BANK OF ENGLAND

Rt Hon Mel Stride MP
Chair of the Treasury Committee
House of Commons
London
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Andrew Bailey
Governor

6 May 2021

Dear Mel,

1. Thank you for your letter of April 19 in which you ask for information in connection to the Treasury Committee's inquiry into the lessons to be learnt from the failure of Greensill Capital, focusing on the regulatory lessons. This letter sets out the Bank's interactions with Greensill in relation to its application to the Covid Corporate Financing Facility (CCFF) and proposed extension to the scheme in relation to Supply Chain Finance (SCF). I hope that the information below is helpful and I will of course be happy to discuss this further when I appear before you on May 24.

Summary

2. Greensill contacted the Bank and HM Treasury on a number of occasions in the spring of 2020 to discuss potential access to the CCFF. None of the options proposed by Greensill were consistent with the published terms of the CCFF, as set out in the Market Notice of 18 March 2020, or with the risk management of the scheme.[1] The firm was therefore not granted access to the CCFF.

3. The Bank also supported HM Treasury in evaluating whether there was a need for a government scheme specifically targeted at the needs of SCF in the context of the Covid shock. As I mentioned at my Treasury Committee appointment hearing on 4 March 2020, SCF was an area where we thought there might be strain. However, the conclusion was this was not required in the light of the other available schemes.

4. The PRA does not regulate, and has not regulated, any Greensill entity and is not the resolution authority in relation to any Greensill entity. Overall, the implications of the failure of Greensill have not posed a threat to the stability of the UK financial system or to the safety and soundness of PRA regulated firms, and its failure has been orderly.[2]

5. Before turning to your specific questions, I would first like to give an overview of the CCFF and the Bank's work to consider whether additional facilities were required to mitigate the acute economic disruption caused by the Covid shock.

[1] Further details about the CCFF can be found on the Covid Corporate Finance Facility page and in the Market Notice published 18 March 2020 and the Market Notice published 9 October 2020.
[2] Greensill operated a platform business via Taulia which is a financial technology company. Our understanding is that Taulia has been able to raise funds to assist the continuity of services thereby enabling an orderly resolution following the failure of Greensill.

The CCFF

6. The CCFF was launched in March 2020 at the outset of the Covid shock. Although the magnitude of the economic shock from Covid was highly uncertain at the time, economic activity was very likely to weaken materially in the UK as a result. The significant economic disruption was likely to challenge cash flows and increase demand for working capital from businesses. At the same time, conditions in commercial paper (CP) markets were stressed, with the market effectively closed to all but the most established names at short maturities.

7. The CCFF was designed to support liquidity among larger businesses, helping them to bridge disruption to their cash flows as a result of the Covid shock, through the purchase of short-term debt in the form of CP. The CCFF purchased CP of up to one-year maturity, issued by non-financial firms making a material contribution to the UK economy. This helped businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cash flows. By lending to large companies directly, the CCFF protected the space for banks to lend to the wider population of households and businesses, complementing other Bank and Government schemes such as the Term Funding Scheme with additional incentives for SMEs (TFSME), the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS).

8. The Bank operated the CCFF as agent for HM Treasury. HM Treasury set the parameters of the scheme, including the terms and eligibility criteria for participation, which were detailed in the Market Notice published by the Bank and the CCFF legal documentation on 18 March 2020. HM Treasury was the risk-owner of the scheme and fully indemnified the Bank from any losses that might arise under the CCFF.

9. The CCFF offered financing on terms comparable to those prevailing in markets in the period before the Covid shock, and was open to firms that could demonstrate they were in sound financial health prior to the shock. At a summary level, to be eligible for the scheme, applicants needed to:

    - Make a material contribution to the UK economy;
    - Be investment grade rated (or equivalent) as at 1 March 2020 (as supplemented by the ongoing credit quality review introduced from 9 October 2020);
    - Not be a bank, building society, insurance company or other financial sector entity regulated by the Bank of England or the Financial Conduct Authority;
    - Not be a public undertaking; and
    - Not be a leveraged investment vehicle.

10. 426 companies applied to access the CCFF, with the majority of applications received by the end of April 2020. Of those, 238 firms fully signed up to the CCFF. Of the remaining 188 applications, 110 did not meet the eligibility criteria and 78 decided to not progress their application as market conditions improved over time.

11. The CCFF closed to new purchases on 23 March 2021 as planned. It has helped to alleviate pressures on companies' cash flows created by the economic disruption caused by the Covid-19 pandemic. Overall, the CCFF lent over £37bn to 107 different companies between March 2020 and March 2021, with a peak issuance in the scheme of over £20bn in May 2020. The CCFF approved almost £90bn of borrowing limits to over 230 companies, which accounted for 2.5 million jobs over its lifetime.

Consideration of the need for additional schemes

12. During the period prior to and following on from the introduction of the CCFF, HM Treasury and the Bank were keen to ensure that sufficient funding was available to support viable businesses which faced a funding shock caused by the Covid-19 pandemic. During the global financial crisis, banks cut back on lending to businesses, due to capital and liquidity constraints, and trade credit insurance contracted, reducing the supply of short term funding to SMEs. At the outset of the pandemic, the Bank was concerned about a similar contraction in lending, especially given that many firms faced severe cashflow shocks due to business restrictions and the economic downturn. As such, proposals from a number of firms and organisations were considered.

13. Greensill Capital was a non-bank financial company specialising in the area of SCF, although it also offered other sources of short term finance to businesses and to the NHS. SCF is a form of short-term business finance where the future payment obligations of a buyer (typically a large corporate) are transferred to a finance provider in return for that finance provider paying the supplier up front (typically less a haircut). The finance provider receives the payment from the buyer at a future date. The finance provider is therefore taking a primary credit exposure to the buyer, which frequently is investment grade. SCF is one of a range of financing options that SMEs can use to meet their short-term liquidity needs, with the majority of the funding coming from banks.

14. Unlike most SCF providers operating in the UK, which rely on bank funding, Greensill primarily funded its operations from outside investors, issuing secured CP via a Luxembourg registered SPV. This made it vulnerable to a contraction of supply of such funding.

15. Given that it did not play a substantial role in the provision of credit to the UK economy, Greensill was not systemic. But like other non-bank lenders, it complemented the provision of finance from banks. So it was important to establish whether support for SCF could contribute to the government's broader objectives of supporting businesses during the economic disruption caused by the Covid shock. Nonetheless, after further exploration it was decided that targeted SCF support was not necessary.

Q1: Can you provide an outline of the role the Bank had in relation to the CCFF, and in particular Greensill's desire to participate?

16. As described above, the Bank operated the CCFF scheme as agent for HM Treasury and purchases under the facility were financed by central bank reserves. HM Treasury set the parameters of the scheme including the terms and eligibility criteria for participation, which were detailed in the Market Notice published by the Bank and the CCFF legal documentation on 18 March 2020. HM Treasury is the risk-owner of the facility and fully indemnified the Bank from any losses that may arise under the facility. In processing applications, the Bank was responsible for assessing whether applicants met the eligibility criteria for the facility, and advising HM Treasury who would take the final decision on whether any applicant was deemed eligible or ineligible.

17. In respect of Greensill, the Bank responded to queries from the firm about participation, as the Bank did for a range of firms that enquired about accessing the facility. Upon receipt of Greensill's application to the facility, the Bank undertook its assessment of this application and assessed that it did not meet the criteria for the facility. The Bank also considered a number of proposed modifications to the facility by Greensill but these were not accepted by HM Treasury and the Bank therefore advised that Greensill's proposed approach remained outside the criteria for the facility. This was consistent with the process applied in processing other applications to the facility. Further details on the Bank's approach and interactions with Greensill are outlined below.

18. As described above, at the request of HM Treasury, the Bank also performed analysis to support HM Treasury in assessing the potential merits of proposed extensions to the CCFF to enable SCF providers to participate if this was judged to benefit UK SMEs in ways not available via the original scheme. Any decision on whether to alter the terms of the facility was a matter for HM Treasury as risk owner of the facility. After further exploration it was decided that targeted SCF support was not necessary.

Questions relating to the Bank's interactions with Greensill

Q2: Can you provide a timeline of any contact which Bank officials (whether senior or junior) had with HM Treasury's (or its agencies' or public bodies') representatives, Greensill's representatives, or any other Government department's representatives in relation to Greensill? Please provide a description of the nature of the contact, and any records related to those contacts. Redaction of the names of more junior officials will be acceptable.

Q4: Can you provide details of any Bank analysis of Greensill's ability to take part in the CCFF, including the iteration of any ideas that were presented to allow it to take part, and when that analysis was conducted?

Q9: Was any Bank official made aware of the lobbying by David Cameron for Greensill in relation to the CCFF?

Q10: Was any Bank official contacted by David Cameron (or his representatives) with regard to Greensill, whether formally or informally? If so, please provide details of the nature of that contact, and any records relating to it.

19. I have grouped the answers to your four questions (above) regarding the Bank's interactions with Greensill and David Cameron on the CCFF to minimise repetition. These interactions took place across four phases: (1) initial contact; (2) CCFF application; (3) HM Treasury's call for evidence; and (4) engagement after the call for evidence. A timeline of all these interactions is contained in an appendix at the end of this letter.

Initial contact

20. David Cameron, in his capacity as advisor to Greensill, contacted the Bank on 5 and 7 March 2020 to discuss financing conditions at the onset of the pandemic. He asked for clarification of statements made by both the outgoing and the incoming Governor on ensuring the provision of finance to corporates and whether this covered SCF, and if we envisaged reintroducing a facility which the Bank had introduced in 2009 to support SCF during the global financial crisis. David Cameron offered a meeting with Greensill to provide information on emerging risks to SCF for SMEs and to discuss the Bank's 2009 facility to support SCF. A call was arranged by exchange of emails, and took place on 17 March between the Bank, Lex Greensill and David Cameron. In advance of the meeting on 16 March, Greensill sent a letter to the Bank which covered the pressures on SCF in the then current market conditions and enquired about the possibility of re-establishing the 2009 facility. This was discussed at the meeting.

CCFF application

21. On 17 March the Bank announced the CCFF to support financing of large corporates and on 18 March issued a Market Notice setting out the terms of the facility. Following that announcement, Lex Greensill contacted the Bank to share further information and subsequently submitted an application to the CCFF followed by additional material in connection with that application.

22. The Bank's analysis of this application focussed on whether Greensill met the CCFF eligibility criteria, and in doing so, identified features of Greensill's proposal which were not compatible with the terms of the facility:

- Financial institutions were not eligible for the CCFF. The CCFF was designed to provide liquidity directly from the Bank to large corporates to protect space for banks to lend to a wider population of companies. The CCFF targeted large corporates who made a material contribution to the UK economy and had been investment grade credits before the Covid crisis.

- Some of the assets behind the notes which Greensill had indicated would be submitted to the CCFF were not investment grade, a condition of eligibility to the CCFF scheme, which was designed to reduce the risk to public funds.

- The Market Notice specified that a company from whom the CCFF purchased CP must make a material contribution to the UK economy. Generally, this was assessed with regard to a range of criteria including whether a company issuing CP provides significant employment in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK. The structure proposed by Greensill would rely on an SPV to issue notes to the CCFF. This SPV, on a standalone basis, may not have met the criteria used to assess material contribution to the UK economy.

- Greensill's funding model was complex and had non-standard features, whereas the CCFF Market Notice specified that the scheme would not accept CP with non-standard features.

- The Greensill proposal assumed use of foreign currency assets, in contrast to the scheme's terms which outlined clearly that issuers only place sterling-denominated assets in the CCFF.

23. Greensill noted in their application that they did not meet the stated terms of the scheme, and proposed three changes to the CCFF including: allowing assets from securitisation vehicles in the EEA to be accepted; accepting the credit rating of insurers[3] in place of the rating of the individual borrower; and to accept assets in other G7 currencies.

24. On 22 March, the Bank referred Greensill's application, and their request to change the criteria of the CCFF, to HM Treasury. The Bank highlighted issues for HM Treasury to consider including the above points and the potential risks in expanding the facility. HM Treasury's response to the Bank (on 30 March) noted that the Chancellor did not intend to expand the facility. On the same day, the Bank wrote to Greensill confirming its application did not meet the eligibility criteria for the CCFF, and that HM Treasury had taken the decision not to adjust the parameters of the scheme.

Revised proposal

25. After being informed that their application did not meet the CCFF terms, Greensill approached HM Treasury to propose further changes to the terms of the CCFF and to their application, of which the Bank was informed. David Cameron contacted the Bank on 3 April asking for clarity on why HM Treasury had considered that the amended Greensill proposals did not qualify. The Bank repeated that this was a decision for HM Treasury and pointed to the fact that Greensill was a financial firm and that the CCFF was aimed at non-financial corporates.

[3] Greensill wanted the Bank to accept notes that were issued by non-investment grade corporates, but that had credit insurance from investment grade insurers. The Bank did not view these notes as equivalent to investment grade.

26. At HM Treasury's request on 4 April, the Bank considered an alternative to Greensill's proposal in which Greensill would ask their investment grade corporate clients that would meet the CCFF eligibility criteria in their own right, to access the CCFF and use the proceeds to fund supply chain financing via Greensill. The Bank considered that this would be acceptable under the terms of the CCFF. Investment grade companies were already able to access the scheme and able to use those funds to pay their suppliers. It would be a decision for those companies as to whether to fund their suppliers directly or via Greensill. The Bank provided this advice to HM Treasury. This approach would also have been available to other SCF providers.

27. Greensill, however, indicated that it did not wish to pursue this option and instead was looking for the CCFF to buy CP issued by a Greensill SPV, with a CCFF eligible corporate assigning part of its CCFF allowance to the Greensill SPV. The Bank concluded that this was not equivalent to issuance by the corporate itself and hence was not compatible with the existing CCFF.

28. The Bank's view was that Greensill did not play a sufficiently large role in providing funding in scale to UK SMEs to warrant a specific extension. Furthermore, since investment grade larger companies had access to alternative sources of finance (including the CCFF), any lending by Greensill would probably be focussed on allowing sub investment grade larger companies to increase leverage. This would have been inconsistent with the risk appetite of HM Treasury, which was to fund UK investment grade corporates.

29. David Cameron contacted the Bank again on 22 April about Greensill's application and requested a further conversation including with Lex Greensill. This conversation took place on 24 April and the Bank explained that Greensill's revised proposal was ineligible under the terms of the facility, which were a matter for HM Treasury.

Call for evidence

30. On 1 May 2020, HM Treasury issued a call for evidence and consulted a number of SCF firms including Greensill on broadening the scope of the CCFF to enable access for providers of SCF. At the height of the pandemic, the Government was clear that all support schemes would be kept under review to ensure maximum effectiveness, and so that all options to protect jobs and livelihoods could be explored.

31. The Bank inputted into the call for evidence, recommending that if HM Treasury was minded to extend the CCFF scheme, HM Treasury explore a standard structure rather than a bespoke one to avoid complexity and ensure accessibility to a range of participants. The Bank also advised that HM Treasury consider a range of issues, including tests to ensure that the proposed structure provided a benefit to SMEs.

32. The Bank supported HM Treasury on the engagement with relevant firms on the call for evidence, attending meetings with a range of market participants together with HM Treasury. As part of this process, Bank staff joined two calls with Greensill which were led by HM Treasury (on 5 and 11 May). The discussion covered Greensill's views on the call for evidence, Greensill's business model and the SCF market. Greensill submitted further documentation in respect of these proposals. Bank staff also joined 10 calls led by HM Treasury with 10 other firms including a range of SCF providers in early May, where views were gathered on the call for evidence. The Bank also discussed the call for evidence with relevant banks.

33. On 12 May, the Bank provided a summary and analysis of the responses to the call for evidence to HM Treasury. This noted a number of issues, including that:

- There was limited evidence of liquidity problems for investment grade SCF programmes, and that the majority of such finance was provided by banks, which continued to be prepared to fund creditworthy companies.

- Few participants in the SCF market were interested in participating in the proposed structure, with a number citing its complexity and instead favouring an approach whereby corporates drew directly on the CCFF.

- While payment terms for SMEs were lengthening, there were questions concerning the extent to which SMEs were able to access SCF programmes. There might also be a significant time delay to on-boarding new participants to such programmes. Alternative sources of credit provision, such as CBILS, could have greater reach.

34. HM Treasury informed the Bank on 18 May that the Chancellor had taken the decision not to take forward the proposal to broaden the scope of the CCFF to enable access for providers for SCF, and that this had been communicated to Greensill by HM Treasury.

Follow up to the call for evidence

35. On 18 May, after being informed by HM Treasury that the proposal in the call for evidence would not be taken forward, Greensill put forward to HM Treasury, a follow up approach to the proposals in the call for evidence. HM Treasury forwarded this approach to the Bank. Greensill argued this proposal would address HM Treasury's concerns by committing that proceeds from CCFF would only fund UK companies, predominantly SMEs, and that this proposal would be supported by other SCF firms. The Bank joined a call with Greensill led by HM Treasury to discuss this on 28 May.

36. The Bank carried out an initial analysis on this proposal which identified a number of issues, including risk, operational and legal issues, which it provided to HM Treasury for further consideration. The issues identified included:

- Operational complexity, and the high resource requirements to run the scheme compared to the existing CCFF, given the number of changes that would have to be made to accommodate the proposal. This would also lengthen the time and costs required to launch the scheme, with the Bank judging that, on a best case estimate, this would take at least two months.

- Uncertainties about what would happen in the case of a default of the SPV or of the underlying corporate entities, which meant it was unclear whether the credit risk was equivalent to that for a standard drawing from the CCFF.

- Questions about the appetite of other non-bank finance providers, or of corporates themselves, to access the scheme to such an extent as to justify the resources needed to set it up, as well as whether finance would reach a sufficient quantity of UK SMEs quickly enough to meet policy goals.

- The risks and complexities arising from the fact that the scheme would be dealing with the Greensill SPV issuing CP, rather than directly dealing with the underlying large corporates or their suppliers.

- The accounting treatment of SCF by the buyers.

- Potentially adverse commentary about Greensill, for example in press articles at the time.

37. HM Treasury decided not to proceed and, on 26 June, confirmed this to Greensill. The Bank therefore did not carry out a detailed due diligence of the proposal, which would have followed in the event that HM Treasury requested the Bank to proceed further.

Q3: Can you provide an estimate of the level of Bank of England resource that went into assessing options for access by Greensill to the CCFF, and how that compared to others attempting access to the facility?

38. The Bank was responding to the Covid shock, with colleagues across the Bank helping in different ways. The CCFF was established rapidly, having been announced on 17 March 2020 and launched on 23 March 2020, with the first transaction on 25 March 2020. The Bank had received 335 applications by the end of April 2020. Given the flexible nature of the Bank's response to deliver this scheme, we do not have precise resource numbers. However, we estimate that the CCFF, as it was designed and running at the time, required a peak of around 40 Full-Time Equivalent (FTE) in the Bank handling policy, legal, applications, risk management and trading, and involving individuals at a range of levels of seniority. These resources were generated through re-prioritising.

39. The resource incurred by the Bank in assessing Greensill's application to the CCFF was not inconsistent with time and resource spent reviewing other applications received. Notably, some more complex applications received in respect of the CCFF required greater resource to assess than that submitted by Greensill.

40. As described above, the Bank also provided analysis to support HM Treasury in evaluating proposals received from Greensill and potential extensions to the CCFF. This included Bank support in development of a call for evidence on whether to extend the facility to cater for SCF; plus engagement with relevant firms and analysis on responses received. The resource incurred by the Bank in this respect was approximately 2.5 FTE for a period of approximately six to eight weeks. This was resourced by reprioritising the work of existing Bank staff and no external expenses were incurred. A similar level of resource was involved in performing analysis supporting evaluation and development of other lending schemes at the time.

41. The Greensill schemes were not implemented, but the Bank estimated that set up of the scheme proposed by Greensill would likely require around 9-10 FTE for two months, skewed towards senior staff and managers, and steady state running costs would be around 5-6 FTE. The Bank provided these estimates to HM Treasury to assist in their assessment of the viability of the proposed scheme.

Q5: Can you outline what analysis, if any, the Bank carried out of Greensill for any of the Bank of England's other functions, including relating to financial stability or prudential regulation (including of insurers)?

42. The Greensill group sat outside the Bank's regulatory perimeter and as such was not subject to prudential regulation by the PRA. The holding company, Greensill Capital Pty Limited, was registered in Australia, although its main operating entity, Greensill Capital (UK) Limited was incorporated in England and Wales. This operating entity did not carry out any activities regulated by the Bank under the Financial Services and Markets Act 2000 (FSMA). The group also owned a bank, Greensill Bank AG, which was domiciled and regulated in Germany and was not authorised to perform any regulated activities in the UK.

43. The Bank's financial stability objective is to protect and enhance the stability of the financial system of the UK. A firm or sector outside the Bank's regulatory remit could become of significance for financial stability due to:

- Its playing such a significant role in the provision of credit to the real economy, such that disruption to it could result in a disruption to the supply of credit to the real economy as a whole; or

- The firm or sector having a high degree of interconnection with other parts of the financial system, such that problems with the firm or sector would lead to amplification dynamics that worsen a shock.

44. The Bank monitors these risks as part of its ongoing financial stability work. Given that it did not play a substantial role in the provision of credit to the UK economy, Greensill was not systemic and its failure was not expected to have wider amplification ramifications for wider UK financial stability.

45. The spread of Covid– and the associated lockdowns to limit its spread – caused widespread disruption to corporate cashflows. It was important that viable corporates were able to access short-term finance to bridge across the temporary disruption caused by the virus, to avoid a contraction in credit – which had been damaging in the global financial crisis – from amplifying the downturn in the economy. To this end, the Bank undertook analysis to estimate the cashflow deficits that would likely face the UK corporate sector,[4] and worked with other UK authorities on policy measures that would mitigate the disruption faced by the corporate sector, including through the development of a range of schemes to support the provision of lending to SMEs.

46. One source of strain was disruption to the CP markets on which Greensill depended on its financing. The CCFF was introduced to help mitigate this. Greensill highlighted challenges to the Bank in issuing the CP backing SCF business and that it was not able to access the CCFF as originally structured. Alongside its review of the eligibility of Greensill for the CCFF, the Bank considered the relevance of Greensill to financial stability in the UK. This focussed on its significance to the continued supply of credit to UK SMEs, given that that was the basis on which Greensill had approached the Bank.[5]

47. In its applications, Greensill – which operated a global business model[6] - was not able to supply information on how much its lending to larger companies resulted in funding to UK SME suppliers.[7] While Greensill had grown rapidly, the Bank did not find grounds to judge that it made a sufficient contribution to the supply of lending to UK corporates, such that disruption to its funding had a potential financial stability impact, given the extent of competition and substitutability in the market. Nor did the Bank's Agency Intelligence find evidence that Greensill played a major role in credit provision to SMEs. In addition, the call for evidence on a proposed change to the CCFF to accommodate SCF highlighted that there were a number of other providers of SCF, including banks, which were able to lend through the Covid crisis.

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[4] This was published in the May 2020 Financial Stability Report, https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2020/may-2020.pdf

[5] Greensill estimated that 95% of the suppliers to which it provided funding were SMEs on the EU definition (of having less than €50m turnover), but was not able to provide the loan balance outstanding to UK SMEs.

[6] For instance, only around 15% of the supply chain funds was invested in UK firms.

[7] The Bank wrote to HM Treasury to flag the uncertainty around Greensill's importance to the real economy, and their claims around their integration into NHS supply chains.

Q6: Can you provide an outline of any analysis the Bank has carried out into the potential financial stability implications of the growth of supply chain finance more generally, including analysis commissioned as part of understanding the significance of the collapse of Greensill?

Bank and FPC work on non-bank finance, including supply chain finance

48. As part of its ongoing monitoring work, the Financial Policy Committee (FPC) carries out regular assessments of vulnerabilities across the whole non-bank financial sector. This seeks to identify areas of potential vulnerability and whether there are transmission channels through which these can affect financial stability. Based on its assessment, the FPC may recommend changes to regulation to bring activities into the regulatory perimeter or to change the regulation of activities already within the perimeter. The FPC has considered some non-bank lending activities and market-based finance as part of this review and has identified a number of vulnerabilities that need addressing, set out in regular Financial Stability Reports.

49. As part of this analysis, during the pandemic, the Bank carried out an assessment of the importance of non-bank direct lenders to the SME and consumer market, and of the financial stability implications of disruptions to this sector, in response to market intelligence indicating that this sector faced a significant funding squeeze. This concluded that these lenders constituted a relatively small amount of overall lending but played a role in serving some specific market segments, in particular by providing high volume, low value, short-term finance to SMEs.

50. The assessment therefore concluded that there was not a strong financial or monetary stability case for intervention in this sector, but there might be reasons to support certain segments on broader public policy grounds. Such intervention went beyond the remit of the Bank. Following that, the Bank continued to offer advice to HM Treasury on the development of a range of schemes to support the provision of lending to SMEs.

51. This conclusion was supported by a number of other analyses. Work undertaken as part of the FPC's analysis of the cashflow needs of the corporate sector indicated that non-bank lending – of which SCF was only one subcomponent – accounted for £20bn of outstanding loans to SMEs as of end-2019, relative to £168bn from the banking sector.[8]

52. During the pandemic, banks were able to continue to lend to the real economy, supported by the Government's loan guarantee schemes. Lending through CBILS and BBLS amounted to nearly £70bn as of March 2021.[9] In addition, the call for evidence on a potential SCF extension to the CCFF concluded that banks, rather than non-banks, provided the bulk of SCF services. Greensill was the leading firm involved in the provision of non-bank SCF.

Assessment of the collapse of Greensill

53. Analysis of UK banks' and insurers' exposures to Greensill and its clients and suppliers indicated that, while there were likely to be implications for particular clients, these were manageable by the relevant PRA regulated firms.

54. Following the failure of Greensill, the Bank carried out additional analysis to determine whether it posed a risk to financial stability. It identified three possible channels – direct

[8] https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2020/may-2020.pdf), Chart C. 11, pg. 45
[9] Of this, £23.28bn was for CBILs and £46.53bn for BBLS. A further £5.3bn came from CLBLS for larger corporates. See https://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics

losses for banks, investors and insurers; a reduction in the supply of credit to Greensill's clients or their suppliers; or contagion in the SCF industry.

55. Much of the provision of funding for Greensill Capital's business came from Greensill Bank, its German retail bank subsidiary, which was put under a moratorium on 3 March 2021 by the German regulator – BaFin. BaFin's assessment was that Greensill Bank, which held €4.5bn in assets as of 31 December 2020, was not systemically important and posed no threat to financial stability in Germany.[10] Greensill Bank was not authorised to accept deposits in the UK so we have not identified a direct impact of its failure for UK depositors.

56. Another significant source of funding for Greensill came from Luxembourg and Liechtenstein investment vehicles operated by Credit Suisse, with GAM operating a smaller Luxembourg fund holding Greensill issued assets. The extent of losses was unclear, as the underlying exposures were to the corporates whose invoices Greensill financed, and would be expected to run-off as the payments came due. These funds did not pose a direct risk to UK financial stability and were marketed to wholesale investors only.

57. Beyond the impact on a particular grouping of clients, which has been widely reported on, we have not found evidence of a broader disruption to corporate clients of Greensill, following the collapse of the firm.

58. While the data available suggested overall losses across the system might be limited, the effect on the real economy could be increased if there were knock-on effects on confidence or contagion. These risks have not crystallised to date.

Q7: The Committee is aware that parts of the Greensill Group were regulated in other countries. Were there any information requests from or to those countries' regulators regarding these entities?

59. As set out above, no entities in the Greensill group were regulated by the Bank or PRA. However, as a natural part of its supervision of PRA-authorised firms, the PRA does consider risks that might arise from material counterparties, connected entities, and specific features of firms' governance and business models. As part of this consideration, the PRA sometimes discusses firms' counterparties and related entities with authorities overseas. The Committee will appreciate the importance of effective cooperation with other authorities and the related need for those authorities to be confident that information shared with the PRA is protected.

60. Given these concerns, and the statutory restriction on the disclosure of confidential information received by the PRA set out in the Financial Services & Markets Act 2000, we do not propose here to publish granular information about any requests made or received from regulators in other countries in the discharge of the PRA's supervisory function.

Q8: Can you provide a description of when and how Bank of England officials first became aware of any potential financial difficulties or weaknesses at Greensill?

61. The first indication that the Bank had of a potential weakness at Greensill was in March 2020; this suggested a possible weakness in controls rather than crystallised financial difficulties. The information arose as part of a dialogue with an overseas regulator relating to a PRA-regulated institution which was already subject to intensive supervision, and the information received by the PRA in March 2020 was limited. The dialogue continued and further information was exchanged at intervals over the following months. The potentially serious nature of the financial difficulties at Greensill began to become apparent to PRA

[10] https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Pressemitteilung/2021/pm_210303_Greensill_en.html

supervisors in October 2020 when speaking to the overseas regulator, and these concerns were confirmed in discussions over the following months.

Q11: Can you provide a copy of any rules, procedures or guidance used by the Bank relating to lobbying and conflicts of interest?

62. The Bank has a comprehensive set of rules governing potential conflicts of interest which are published on the Bank's website and are listed – with hyperlinks – below. *Our Code* – which is included in the list below – encompasses the Bank's conflict of interest policies. It embodies the principles of integrity and leadership expected, and the Nolan Principles of public life. We aspire to set an example of the best in public service: complying with *Our Code* is not simply about observing its requirements to the letter but understanding and embracing the values, principles and the spirit behind it. *Our Code* applies to everybody at the Bank: Governors, members of the Financial Policy Committee, Monetary Policy Committee and Prudential Regulation Committee and staff from across the Bank.

Policy	Weblink
Directorships	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/directorship.pdf
Entertainment, Gifts	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/entertainment.pdf
Financial Relationships	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/financial.pdf
FPC Conflicts of Interest Code of Practice	https://www.bankofengland.co.uk/-/media/boe/files/about/fpc/fpcconflictsinterestcodepractice.pdf
Governance of the Bank Including Matters Reserved to Court	https://www.bankofengland.co.uk/-/media/boe/files/about/legislation/matters-reserved-to-court.pdf?la=en&hash=2F9C60E0157D682145FD6EFB9014B4AEE745E15D
MPC Conflicts of Interest Code and Practice	https://www.bankofengland.co.uk/-/media/boe/files/about/mpc/mpcconflictsinterestcodepractice.pdf
Our Code	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/ourcode.pdf
Personal Financial Transactions	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/personalfinancial.pdf
Personal Relationships	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/personal.pdf
PRC Conflicts of Interest Code of	https://www.bankofengland.co.uk/-/media/boe/files/about/fpc/fpcconflictsinterestcodepractice.pdf

Practice	
Staff Handbook (in particular Section C2: Conflicts of Interest: Our Code and Related Policies)	https://www.bankofengland.co.uk/-/media/boe/files/about/human-resources/staff-handbook.pdf

Yours sincerely,

Andrew Bailey
Governor

BANK OF ENGLAND

Appendix – Timeline of the Bank's interactions with Greensill

Date	Description
5 March 2020	The Bank takes a call from David Cameron, in his capacity as advisor to Greensill, who discusses financing conditions at the onset of the pandemic. David Cameron emails the Bank to arrange a call for 7 March.
7 March 2020	David Cameron calls the Bank to ask for clarification about statements made by both the outgoing and the incoming Governor on ensuring the provision of finance to corporates and whether this covered SCF, and if the Bank envisaged reintroducing a facility which had been introduced in 2009 to support SCF during the global financial crisis. He offers a meeting with Lex Greensill.
8 March	David Cameron follows up with email to arrange the call with Lex Greensill, which is then scheduled for 17 March.
16 March	Lex Greensill sends the Bank a letter for discussion at the meeting the following day.
17 March	The Bank takes a call with Lex Greensill and David Cameron. Lex Greensill notes significant current market pressure, and enquires about the possibility of re-establishing the 2009 facility.
17 March	*CCFF announced*
18 March	*CCFF Market Notice published*
18 March	Lex Greensill contacts the Bank and shares information about the Greensill business.
19 March	Lex Greensill contacts the Bank, and the Bank responds noting that Lex Greensill is in touch with HM Treasury.
20 March	Lex Greensill submits a CCFF application, noting that Greensill is not eligible and requesting amendments to the scheme.
22 March	The Bank refers Greensill's application, and their request to change the criteria of the CCFF, to HM Treasury and highlights issues for HM Treasury to consider.
24 March	Lex Greensill re-submits Greensill's CCFF application, using newly published CCFF documents and providing additional information.
25 March	Lex Greensill contacts the Bank to ensure the Bank has the information required.
30 March	HM Treasury writes to the Bank, noting the Chancellor's intention is not to make changes to the overall structure of the CCFF at this stage, and informing that Greensill has been notified of this decision.
30 March	The Bank confirms to Greensill that their application does not meet the eligibility criteria for the CCFF, and that HM Treasury's decision is not to adjust the parameters of the scheme.
3 April and 4 April	David Cameron emails the Bank asking for clarity on why HM Treasury had considered that the amended Greensill proposals did not qualify. The Bank repeats that this was a decision for HM Treasury and points to the fact that Greensill was a financial firm and that the CCFF was aimed at non-financial corporates.
4 April	HM Treasury requests that the Bank assess an alternative to Greensill's proposal, under which Greensill would ask their investment grade corporate clients that would meet the CCFF eligibility criteria in their own right, to access the CCFF and use the proceeds to fund SCF via Greensill.
6 April	The Bank responds to HM Treasury advising that this would be acceptable under the terms of the CCFF.
14 April	HM Treasury forwards a revised proposal from Greensill, to the Bank, requesting that the Bank review and discuss with HM Treasury. This Greensill proposal is for the CCFF to buy CP issued by a Greensill SPV, with a CCFF eligible corporate assigning

	part of its CCFF allowance to the Greensill SPV. The Bank assesses that Greensill's proposal is not compatible with existing eligibility criteria for the CCFF.
15 April	The Bank sends HM Treasury a further email explaining how Greensill's proposal deviates from the CCFF Market Notice.
15 April	HM Treasury informs the Bank that HM Treasury has informed Greensill that their proposal would require amendments to the scheme and has suggested Greensill consider ways to work within the current scheme.
16 and 17 April	HM Treasury writes to the Bank, noting that Greensill reject the assessment that their SPV proposal is inconsistent with the Market Notice. The Bank responds explaining why the proposal does not meet the eligibility criteria.
20 April	HM Treasury contacts the Bank regarding options to extend the CCFF to support SCF to SMEs, suggesting HM Treasury and the Bank should discuss further.
22 April	David Cameron contacts the Bank regarding Greensill's application, noting that HM Treasury is the decision maker and requesting a further conversation with Greensill.
23 April	The Bank provides HM Treasury with an initial view of a potential extension to the CCFF to cover SCF, ahead of undertaking a more detailed assessment (sent across on 26 April).
24 April	HM Treasury and the Bank discuss the possibility of an extension to the scheme for SCF. HM Treasury requests the Bank's assistance with a small (confidential) call for evidence.
24 April	The Bank takes a call from Lex Greensill. The Bank explains that Greensill's revised proposal was ineligible under the terms of the facility, which is a matter for HM Treasury. The Bank informs HM Treasury of this call.
26 April	The Bank provides HM Treasury with an assessment of HM Treasury's proposals for a potential extension of CCFF to non-bank finance providers who offer SCF to large corporates. The Bank recommends that HM Treasury explore a standard structure rather than a bespoke one to avoid complexity and ensure accessibility to a range of participants. The Bank also advises that HM Treasury consider a range of issues including tests to ensure that the proposed structure provides a benefit to SMEs.
1 May	*Call for Evidence was sent out by HM Treasury to a range of SCF firms*
5 and 11 May	The Bank joins two calls with Greensill which are led by HM Treasury on 5 and 11 May. The discussion covers Greensill's views on the call for evidence, Greensill's business model and the SCF market.
11 May	The Bank joins a call with HM Treasury to discuss the call for evidence.
7 to 12 May	Bank staff support HM Treasury staff in gathering and reviewing responses to the call for evidence.
12 May	The Bank provides HM Treasury a summary and analysis of the responses to the call for evidence.
14 May	The Bank joins a call with HM Treasury to discuss the call for evidence.
18 May	HM Treasury informs the Bank that, on the basis of the call for evidence responses, the Chancellor has decided not to go through with CCFF SCF extension set out in the call for evidence, and this has been communicated to Greensill.
18 May	HM Treasury forwards a revised proposal from Greensill to the Bank.
27 May	HM Treasury emails questions to Greensill ahead of a call scheduled for the following day 28 May call. Bank staff are copied as they will join the call.
28 May	The Bank joins a call, led by HM Treasury with Greensill, to discuss Greensill's revised proposal.
29 and 31 May	Greensill provides further information to the Bank and HM Treasury.
4 June	The Bank provides HM Treasury with an assessment of the latest Greensill proposal, highlighting that the scheme would be exceptionally complex, and noting areas where HM Treasury should gain more assurance to ensure policy aims would be met.