Charles Roxburgh - March & July 2020

Email 1

From: Lex Greensill
Sent: 24 March 2020 18:22
To: Roxburgh, Charles – HMT; [redacted]
Cc: D Cameron; Bill Crothers [redacted]
Subject: Greensill CCFF Application

Dear Charles, [redacted]

For your information, please find attached and below our official application for inclusion to the CCFF. As discussed over the weekend, my firm is providing in excess of £20bn incremental credit per year to UK SMEs and supply chains (including all pharmacy drug reimbursements in England). In addition, as of last week we are daily paying frontline NHS staff at 7 of the largest Trusts – completely for free. It is our contribution to the country during this unprecedented time. (See press release here: Greensill fast tracks roll out of NHS pay service 'to help' with virus outbreak).

The current conditions are making it nearly impossible to continue to deliver this kind of credit at scale without the express support of the CCFF and HM Treasury. As a reminder, we've done this before with the Bank of England during the financial crisis.

We appreciate your urgent attention to our application and will be available at your disposal should you have any questions.

Thank you in advance for your support – I know you are all extremely busy.

Warmest regards,

Lex

P.S. Should you wish to receive the full application pack (which we split across 3 emails) please do let us know.

Email 2

From: Lex Greensill
Sent: 21 March 2020 19:48
To: 'David Prior; Roxburgh, Charles - HMT
Cc: Bill Crothers; [redacted]
Subject: Greensill Reference

Dear David,

Thank you for agreeing to take a call from Charles Roxburgh - who wanted to check on our bona fides and the materiality of what we are doing for the NHS (and DH).

Warmest regards,

Lex

Email chain 3

From: Lex Greensill
Sent: 21 March 2020 19:48
To: Roxburgh, Charles - HMT
Cc: Bill Crothers [redacted]
Subject: RE: Greensill CCFF Application

Dear Charles, [redacted]

Thank you very much for making time on your Saturday evening to speak with us.

As discussed:

- [redacted]
-

We need your timely support in order that we can continue to provide credit to these complex supply chains at a time of such need. While the underlying credit of Supply Chain Finance complies with the CCFF, we would need three tweaks to be compliant (as we were back in 2009 when I led Citibank's SCF business and the BoE made the asset class eligible):

- [redacted]
-
-

A few final points:

- In particular, we pay pharmacists early in England on behalf of the Department of Health. This scheme has just been expanded and will see us increase our early payments to pharmacies – meaning we will permanently inject an additional £1.5bn into the UK economy;

- [redacted]
- I will separately connect you with David Prior, the Chairman of NHS England, who will be able to speak to our bona fides;
- We are, as of this last week, allowing NHS employees the option to be paid daily (at no cost) using our Earnd App. (In 7 trusts initially, but going national.) We do this in the same way as we do SCF, by integrating with their employer's accounting/payroll system. We fund the early payment to the employee and the employer pays us at the end of the month when the employee would normally have been paid. As a service to the country we provide this gratis to the NHS (and indeed to all government departments). The response to this product has been phenomenal; and
- A selection of our investors include, [redacted]
- [redacted]

We are available anytime to continue the discussion, but would again share that with capital markets closed to us we may need to reduce the credit we can deliver in the coming week should the CCFF not be open to us.

Thank you in advance for your support.

Warmest regards,

Lex

From: Roxburgh, Charles - HMT
Sent: 21 March 2020 18:09
To: Lex Greensill
Cc: Bill Crothers [redacted]
Subject: RE: Greensill CCFF Application

Dear Lex and Bill

Thanks for your time just now

I am copying in [redacted]

Best regards

Charles

From: Lex Greensill
Sent: 21 March 2020 17:20
To: Roxburgh, Charles - HMT

Cc: Bill Crothers
Subject: FW: Greensill CCFF Application

Dear Charles,

Bill and I look forward to speaking with you at 17:30 GMT today.

Let's use the following conference line:

Below is our correspondence with Tom Scholar (in case you don't have it already).

Warmest regards,

Lex

Letter 30 March

HM Treasury

1 Horse Guards Road
London
SW1A 2HQ

Charles Roxburgh
Second Permanent Secretary
[redacted]

Lex Greensill CBE
Chief Executive Officer
Greensill
One Southampton Street
Covent Garden
London WC2R 0LR

30th March 2020

Dear Lex,

Thank you for your correspondence regarding the application by Greensill for its secured notes to be accepted into the CCFF, and for the subsequent cooperation of you and your team in responding to our follow-up questions.

As your application mentions, there is a limited precedent for this, when in 2009 the Bank of England established a Secured Commercial Paper Facility as an adjunct to the Asset Purchase Facility (APF).

Greensill's application would similarly require us to establish a new segment of the CCFF. In this case however the eligibility criteria for the segment would **need to be designed to cater for various specific features of Greensill's notes** programme including the use of insurance to mitigate obligor default risk, the denomination of many of the assets in foreign currencies, and the arrangements surrounding the note issuance vehicle in Luxembourg. We understand Greensill is proposing up to £4.3bn equivalent of assets to be considered for inclusion into the CCFF initially, eventually potentially rising to over £10bn.

The CCFF was launched to provide liquidity directly to investment grade corporates and accepts unsecured commercial paper from nonfinancial companies that make a material contribution to the UK economy. While the contribution that Greensill makes to financing UK SME supply chains is **recognised, the Chancellor's view is that this does not in itself justify** broadening the purpose of the scheme in what would be a very significant, and in practice complex, extension of the CCFF to cater for one particular financing model at a time when (as you might expect) many other businesses, including non-bank lenders, are requesting support.

While the Chancellor has not ruled out further measures to support the economy in this difficult period he has asked me to inform you that there is no intention to make changes to the overall structure of the CCFF at this stage.

I understand this will be disappointing news and I would be happy to discuss this with you personally if this would be helpful.

I have informed the Bank of England, who operate the CCFF as HMT's agent, of this decision.

Yours sincerely

[redacted]

Charles Roxburgh

Email chain 4

From: Lex Greensill
Sent: 30 March 2020 18:40
To: Roxburgh, Charles - HMT
Cc: Bill Crothers; [redacted]
Subject: RE: Covid Corporate Financing Facility (CCFF)

Dear Charles,

Thank you for making yourself available for a call at 6:45pm tonight.

Could we use the following dial in

Warmest regards,

Lex

Email 5

From: Roxburgh, Charles - HMT

Sent: 02 July 2020 12:38
To: Lex Greensill
Cc: Bill Crothers; [redacted]
Subject: Greensill - Part 2

Dear Lex,

Following our call last Friday I promised to come back to you on the issue of Greensill's application for CLBILS accreditation. I have checked with colleagues here and at the British Business Bank (BBB) and the process is as follows.

Assessment of whether an applicant should be granted CLBILS accreditation and, if so, up to what level, is undertaken by the BBB, with lenders able to apply for accreditation to offer facilities up to £50m or £200m. Lenders wishing to offer larger CLBILS facilities (i.e. over £50m) are subject to an enhanced accreditation process. For lenders seeking accreditation to offer larger CLBILS facilities, if once the BBB's assessment process is complete, they then believe that a lender is suitable for accreditation they will then approach the Treasury for a final go/no decision on granting. This is the only point at which HMT has a role in the accreditation process, which is otherwise entirely BBB led. Where a lender's application for accreditation for a larger facility is refused, they may reapply were there to be a change of circumstances which means the lender considers that they are subsequently eligible for a larger facility.

Best regards,

Charles

Readout 21st March

From: [redacted]
Sent: 21 March 2020 18:30
To: Roxburgh, Charles – HMT;
Cc: [redacted]
Subject: RE: Greensill

Charles

A few thoughts following the call.

- Lex suggested he might not be able to provide an indication of the geographical spread of the suppliers, save that they would be "substantially" in the UK. Given that his pitch is that this is an opportunity for us to bail out important parts of the UK real economy we ought to press on this.

- Of the sample of "buyers" they list (the UK corporates whose UK and global suppliers they are struggling to continue advancing cash to), [redacted]

- [redacted]

- Which is why it's interesting he did not agree to share a list of the largest investors with us, only a sample. So if he comes back with names like [redacted] but not the largest investors it's worth seeking clarity. We are interested in who the main, usual investors are who have dried up. The notes may be notionally listed in Luxembourg but in practice issued directly to a very select regular bunch.

I may be being unduly sceptical; it would be very useful to know what the Bank's instincts are. Also if David Prior could provide information on their importance to the NHS (in particular advances to pharmacies) that would be helpful.

[redacted]

Readout 30th March

From [redacted]
Sent: 30 March 2020 19:33
To: Roxburgh, Charles - HMT
Cc: [redacted]
Subject: Readout of call with Lex Greensill

Charles

Following the issuance of the letter you just had a courtesy call with Lex Greensill who was joined by Bill Crothers.

You talked through the letter, emphasising that we had given their request very careful consideration, and were grateful for the information they had provided which had been reflected in our advice to the Chancellor.

Lex said he was grateful for the letter which was very clear. He wanted first to clarify couple of points where he thought the letter was inaccurate. First, the Bank of England had accepted these kind of notes in the 2010 scheme – and contrary to the letter they had involved a credit wrapper last time. Regarding the Luxembourg SPV, he noted that if a British company had proposed to use the same structure they would be entitled to under the rules of the scheme.

Regarding currencies, he conceded that this was indeed a departure from the CCFF's rules. But they had proposed a solution to that [comment: presumably a reference to BoE swap lines], or could offer it themselves.

In addition he claimed that all the companies in their proposed asset bundle bar one would eligible to access the facility in their own right (in other words without needing a credit wrapper to secure eligibility).

[redacted]

He said this was not Greensill special pleading: the 2010 structure is used by two other providers including [redacted]

Finally, he was gravely concerned that "many tens of thousands" of SMEs would not be getting paid some time later this week. The NHS supply chain would also be affected.

You said that we knew they had indicated that they could go smaller but had indicated that could change. The circumstances were different back in 2010, with different pressures. The currency issue was a significant departure: this was not designed as a multicurrency scheme. And nor was the scheme intended for non-financials.

Lex commented that the only beneficiaries here were SMEs.

You said that other nonbank lenders were making the same points about their customers being in the real economy.

Lex then asked what they would need to do for us to reconsider their request. [redacted]

You said that this was a different application from the one they had submitted, a point he accepted. But he said he was genuinely concerned about the tens of thousands of SMEs.

Bill Crothers asked you to indicate what elements would they need to flex in order for their application to be reconsidered.

You said we would reflect on this and revert tomorrow but that you could not provide any reassurance that their application would be reconsidered.

[redacted]

Tom Scholar March 2020 – present

Email Chain 1

From: Lex Greensill
Sent: 19 March 2020 09:39
To: Scholar, Tom - HMT
Subject: Greensill - UK SME Financing
Importance: High

Dear Tom,

Congratulations on the Covid Commercial Financing Facility (CCFF) announcement. It is impressive to see HMT and the Bank of England taking immediate action to help our largest UK companies. There is, however, an urgent additional need to enable capital to flow quickly to businesses in the rest of the UK economy which may not be eligible under the CCFF (given most companies cannot issue commercial paper).

We sent you a copy of the attached letter to the Chancellor on 17 March. This outlined how significant additional capital from institutional investors could be made available to UK SMEs using fully covered trade credit insurance. Our economy needs the Bank of England's support today to allow the providers of supply chain finance to deliver capital to SMEs. If agreed today, these funds could be delivered by next Monday. Immediate receipt of funding is critical for these businesses.

There are three minor amendments needed to the CCFF that will allow the Bank to accept supply chain finance assets and thus deliver the necessary support:

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]

Your support and immediate attention would be very much appreciated, Tom.

Warmest regards,

Lex

17th March, 2020

The Rt Hon Rishi Sunak, MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

In these unprecedented and challenging times I am writing to alert you to a solution which can unlock significant amounts of low-cost capital for small and medium-sized enterprises (SME's) and employees across the country. This is needed urgently at a time of disruption to markets and the real economy.

Pioneered during the financial crisis, when I led an initiative with David Cameron, Jeremy Heywood and the Bank of England to channel funding into SME's, the supply chain finance market is able to deliver material amounts of capital across the full spectrum of the supply chain. The banking system is unable to do this as effectively given the capital allocation rules. At that time, we put in place an Asset Purchase Facility at the Bank of England which provided much needed stability in the economy by ensuring that capital flowed through supply chains to help small businesses trade through that tough economic period.

I have been in contact with the Bank of England today and am enclosing a copy of my letter and paper to Sir Jon Cunliffe. I wanted you also to be aware of this.

In essence we are recommending that the Asset Purchase Facility is reactivated as a matter of urgency and that supply chain and accounts receivable assets, all of them fully insured to AA- level, be treated as eligible collateral under the Sterling Monetary Framework. We believe that such a Facility in an amount of £10 - 20 billion will give confidence to the capital market investors who underpin this market. As you would expect, that confidence is currently in question.

This action would not only allow the continuing flow of capital into supply chains which would benefit the UK economy at a critical time, but would also assist HMG specifically in ensuring that funding flows quickly and cost effectively to its suppliers. [redacted] We work particularly closely with the NHS, whose suppliers, employees and sub-contractors we offer immediate payment. We are able to do the same across all Ministries.

The merit of supply chain finance is that its impact is immediate in the real economy at a grass roots level. Last year our company created over £100 billion of supply chain finance assets that were purchased by institutional investors, funding over 2.6 million suppliers, most of them SME's. What is needed is a signal of confidence to the capital markets that this asset class, which is short-dated, self liquidating and fully insured, also offers liquidity, if needed. That is the reason why we need the support of the Bank of England through a new Asset Purchase Facility.

I wanted to draw this matter to your personal attention given its potential benefits and the urgency required to implement it.

David Cameron is a Senior Adviser to our company and I have reviewed this matter with him. He and I are available to discuss this further with you.

With kind regards

Yours sincerely

Lex Greensill CBE
Chief Executive Officer

Copy: Sir Tom Scholar, Permanent Secretary to Her Majesty's Treasury

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Email Chain 2

From: Lex Greensill
Sent: 21 March 2020 19:58
To: Scholar, Tom - HMT
Cc: D Cameron; [redacted] Bill Crothers Roxburgh, Charles - HMT
Subject: RE: Greensill CCFF Application

Dear Tom,

By way of follow up, Mark Sedwill connected us with Charles Roxburgh (copied). We had a productive call with Charles and his colleagues early this evening – and we have followed up with them subsequently. Hopefully we can make very swift progress given the disruption we are experiencing in the markets and the materiality of the credit we provide daily to the UK economy, its supply chains and employees.

Warmest regards,

Lex

From: Lex Greensill
Sent: 21 March 2020 15:22
To: Scholar, Tom - HMT
Cc: D Cameron; Bill Crothers
Subject: RE: Greensill CCFF Application

Many thanks indeed, Tom.

You most certainly have been busy!

We also recognise that your team only have the bandwidth to consider things that have the biggest potential impact – and we are certain that our CCFF application makes that grade because:

- [redacted]
- [redacted]

In that light, we would respectfully ask if you could urgently connect us with your colleagues so that we can explain the minor tweaks which need to be made to the CCFF which will ensure eligibility for supply chain finance assets (these were also introduced during the crisis in 2009).

With access to the CCFF we will be able, as one of the largest providers of working capital in the world, to increase the volume of immediately-available capital to UK supply chains - and also to individuals on a daily basis through our Earnd App.

Thank you in advance for your understanding and we look forward to speaking with your colleagues.

Warmest regards,

Lex

From: Scholar, Tom - HMT
Sent: 20 March 2020 21:32
To: Lex Greensill
Cc: D Cameron
Subject: RE: Greensill CCFF Application

Dear Lex

Many thanks for this, and sorry not to get back to you earlier in the week – we've been busy!

My colleagues are on the case and in touch with our colleagues at the Bank of England.

Have a good weekend.

Tom

From: Lex Greensill
Sent: 20 March 2020 15:26
To: Scholar, Tom - HMT
Cc: D Cameron
Subject: FW: Greensill CCFF Application
Importance: High

Dear Tom,

For your information, please see below and attached our application for inclusion in the CCFF.

The express support of HM Treasury for our inclusion in the CCFF (given our asset class and structure was approved within the Asset Purchase Facility back in the financial crisis) would be most highly valued.

You may also have noticed that we went live yesterday with 7 NHS Trusts (including Royal Free) and are providing their staff with an App so they can access their pay as they earn it (rather than wait until the end of the month) – completely for free. The feedback from frontline NHS workers has been extremely positive. Greensill is funding the early payment to NHS employees at its own expense – our small contribution to the country in its time of unprecedented need. (Two press articles are below.)

I am at your disposal if you or your colleagues would like to discuss.

Thank you in advance for your support.

Warmest regards,

Lex

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Greensill fast tracks roll out of NHS pay service 'to help' with virus outbreak

https://www.fnlondon.com/articles/greensill-fast-tracks-roll-out-of-nhs-pay-service-to-help-with-virus-outbreak-20200319?target=/

The technology will be accessible to NHS staff in London first

By Emily Horton

March 19, 2020 1:29 pm GMT

Daily Mail (Print): NHS GIVEN WAGES APP

NURSES and other frontline health workers can be paid immediately for their work during the coronavirus pandemic after a technology firm provided its software to the NHS for free.

Greensill, which owns start-up Earnd, said it has already signed up trusts in Salford, Northumbria and London. The smartphone app connects to payroll systems, letting employees receive a share of their pay on a daily basis rather than having to wait until the end of the financial month.

It is designed to help workers who need money at short notice or those facing unexpected costs, meaning they do not have to turn to short-term loan providers.

Greensill said: 'The NHS will not be charged.'

Readout 31st March call

From: Scholar, Tom - HMT
Sent: 31 March 2020 00:48
To: Roxburgh, Charles - HMT
Subject: RE: Grensill advice - OFFICIAL - MARKET SENSITIVE

Charles

As mentioned, I took a call from David Cameron earlier. He has some advisory role at Greensill.

He'd been briefed on your call earlier. He wanted to stress the importance of Greensill to SMEs and the UK economy. They were very ready to revise their proposal to make it acceptable. He was very confident that a solution could be found.

I was non-committal, and noted that you and Greensill were both reflecting, and would be talking again in due course. When pressed, I also said you and I would be discussing it.

He asked whether CX had a particular view. I said he'd of course had a paper on the decision, but I wasn't sure whether anyone had discussed it with him. We would keep him closely informed.

That was all.

Tom

Tom Scholar – David Cameron text exchange 1

From: Scholar, Tom - HMT
Sent: 28 March 2020 16:20
To: Roxburgh, Charles - HMT
Subject: Issue for decision this weekend

Had some incoming from my old boss - see below.

—-

[redacted]

[redacted]

-

[redacted]

-

Thanks for all that. We're hoping to get a decision over the weekend. Well done for holding off [redacted] Not often anyone manages that.

<u>7th April: Tom Scholar – David Cameron text exchange 2</u>

[redacted]

Chancellor

From: Lex Greensill
Date: 17 March 2020 at 14:02:45 GMT
To [redacted]
Cc: "Scholar, Tom - HMT"
Subject: Greensill

Dear [redacted]

Please find attached letter and supporting documents for the attention of the Chancellor of the Exchequer, with copy to Sir Tom Scholar.

I would be grateful if you could bring this to the Chancellor's attention as a matter of urgency.

With kind regards,

Yours sincerely,

Lex

[LETTER AS ABOVE]

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.

16 March 2020

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

Dear Jon,

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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.

GREENSILL CAPITAL (UK) LIMITED
One Southampton Street, Covent Garden, London, WC2R 0LR

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.

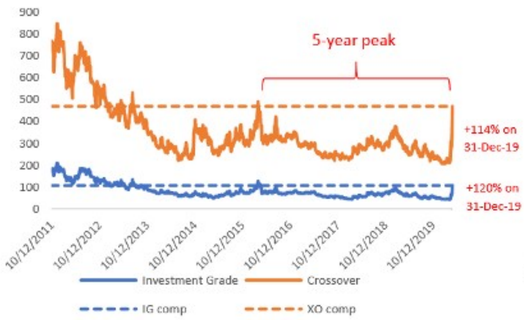
The category of corporates just below the IG names are the crossover (XO) names that are just below the IG or are split IG/NIG across rating agencies. Their access to liquidity is generally poorer than the IG names but often significantly better than the NIG/NR names.

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.

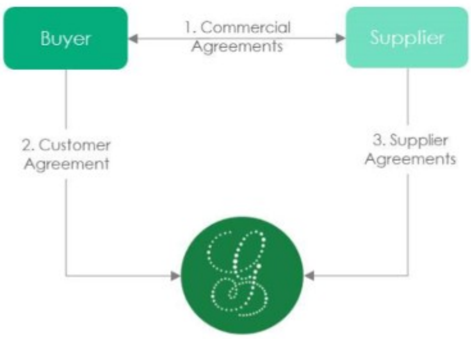
How does it work?

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.

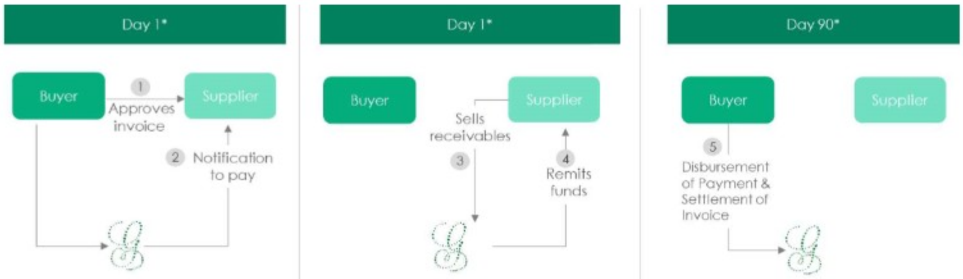
Upon delivery of the funding request, the Buyer makes an irrevocable, unconditional, legal, valid and binding undertaking known as Irrevocable Payment Undertaking ("**IPU**")to Greensill to pay to a designated account, on a specified maturity date, amounts equal to, and in the same currency as the underlying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

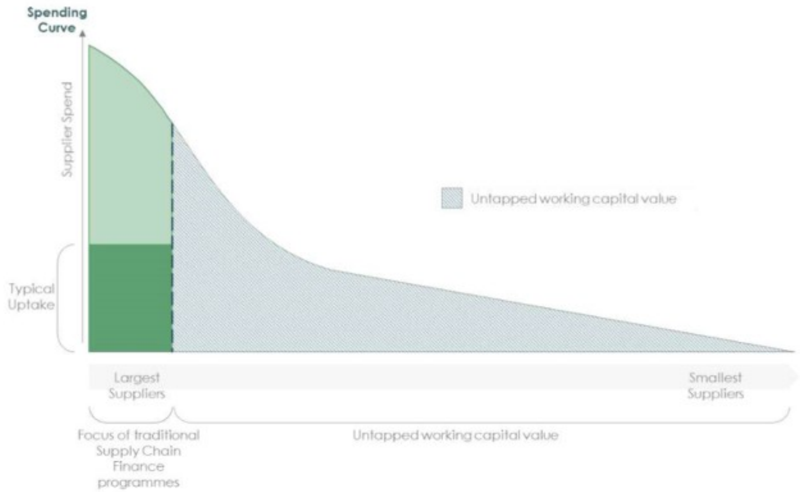
Who is it for?

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?

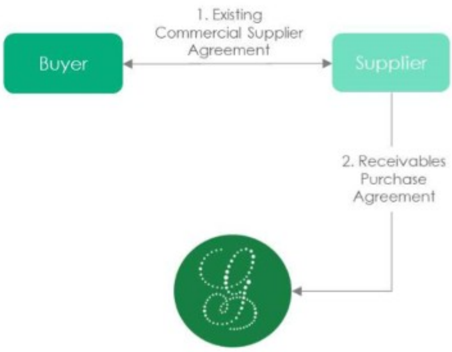
Trade Receivable Financing also known Account Receivable (AR) Financing gives Suppliers of goods and services access to cash faster by unlocking income tied up in their Accounts Receivable.

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.

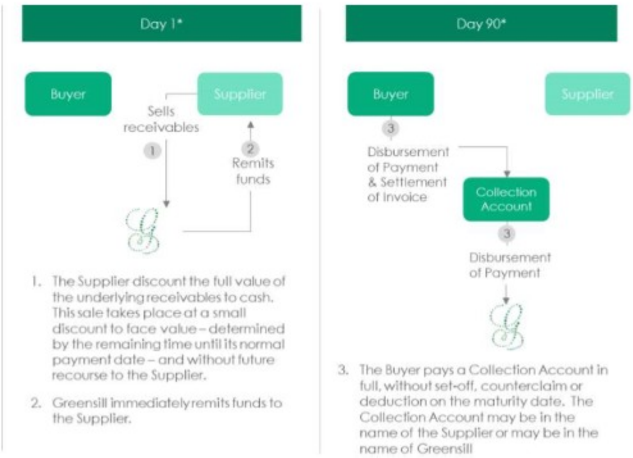
How does it work?
AR Financing allows for the Supplier to select ADs for whom they wish to receive early payment for their receivables. The rationale for the Supplier selecting certain ADs may include:

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.

Financial Secretary

Texts to David Cameron - 3rd April

1626

Hi David good to hear from you. Will call around 445 pm if that's OK. J.

1658

Good to talk. Email is [redacted]