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Mr Andrew Evans
Public Expenditure Classification Branch
HM Treasury
2/N1 1 Horse Guards Road
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Dear Mr Evans,

Notification of classification of Covid Corporate Financing Facility

ONS has undertaken a classification assessment of the Covid Corporate Financing Facility (CCFF). CCFF is the SPV that provides funding to businesses by purchasing commercial paper (CP) of up to one year maturity issued by private non-financial corporations making a material contribution to the UK economy.

ONS assessed CCFF in the context of the internationally-agreed rules laid out in the European System of Accounts (ESA) 2010 and the accompanying Manual on Government Deficit and Debt (MGDD) 2019.

The assessment concluded that while CCFF has a certain degree of independence in its daily management, the nature of the agreement it operates under means it carries out a limited range of activities in narrow conditions set by government in the framework of public policy objectives.

The assessment also concluded that as CCFF cannot choose the characteristics of the assets it holds and that as its liabilities are fully indemnified by Her Majesty's Treasury, government influence and constraints exist on CCFF's assets and liabilities.

The assessment further concluded that as CCFF allows companies to borrow money at rates reflective of the risk before the coronavirus crisis and so does not look to obtain a market rate of return, it does not behave like a normal commercial entity.

As a consequence of these conclusions, CCFF has been classified to the central government subsector (S.1311) with effect from 19 March 2020, the date it was created (see MGDD 2019 1.6.6, 47). As CCFF has been classified to central government, it is also important to consider whether the CP assets are liquid, as they would then be included in the Public Sector Net Debt aggregate. However, this is a matter for the Public Sector Finances Technical Advisory Group, which has not yet convened on this matter.

The assessment also considered the balance sheet valuation of the CP assets held by CCFF. It was noted that,

- the nature of the CCFF scheme means that no one potential treatment from the guidance fitted the economic reality perfectly.
- CCFF currently intends to hold the CP assets to maturity or to allow the corporation to repay their drawings early, so no secondary market exists for investors outside of the facility
- If market values are not available for short-term debt securities then the market value can be approximated by the nominal value (see ESA 2010 7.68)

As a consequence, it was determined that the CP will be valued at nominal prices. However, if market-equivalent values can be provided in the future, further consideration may have to be given to either valuing the CP at these values, or by using these values to calculate a contingent liability (which would be included in an appendix to the Public Sector Finances).

The above conclusions have been approved by the Deputy National Statistician (Jonathan Athow) to whom the National Statistician has delegated decision-making on classifications.

I trust this provides sufficient explanation of the assessment. Please do get in touch if you have any questions or comments.

Yours sincerely,

David Beckett
Head of Economic Statistics Classifications