



COVID-19 federal bridge financing for large employers

May 19, 2020

On May 11, 2020, the Canadian federal government announced that it will establish a Large Employer Emergency Financing Facility (LEEFF) to provide bridge financing to large Canadian employers, whose needs during the COVID pandemic are not met through conventional financing.¹

Eligibility to apply

The LEEFF program will be open to large for-profit businesses (other than those in the financial sector) and certain not-for-profit businesses (such as airports). To qualify for LEEFF, eligible businesses must:

- Have annual revenues generally in the order of \$300 million or higher;
- Be seeking financing of about \$60 million or more;
- Have significant operations or workforce in Canada;
- Not be involved in active insolvency proceedings;
- Not otherwise have the capacity to manage through the crisis; and
- Not have been convicted of tax evasion.

Principles in assessing application

The LEEFF program will apply a standard set of economic terms and conditions, guided by such objectives as:

- Protecting Canadian jobs;
- Helping Canadian businesses weather the current economic downturn;
- Avoiding bankruptcies of otherwise viable firms; and
- Applying to all eligible sectors in a consistent manner.

An applicant will need to provide information related to its employment, tax, and economic activities in Canada, its international organizational structure and financing arrangements. In addition, an applicant will need to:

- Demonstrate how it intends to preserve employment and maintain investment activities;
- Commit to respect collective bargaining agreements and protect workers' pensions;
- Strictly limit dividends, share buy-backs, and executive pay; and
- Commit to publish annual climate-related disclosure reports consistent with the Financial Stability Board's Task Force on Climate-related Financial Disclosures, including how its future operations will support environmental sustainability and national climate goals.

Program delivery partners

The LEEFF program will be delivered by Canada Development Investment Corporation, in cooperation with Innovation, Science and Economic Development Canada and the Department of Finance. The private lenders of LEEFF applicants will be required to cooperate to ensure government financing is focused on sustaining the applicants' operations.

Our commentary

Sustainability report

Prior to applying for LEEFF, companies should consider what the obligation to publish annual climate-related disclosure reports may entail. The Financial Stability Board's Task Force on Climate-related Financial Disclosures recommended in its June 2017 report four core elements of such disclosures:

- Governance: The company's governance around climate-related risks and opportunities;
- Strategy: The actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy and financial planning;
- Risk management: The process used by the organization to identify, assess and manage climate-related risks; and
- Metrics and targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Tax disclosure

In response to a media question on tax avoidance, Prime Minister Trudeau said at a news conference, in paraphrase, that if a company wants to apply for LEEFF, the company will need to be transparent and show it has paid its fair share of taxes and is not using different means to avoid paying its fair share. To evaluate this, the company will have to disclose its complete financial structure to the government.

While many details of the program are still being worked out, this type of tax disclosure may be modeled on similar rules in other countries that have denied COVID-related government support to companies that use offshore tax havens. As part of LEEFF application, the government may require applicant companies to provide some attestation that they are not substantially involved in tax havens.

Conventional financing

Given the undertakings and disclosures required from LEEFF applicants, the program is not designed as low-cost lending or a bail-out, but as credit support with significant strings attached. Before applying for LEEFF, companies are advised to first exhaust conventional financing options available in the private market and consider whether additional liquidity can be made available under their existing credit facilities:

- Is there availability under the existing credit facility?
- Is it an option to work with an existing lender to temporarily (or "permanently") increase the facility limit?
- Can principal payments be deferred?
- Can the loan be re-amortized?
- Can asset classes be added to the borrowing base?
- Can the borrowing base be increased due to changes from ineligible to eligible assets in the borrowing base?
- Are there any unpledged assets or other sources of credit support available (such as guarantees) to offer in order to increase credit availability?

More details will be announced as the government finalizes the LEEFF program. In the meantime, if you have any questions about this announcement or the government's COVID-19 economic response plan, or for assistance with obtaining/extending new or re-negotiating existing financing arrangements, please contact a member of our team.

¹ <https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save>

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