Client Alert | **Newsflash** | Financial Services Regulatory

COVID-19 FAQ 5: What financing or liquidity schemes are available directly to financial services businesses?

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Authors: Global Financial Services Regulatory Group

This FAQ is intended to provide insight into whether financial services regulated businesses are eligible in their own right to access government-sponsored liquidity and financing schemes.

In response to the COVID-19 pandemic, central banks and other policymakers in various jurisdictions have introduced liquidity and financing schemes to support households, businesses and markets. However, as governments scramble to determine appropriate funding schemes for businesses operating within their economies, the question arises whether regulated financial services businesses should also be able to access these schemes in support of their own businesses. In many of our jurisdictions, the financial industry is a leading sub-sector within the local economy and will employ significant numbers of the workforce. Depending on their business model, these firms could be exposed to loss of revenue and, accordingly, may suffer liquidity challenges.

It is not a surprise to see regulators adopting an approach whereby firms that are prudentially regulated as banks and insurers are not eligible, in their own right, to access the core liquidity and funding schemes that have been made available to other industry groups operating within economies. This is because these firms have the benefit of capital buffers designed to withstand periods of economic downturn and market uncertainty. We explore elsewhere in our FAQs the steps regulators and central banks have taken with respect to banks in terms of releasing capital or otherwise to alleviate capital restrictions or calculations in support of lending activities.

Some differences emerge, however, with the approach given to other regulated financial services businesses, such as brokers and intermediaries. While they will typically have some stipulated capital reserves, they are not as well capitalized. Some of these businesses may be seeing peak activity as clients manage their exposure to market volatility, but others may be suffering significant loss of revenues due to the wider drop off in economic activity. The UK has broken from the pack in allowing regulated firms other than banks and insurers to access the UK's COVID-19 business interruption lending schemes.

Responses in specific jurisdictions

<table>
<tr><th>Jurisdiction</th><th>Liquidity/financing schemes</th></tr>
<tr><td>United States</td><td>

- **Discount window access**
  - The Federal Reserve sought to make access to its discount window primary credit lending facilities more attractive by lowering the primary credit rate from 1.75 percent to 0.25 percent and expanding permitted borrowing from overnight to up to 90 days.
  - US depository institutions, including US branches and agencies of non-US banks (US Branches) are eligible to access the discount window.
- **Primary Dealer Credit Facility** ("PDCF")
  - The PDCF is a loan facility akin to discount window borrowing to provide primary dealers in US Government securities with funding to ensure smooth market functioning.
  - US primary dealers, *i.e.*, the 24 bank and securities broker-dealer counterparties of the New York Fed in its open market operations, are eligible to participate.

Our US liquidity facilities page provides additional details about the various Federal Reserve facilities, and our alert discusses the eligibility of US Branches under the various schemes. Several facilities, including the various Main Street Loan Facilities, Municipal Liquidity Facility, Primary Market and Secondary Market Corporate Credit Facilities, and Term Asset-Backed Securities Loan Facility are scheduled to terminate at the end of calendar year 2020.

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<tr><td>European Union</td><td>

At the European Union level, the measures from the EC, EIF, EIB and ECB that pertain to refinancing, capital relief and asset purchase are directed at providing liquidity to the banks and other FS-regulated businesses.

The envelope for the ECB Pandemic Emergency Purchase Programme has been increased by €600 billion to a total of €1,350 billion.

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<tr><td>United Kingdom</td><td>

The UK's offer to buy commercial paper ("CCFF scheme") is not applicable to paper issued by banks, building societies, insurance companies and other financial sector entities regulated by the Bank of England or the FCA. Commercial paper will also not be eligible if issued by leveraged investment vehicles or from companies within groups that are predominantly active in businesses subject to financial sector regulation.

The UK's SME and large business coronavirus business interruption loan schemes (CBILS and CLBILS) and its "Bounce Back" Loan Scheme are not available to banks, insurers and reinsurers, but other financial services regulated businesses, such as investment firms and brokers, including insurance brokers, are within the scope of eligibility.

Other schemes, such as VAT deferral schemes and employee furlough schemes, are out of scope of this note but should be assessed for availability.

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<tr><td>France</td><td>

On March 13, 2020, the Banque de France announced its decision to extend the range of banks' exposures toward SMEs that it is prepared to refinance in order to provide additional facilities for banks that lend to SMEs.

Credit institutions and financing companies are excluded from the exceptional guarantee scheme put in place in France, but other companies from the financial and payment sectors should be eligible.

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Jurisdiction	Liquidity/financing schemes
Germany	Local schemes are not available to financial services regulated businesses; however, the programs from the financial crisis are still in place and can be activated on a case-by-case basis. For ECB liquidity support, please refer to the EU section.
Italy	The ECB liquidity supporting measures are available to Italian banks. Conversely, the access by banks and other lenders to the liquidity provided through the government guarantee schemes is restricted.
Spain	Financial services regulated businesses (banks and others) do not have access to general economy liquidity/monetary support schemes in Spain.
Belgium	As a rule, local liquidity schemes are not available to financial services regulated businesses.
Sweden	Direct monetary support schemes are not available to banks or other financial services regulated businesses. However, other wider support schemes such as short-time work allowance or tax deferrals do not exclude financial services regulated businesses.
UAE	Only banks are eligible under TESS. The DFSA (regulating the DIFC only) offers bespoke capital requirements relief to firms that do not hold client money, client investments or insurance monies.

*Our FSR team has developed the **COVID-19 Regulatory and Legislative Dashboard** as a resource to help clients and affected institutions, companies, governments, other entities and individuals around the world navigate the complexities of the crisis and the policy response. Please refer to the Dashboard for our periodic updates and insights into the issues addressed in this FAQ.*

*Find out more about the business response to the Coronavirus outbreak: **Coronavirus: Managing business impact and legal risks***.

AMERICAS

New York

Duane Wall
Partner of Counsel, New York
T +1 212 819 8453
E dwall@whitecase.com

Washington, DC

Prat Vallabhaneni
Partner, Washington, DC
T +1 202 626 3596
E pratin.vallabhaneni@whitecase.com

EMEA

Berlin

Martin Weber
Local Partner, Berlin
T +49 30 880911 570
E martin.weber@whitecase.com

Brussels

Willem Van de Wiele
Counsel, Brussels
T +32 2 2392 575
E willem.vandewiele@whitecase.com

Dubai

Adrianus Schoorl
Local Partner, Dubai
T +971 4 381 6273
E adrianus.schoorl@whitecase.com

Frankfurt

Carsten Loesing
Local Partner, Frankfurt
T +49 69 29994 1145
E carsten.loesing@whitecase.com

London

Jonathan Rogers
Partner, London
T +44 20 7532 2163
E jonathan.rogers@whitecase.com

Madrid

Fernando Navarro
Partner, Madrid
T +34 91 787 6373
E fernando.navarro@whitecase.com

Milan

Angelo Messore
Associate, Milan
T +39 02 00688 366
E angelo.messore@whitecase.com

Paris

Emilie Rogey
Partner, Paris
T +33 1 55 04 16 22
E emilie.rogey@whitecase.com

Stockholm

Martin Järvengren
Partner, Stockholm
T +46 8 506 32 371
E martin.jarvengren@whitecase.com

White & Case LLP
1221 Avenue of the Americas
New York, New York 10020-1095
United States

T +1 212 819 8200