



BANK OF ENGLAND

Andrew Bailey
Governor

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
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17 March 2020

Dear Rishi

We have been discussing how the Bank and HM Treasury can work together to further help UK businesses and households manage through an economic shock that could be sharp and large, but should be temporary. On 11 March 2020, the Bank and HMT announced a range of measures, to help UK businesses and households to bridge across the economic disruption that is likely to be associated with Covid-19.

Over the past week, we have agreed that we need to go further. Although the magnitude of the economic shock from Covid-19 is highly uncertain, activity is likely to weaken materially in the United Kingdom over the coming months. Temporary, but significant, disruptions to supply chains and weaker activity will challenge cash flows and increase demand for credit from companies.

The new Covid-19 Corporate Financing Facility (CCFF) will provide funding to businesses by purchasing commercial paper of up to one-year maturity, issued by firms making a material contribution to the UK economy. It will help businesses across a wide range of sectors to bridge across the economic disruption that is likely to be associated with Covid-19, supporting them in paying salaries, rents and suppliers, even while experiencing severe disruption to cashflows.

The Bank will implement the facility on behalf of the Treasury and will put it into place as soon as possible. We will be publishing a market notice with the details of the facility tomorrow.

Commercial paper eligible for the scheme will be issued by non-financial companies that make a material contribution to the UK economy and that had, *prior to being affected by Covid-19*, a short or long-term rating of investment grade, or financial health equivalent to an investment grade rating.

By providing an alternative source of finance for these companies, the scheme will help to retain the capacity of the banking system to lend to a much broader range of companies, including small and medium sized enterprises. That capacity was boosted last week by the Bank of England's package of measures to reduce the UK countercyclical capital buffer and launch a new Term Funding Scheme with additional incentives for lending to SMEs.

As this is HM Treasury's facility, with the Bank providing agency services to HM Treasury under an agency agreement, HM Treasury will fully indemnify the Bank from any losses and expenses arising from it. HM Treasury will also make the final decision regarding the eligibility of any business for the Facility and will be responsible for the risk management framework of the Facility.

The CCFF will be set up in an entity separate from the Bank. It will be funded by the issuance of additional central bank reserves. The Monetary Policy Committee welcomes the new Facility. The Committee will continue to decide on the overall amount of asset purchases that are financed by central bank reserves. It will therefore take the size of the CCFF into account when it takes its decisions on the target stock of government and corporate bonds financed by reserves.

Officials at HM Treasury and the Bank have worked closely in developing the CCFF and will continue to work closely as it is implemented. This will include keeping under review the need for further extensions to ensure it continues to fulfil its purpose to help UK businesses bridge across the economic disruption that is likely to be associated with Covid-19.

Yours Sincerely
Andrew