%).

This leads on to the second point of interest: the ratio of credit balance to turnover. As cash earnings are being redeployed, and borrowing is minimal, the remaining credit balances serve as the main buffer to adsorb any economic shocks. As at H2-2019 52% of SMEs are holding 10% or less of turnover as a credit balance, this equates to at most 6 weeks of trading activity. Assuming no pre-arranged working capital facilities such as an overdraft are in place, a term extension or trading shock of only 30 days or other earnings gap could be enough to push many SMEs into difficulty.

Delivering working capital where it is needed

In the event of an economic shock it is likely that the greatest demand for capital will come from NIG or NR SMEs due to their limited cash buffer. Maintaining the health of these companies is vital to ensuring that all supply chains that cross the UK are resilient to unexpected shocks. However, injecting debt capital into NIG or NR companies during a time of stress can be challenging and often shunned by banks who are looking to protect their balance sheet by offering debt to SMEs at high margins.

One tried and tested way of supporting trading activities is to inject working capital where it is most needed, i.e. when buying and selling of goods/services, whilst ensuring that only IG and XO risk is taken by the funder, is to use technology driven Supply Chain Finance and Trade Account Receivables Finance products.

4. Greensill Working Capital Products

Supply Chain Finance

What is it?

Supply Chain Finance ("**SCF**") is a working capital facility allowing Buyers to offer Suppliers the ability to receive early payment for the receivable owed by the Buyer associated with goods and services provided.

Buyers like to pay as late as possible, whereas Suppliers would like to collect their money as soon as possible and therefore there is always a tension between them. SCF provides a way of decoupling when the Buyer pays and when a Supplier collects on their invoices helping working capital on both sides.

This facilitation of the flow of working into the supply chain ensures a win-win solution for Buyers and Suppliers. Buyers are able to support the viability of their supply chain by ensuring their Suppliers have access to finance, particularly important in times of pressure when access to capital can be limited and expensive. Suppliers benefits not only from receiving payment early, but the cost of this early payment is lower than they could finance as it is calculated based on the strength of the Buyer's credit rating.

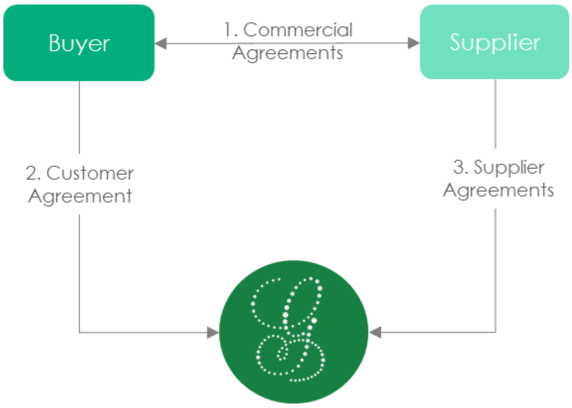
How does it work?

Suppliers send invoices for payment to Buyers after delivery of goods and services. Buyers will review and approve such invoices on an electronic platform in advance of the normal due date of the invoices. Upon the Suppliers' requests and at Greensill's discretion, Greensill may elect to provide early payment of such approved invoices and, as a consequence, purchase the receivables from the suppliers.

Upon delivery of the funding request, the Buyer makes an irrevocable, unconditional, legal, valid and binding undertaking known as Irrevocable Payment Undertaking ("**IPU**")to Greensill to pay to a designated account, on a specified maturity date, amounts equal to, and in the same currency as the underlying receivable.

It is important to the Buyer that the payable due to the supplier is not re-classified as Bank debt, therefore the actual financing is carried out as a receivable purchase.

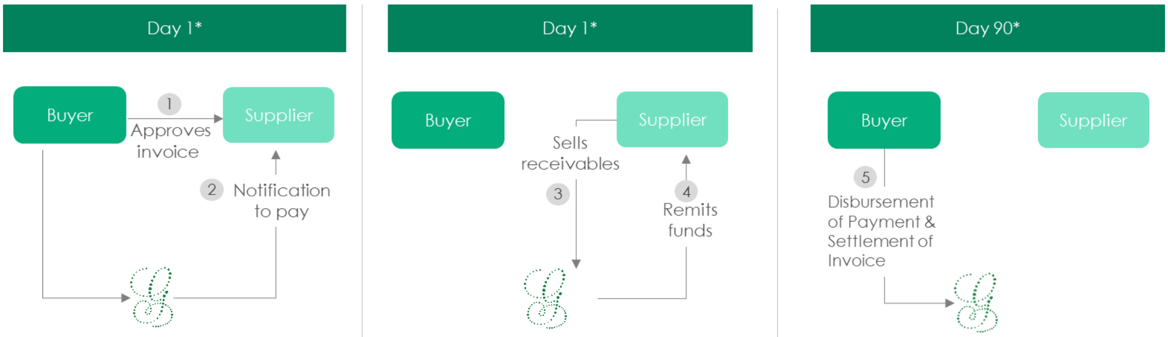
The following SCF documentation is used between Greensill Capital, the Buyer, and its Suppliers:



1. **Commercial Supplier Agreement**: the existing agreement between a Buyer and its Suppliers.

2. **Customer Agreement** under which the Buyer irrevocably agrees to pay the Supplier or Greensill Capital, if assigned, the approved invoice amount without deduction or set-off on the maturity date.

3. **Supplier Agreement**: under which the Supplier has the option to accelerate an approved invoice. There is no obligation for Suppliers to sell any receivables to Greensill Capital.



1. The Buyer approves the Supplier's invoice and irrevocably confirms its obligation to pay the Supplier on a future date.
2. The Supplier is notified via the SCF Programme Provider of payment from the Buyer on a future due date (e.g. Day 90).
3. The Supplier may immediately electronically discount the full value of the underlying receivables to cash. This sale takes place at a small discount to face value – determined by the remaining time until its normal payment date – and without future recourse to the Supplier.
4. Greensill immediately remits funds to the Supplier.
5. The Buyer pays Greensill in full, without set-off, counterclaim or deduction on the maturity date.

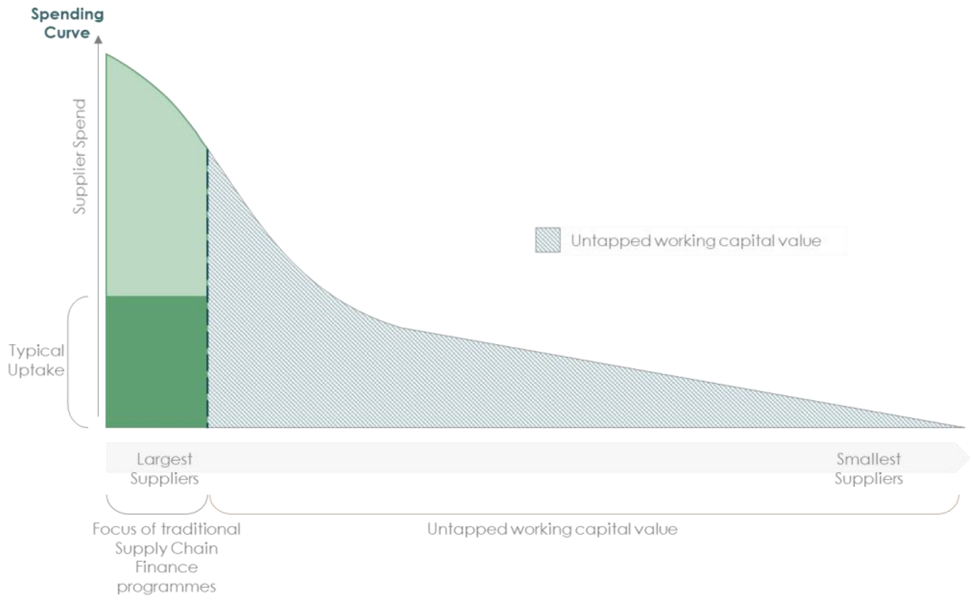
Who is it for?

As a result of the Buyer providing an IPU and the corresponding receivable being assigned to the Financier, the Financier must be willing to have a credit line against the Buyer. As such, typically the Buyer under the programme is an Investment Grade corporate that is allowing its suppliers to access early payment by opening up their own credit availability.

Therefore, in order to offer a Supply Chain Finance programme, the Buyer under the programme must be of sufficient credit quality or alternatively the Financier should seek Trade Credit Insurance on the underlying counterparty to achieve an Investment Grade credit risk.

Not only will the supplier benefit from early payment, but they will also likely benefit from a cheaper form of financing.

Several programmes focus only on the largest suppliers joining the programme. However, whilst the targeting of the "short tail" of suppliers achieves a working capital uplift for the Buyer, it is not truly benefiting the entire supply chain of the Buyer.



The goal of a true supply chain finance programme should be to "on-board" the long-tail supplier base and not just the short-tail suppliers. However, programmes that are governed by legacy systems and process simply cannot cope with the huge scale required and this is where Greensill integrates with technology partners to leverage cutting edge technology to ensure the full supply chain benefits from the offering.

What other finance is available to Suppliers?

For SME suppliers there are limited finance options available, invariably these will require security over assets or to give away equity in exchange for the capital.

SCF does not rely on the strength of the supplier and does not increase the debt burden on the supplier. With the credit risk under an SCF programme being against the Buyer, the Supplier can not only benefit from receiving early payment on their invoices, but they can do so at a cheaper cost of finance than they can typically obtain due the inherently stronger credit rating of the Buyer.

How do we finance our SCF programmes?

Greensill was first to take a traditionally bank-only product and open it up to the capital markets.

Through our proprietary platform, we have the ability to take millions of individual invoices and distil this information down, allowing us to package bundles of invoices into notes that are in turn purchased by our investor base.

The distillation of invoices allows Greensill to sell notes to investors, with the Buyer under the Supply Chain Finance programme named as the Obligor and the underlying note not only collateralised by distinct invoices of the same currency and maturity date but importantly also the IPU that was generated by the Buyer at the point of invoice confirmation.

In cases where the Buyer (or the Obligor under the note) is not of an Investment Grade rating, Greensill will seek to obtain Trade Credit Insurance on the underlying assets, such that if the Buyer does not have the ability to meet its obligations under the IPU, the underwriter will pay out the balance. The underwriter in all instances will be Investment Grade.

Trade Account Receivable Financing

What is it?

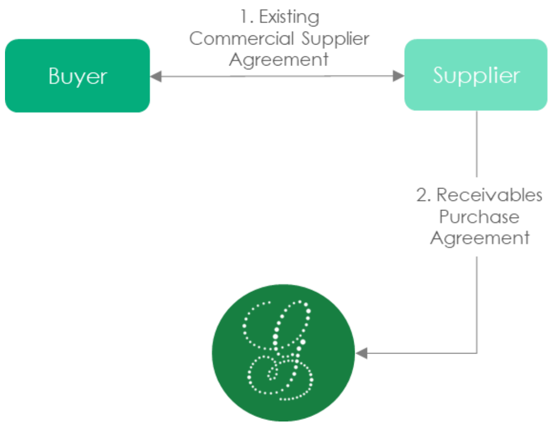
Trade Receivable Financing also known Account Receivable (AR) Financing gives Suppliers of goods and services access to cash faster by unlocking income tied up in their Accounts Receivable.

This financing not only allows Suppliers the ability to monetise their outstanding Accounts Receivable, but also allows them to mitigate payment risk of the Account Debtors, particularly relevant in a downturn.

AR Financing enables the Financier to purchase the rights to receive payment under the Account Receivable, which in turn generates a payment to the Supplier, at a discount to face value. The obligations of the Account Debtor and Supplier are not affected or transferred, however the rights to receive payment are transferred to the purchaser of the Account Receivable i.e. the Financier.

The underlying Commercial Agreement between the Account Debtor and Supplier details not only the provision of goods or services but also the rights and obligation of both parties. Importantly, it also governs the obligation on the Account Debtor to pay the Supplier the face value of the invoice on the due date, subject to all conditions being satisfied (as agreed between the parties in the Agreement).

The following AR Financing documentation is used between Greensill Capital and the Supplier:



1. **Commercial Supplier Agreement**: the existing agreement between Buyer and Supplier.

2. **Receivables Purchase Agreement**: under which the Supplier assigns the rights to receive payment under the Account Receivable to Greensill Capital and provides relevant legal assurances as to the validity and repayment of the underlying invoices.

Who is it for?

Greensill as a purchaser of AR seeks to set up financing facilities for its clients who own AR owed by their Account Debtors (ADs or Customers) and are looking to achieve any of the following:

- generate liquidity;
- improve working capital position;
- mitigate customer payment risk;
- augment sales by clearing creditor lines thereby opening capacity for a customer; and/or
- improve financial statement metrics like Days Sales Outstanding or higher cash balances on the balance sheet for reporting purposes.

How does it work?

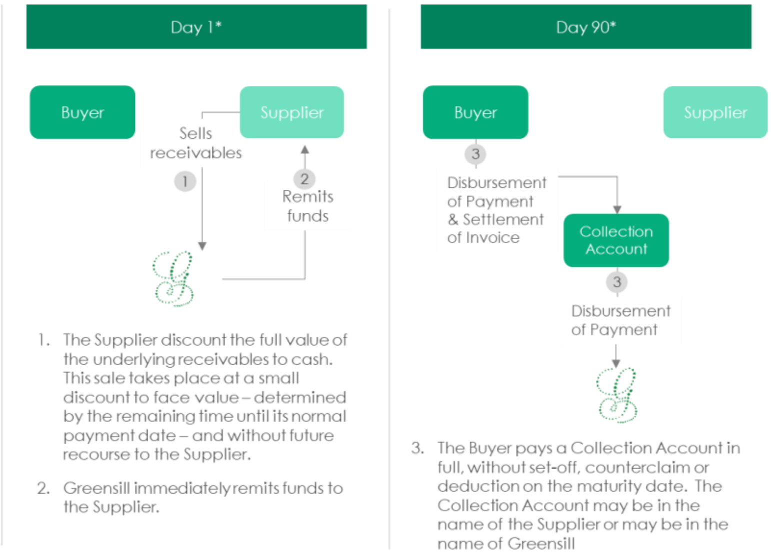
AR Financing allows for the Supplier to select ADs for whom they wish to receive early payment for their receivables. The rationale for the Supplier selecting certain ADs may include:

1. Creation of liquidity;
2. Risk mitigation; and / or
3. Increase sales to a specific AD by opening up the Supplier credit limit capacity.

The Financier is purchasing the right to receive payment from each AD and as such, it is important that that risk and hence each AD is analysed individually. Following the analysis each AD will have a pre-approved credit limit assigned to them.

In order to mitigate any late payment shortfalls or dilutions to the receivables, the Financier will undertake payment history analysis so as to determine Buffer Periods (expected late payment window) and Dilution history. Utilising this data, the Financier will then calculate an appropriate advance rate to be applied to the value of the receivables to minimise any dilution risk on the Supplier.

Most AR purchases will be executed on an undisclosed basis, which means that the AD is not notified about the sale of its Accounts Receivable to the Financier.



Further to this, all ADs that are NIG/NR and the Supplier (if NIG/NR) will be credit insured by an Investment Grade underwriter.

How do we finance our AR programmes?

Greensill has taken our proprietary knowledge of opening up Supply Chain Finance facilities to the Capital Markets and expanded this into the Accounts Receivables product.

The principal difference in the distribution of AR Finance programmes is that there is not an IPU issued by the Buyer of the goods or services and therefore the investors in the notes that are issued by Greensill are solely collateralised by the underlying Accounts Receivables due from the Account Debtors.

We package up the millions of individual invoices and distil this information down, allowing us to package bundles of invoices into notes that are in turn purchased by our investor base.

The distillation of invoices allows Greensill to sell notes to investors that are collateralised by Account Receivables. In the case of Selective Debtor AR Financing the investor is purchasing specific risk against certain Account Debtors. Where the Account Debtor is not deemed to be an Investment Grade counterparty, Greensill will obtain Trade Credit Insurance underwritten by an Investment Grade underwriter.

Where there is any residual risk on the Suppliers this is covered by the Trade Credit Insurance.

Much like in the SCF financing, our solution allows for the delivery of capital to our AR client base based on short-term Investment Grade risk that is distributed to the Capital markets.

17/03/2020 Call with Greensill Capital

Attendees: Alex Brazier, Ben Martin, (BoE); Lex Greensill, David Cameron, (Greensill Capital)

1. Greensill Capital explained their business model and the size of the market.
    a. They are a leading provider of supply chain finance (SCF) and accounts receivable finance, providing over $140bn in capital last year across a range of industries (including supply chain finance to NHS)
    b. They package bundles of invoices into notes, which they sell onto bank and non-bank investors.
    c. These notes take the form of secured commercial paper. Greensill consider these to be financially guaranteed in the sense that either the underlying obligor is IG, or, if not, the asset is insured by an IG under-writer.

2. Greensill Capital explained that that they were coming under significant pressure in current market conditions.
    a. Although banks were continuing to buy their securities (at higher spreads), fixed income investors had stopped amidst a flight to cash.

3. Greensill Capital noted that, in their view, a re-establishment of the 2009 Secured Commercial Paper (SCP) facility would help ease market conditions and protect the supply of working capital to the real economy.
    a. The structure of such a facility could be broadly similar to the 2009 facility. But they thought tweaks could be made to eligibility criteria to capture the global nature of supply chains for UK businesses, credit enhancements to the assets in question (which would simplify underwriting), and to enable non-bank credit providers to access the facility.
    b. Greensill Capital emphasised that time was of the essence, and that a large facility could help reinstate fixed income investors' confidence in the market.

4. Bank of England representatives thanked Greensill Capital for the market intelligence. They noted they would pass on this information internally, and follow up by phone in coming days.

Message: Re: Covid Corporate Finance Facility.

Re: Covid Corporate Finance Facility.

From Cunliffe, Jon Date 04 April 2020 18:52

To D Cameron

Cc

DC

Thanks. I have spoken to HMT.

I understand you talked to the Chancellor and that there will be now further discussions with Lex Greensill.

We are, as you know, the agent for the scheme, but the policy and risk lie with HMT

But, what it's worth, as far as I can ascertain it's essentially a policy decision about the boundaries and purpose of the CCFF: I know HMT are under enormous pressure for support from multiple directions, especially on the financial/non financial boundary. We are seeing a great deal of that also.

Best wishes.

(I hope you and yours are well).

Jon

> On 3 Apr 2020, at 16:21, D Cameron wrote:
>
>
> Jon
>
> Am writing to ask for your help. Greensill - who I work with - have had numerous conversations with HMT but have failed to get anywhere.
>
> The request is simple - please include in the CCFF the ability to purchase bonds issued in respect of supply chain finance. These allow us to pump billions into SMEs, (including every pharmacy that works with the NHS).
>
> We have dealt with every objection. You use foreign currencies? We will only issue in sterling. You support foreign supply chains? We will only use the facility for those that are predominantly British.
>
> HMT seem to be hung up on the fact that the CCFF is there for "non financial" corporates and these bonds are being issued by a financial institution. This is surely irrelevant - the money goes straight into non financial corporates, mostly SMEs.
>
> At a time when we are - rightly -worried about how quickly banks can get loans out to small businesses, why are we potentially cutting off a market that already pumps cheap credit directly into SMEs?
>

> I think I must be missing something here. Am obviously talking to HMT, but would be grateful for any light you could shed on this.....
>
> All good wishes. Dc.
>
>
>
>
>
>

From: D Cameron
Sent: 22 April 2020 17:21:54 (UTC) Dublin, Edinburgh, Lisbon, London
To: Cunliffe, Jon
Subject: Greensill, Supply Chain Finance and the CCFF

Jon

Apologies for bothering you about this again. We (Greensill) have had lots of conversations with HMT and while every question seems to have been answered, we haven't yet got to the green light.

To give you a flavour of how much movement has been made we have:

- restricted any supply chain finance (SCF) commercial paper to be included in the CCFF to UK companies with U.K. supply chains (with the UK companies expressly requesting the BoE to allocate part of their CCFF limit to SCF);

- agreed that any company whose supply chain finance was included would be using up capacity they would otherwise have for CP;

- met all the concerns and points about not needing to change the Market Notice.

It is incredibly frustrating because (as you know) trade finance paper was included in a similar scheme in 2008/9 and it would work again. Greensill could extend cheap credit to up to 100,000 UK SMEs at a time when the government schemes via the banks are struggling to get the money out of the door.

The demand for SCF far exceeds the supply because, while some parts of the capital markets are operating well for Greensill, capacity remains severely constrained as many fixed income investors - who historically provide meaningful capacity - are currently remaining on the sidelines. Even a small participation of SCF in the CCFF would make a big difference in catalysing the market.

I don't want to put you to the trouble of a long email chain when ultimately this is an HMT call (and we continue to talk to them at every level) but could I ask you to do a one to one call with Lex Greensill so that he can brief you on where we have got to.

This comes with all good wishes,

Dc

From:
Sent: Friday, April 24, 2020 8:55 AM
To: Brazier, Alex ; Hauser, Andrew ; Phillips, Rhys
Cc:
Subject: CCFF extension

All,

Jon spoke to Lex Greensill this morning.

On the discussion with Lex - most of the call was Lex explaining their business model. Jon was clear that Greensill would currently fall outside the boundaries of the scheme, and that expanding the parameters was a decision for HMT. Jon noted the 2009 facility took a long time to set up, and Jon couldn't vouch for how long it would take this time, if HMT gave the go-ahead. Jon and Lex also had a discussion about CP conditions more generally .

Thanks,