

## **BANK OF ENGLAND MARKET NOTICE: STERLING MONETARY FRAMEWORK; ASSET PURCHASES**

1 This Market Notice sets out the arrangements that will apply to the purchases of assets with central bank reserves authorised by the Monetary Policy Committee (MPC); and consequent changes to the operation of the Bank's Sterling Monetary Framework (SMF).

### OPERATIONAL POLICY FRAMEWORK

2 In addition to setting Bank Rate each month, the MPC will also set a target for the level of asset purchases to be financed by central bank reserves over a period of its choosing.

3 Purchases of private sector debt in the Asset Purchase Facility (APF) will continue as described in the Bank's Market Notice of 6 February 2009. With effect from Friday 6 March, purchases of private sector debt in the APF will be financed by central bank reserves, rather than by the issuance of Treasury bills by the Debt Management Office (DMO). Existing financing of private sector assets by Treasury bills will mature as the assets currently being financed by those bills mature.

4 In order to meet the MPC's objective for total asset purchases, the Bank will also buy medium- and long-maturity conventional gilts in the secondary market, financed by central bank reserves.

5 Gilt purchases will be undertaken as part of the implementation of monetary policy by Bank of England Asset Purchase Facility Fund Limited ("the Fund"), which is a wholly-owned subsidiary of the Bank and will be the legal counterpart to market transactions. The Bank acts as agent for the Fund.

### CHANGES TO THE STERLING MONETARY FRAMEWORK

6 With effect from the Maintenance Period (MP) starting on 5 March, until further notice, the Bank will remunerate all reserves balances held by reserves banks at Bank Rate. It will therefore suspend the usual system in which reserves banks choose monthly reserves targets that they have to achieve on average over the maintenance period.

7 For the MP starting on 5 March, the range around reserves targets within which the Bank remunerates reserves, announced by the Bank on 2 March, is suspended. No charges will therefore be applied to reserves scheme participants whose reserves holdings are outside that range, given the voluntary targets they had initially set for the MP. The Bank will not, until further notice, invite reserves scheme participants to set reserves targets ahead of subsequent MPs. Charges will continue to be applied to any settlement bank overdrafts.

8 If Bank Rate is 0.5% or below, the rate paid on the Operational Standing Deposit Facility will be zero; the rate charged on the Operational Standing Lending Facility will continue to be set 25bp above Bank Rate.

9 The Bank will continue to inject reserves by holding extended-collateral, and routine, long-term repo open market operations (OMOs) on the schedule previously announced. The Bank will review the minimum bid rate applied at the 3-month tenor ahead of the next operation.

10 Broadly, for the time being the Bank's operational approach will be to ensure that the net supply of reserves is around the aggregate level of reserves targets initially set by reserves scheme participants for the MP starting on 5 March, plus the amount of reserves injected via the purchase of assets acquired as authorised by the MPC. In order to achieve that, the Bank will continue for the time being to hold weekly OMOs to drain reserves injected via extended-collateral long-term repo operations by issuing one-week Bank of England sterling bills. Henceforth, these bills will normally be issued on a variable-rate basis. Short-term lending operations remain available for use if necessary.

11 For as long as reserves averaging is suspended, the Bank will not conduct a routine fine-tuning OMO on the final day of the MP.

#### Bank of England bills

12 If the Bank offers to drain reserves in its routine weekly short-term OMO it may henceforth do so via OMOs to sell Bank of England sterling bills at prices

determined in a variable-rate auction on a discriminatory-price basis. Bills will continue to be issued, normally, for a one-week maturity. The following arrangements apply to variable-rate bill OMOs.

13 Bids should be entered to the Bank's electronic tendering system, Btender, for a nominal amount of bills, specifying an interest rate calculated on a money market yield basis; the applicable price-interest rate formula is set out in the Sterling Bills Information Memorandum dated 6 October 2008. The number of decimal places allowed for the bid rate is currently 3. The minimum bid amount is £5 million and the bid increment is £1 million.

14 The Bank will not currently limit the number of bids that a participant may submit in Btender. Exceptionally, the Bank may accept bids by telephone. A participant bidding via telephone may submit only one bid, and may not amend it.

15 The Bank will not currently limit the proportion of the operation for which an individual participant may bid; but the sum of an individual participant's bids may not exceed the total size of the operation.

16 The Bank reserves the right to reject bids, in whole or in part, including in the light of other bids received; and reserves the right to set a maximum bid rate.

17 Bills will be allocated in ascending order of offered interest rates. Bids at the lowest rate will be accepted first, and subsequently bids with successively higher rates until the amount of bills on offer is exhausted. Bids that are accepted at the highest accepted rate may be scaled down on a pro rata basis and rounded down to the nearest allocation increment, currently £0.1 million. Bids are accepted at the rate bid.

18 After each variable-rate bill OMO, the Bank will publish the total nominal amount of bills bid for; the total allotted; the weighted average rate; the highest accepted rate; and the degree of pro-rating at the highest accepted rate.

19 When converting the bid rate accepted by the Bank into a price for the calculation of settlement proceeds, the price will be calculated, on a rounded basis, to nine decimal places; the formula is set out in the Sterling Bills Information Memorandum.

20 Other than as amended by this Market Notice, the terms of the Bank's previous Market Notices relating to Bank of England bills, together with the Sterling Bills Information Memorandum, will continue to apply to the Bank's issuance of sterling bills. In the event of any conflict between this Market Notice and the Information Memorandum or previous Market Notices relating to Bank of England bills, this Market Notice will prevail.

### GILT PURCHASES

21 The Fund's gilt purchases form part of the Bank's regime for the implementation of monetary policy. They will operate as follows.

#### Gilts to be purchased

22 The Fund will, initially, purchase conventional gilts with a minimum residual maturity of five years and a maximum residual maturity of twenty-five years. The Bank may consider extending the range of maturities in which it will offer to purchase gilts.

23 The Bank does not currently intend to purchase index-linked gilts; or rump stocks; or stocks with an outstanding issue size below £4 billion.

24 The Fund will not offer to purchase gilts newly-issued by the DMO within one week of their issue; and will not offer to purchase gilts which the DMO has announced it will re-open, including via a mini-tender, during the period one week either side of the re-opening. If the DMO announces a re-opening, including via a mini-tender, within that period, of a stock that the Bank had previously announced it would offer to purchase on a particular day, the Bank will remove the stock from those to be purchased.

#### Purchase process

25 The Fund will offer to purchase gilts in reverse-auctions. In each auction the Bank will offer to purchase a fixed total value of gilts, based on total proceeds,

including any accrued interest. Each auction will have both a competitive and a non-competitive element.

26 Non-competitive offers will be invited, and the aggregate amount allocated to non-competitive offers announced, ahead of the start of the competitive auction.

27 In the competitive auction, purchases will be undertaken at prices determined in a variable rate auction on a discriminatory-price basis. Offers in the non-competitive element of the auction will be allocated at the weighted average price at which the relevant stock was allocated in the competitive auction.

28 Those eligible to apply to participate as counterparties in the competitive auctions will be those firms that are participants in the Bank's gilt-purchase OMOs.

29 Those eligible to apply to participate as counterparties in the non-competitive element of the auction will be all firms that are appropriately authorised for the purposes of the Financial Services and Markets Act (FSMA), with the exception of firms that are participants in the Bank's gilt-purchase OMOs.

30 Different legal entities within the same Group may apply to participate in the competitive and the non-competitive elements of the auction, respectively, where they undertake different kinds of activity (eg banking and asset management).

31 In any individual auction the Bank intends initially to offer to purchase gilts with a residual maturity of between 5-10 years, or between 10-25 years, only.

32 The amount of each stock that the Bank will buy in each competitive auction will not be pre-determined, subject to the overall size of the operation. Offers for different stocks will be allocated based on the attractiveness of offers for each stock relative to market yields for the stocks, as published by the DMO, at the close of the auction. There will be no minimum allocation to a particular stock.

### Announcements

33 The first auction to purchase gilts will take place on Wednesday 11 March.

34 The Bank will announce on its wire services pages each Thursday at 16.00 the size of the auctions to be held during the following week and the stocks to be purchased. The first such announcement will take place today, 5 March. The details of each auction will be confirmed by the Bank on its wire services pages on the morning of the operation.

#### Submission of offers and allocation process

35 The Bank intends initially to conduct auctions twice-weekly, normally on Mondays and Wednesdays.

#### *Non-competitive offers*

36 Non-competitive offers must be submitted on the day of the auction by an authorised person via email using the pro-forma available at <http://www.bankofengland.co.uk/markets/apf/index/htm>. Such offers must be received by the Bank no later than noon, after which time they are irrevocable, and receipt should be confirmed by the participant by telephone to the Bank's sterling dealing desk. Offers should state the nominal amount of each stock offered for sale on a non-competitive basis.

37 The minimum offer amount and increment for non-competitive offers are currently each set at £1 million.

38 The Bank reserves the right to restrict the aggregate amount of the Fund's purchases of a stock that is allocated to non-competitive offers. If the total of non-competitive offers in the relevant stock were to exceed the amount allocated by the Bank, they would be scaled down on a pro rata basis. Scaled offers would be rounded to the nearest allocation increment, currently £0.1 million.

39 The amount allocated to non-competitive offers and the degree of any scaling will be announced on the Bank's wire services pages<sup>1</sup> at 13.00. In the event that there is scaling, the Bank will confirm individual allocations by telephone.

---

<sup>1</sup> Reuters BOE/Markets1; Bloomberg BOEO 1

40 Counterparties whose offers are accepted will be paid the weighted average clean price, plus accrued interest, at which the relevant stock was allocated in the competitive auction.

41 In the event that none, or only a small amount, of a particular stock were allocated in the competitive auction, the Bank reserves the right to cancel relevant non-competitive bids, notwithstanding any earlier announcement.

#### *Competitive offers*

42 The size of the competitive auction will be announced at 13.00, reflecting the amount allocated to non-competitive offers. Competitive auctions will normally begin at 14.15 and finish at 14.45. They will be held using the Bank's electronic tendering system, Btender.

43 Counterparties must input the nominal sterling amount in millions for each specific gilt they wish to sell and the clean price they wish to offer.

44 The number of decimal places allowed for the price is currently 3.

45 Offers are submitted by counterparties using a clean price. When offers are received in Btender they are also converted to a yield using the standard gilt market conversion calculation available on the DMO's website, and the yield is also displayed for information to counterparties.

46 The minimum offer amount and increment are currently set at £5 million and £1 million respectively.

47 The Bank will not restrict the maximum total value of gilts for purchase from a single counterparty in each auction.

48 The Bank reserves the right to reject offers, in whole or in part, including in the light of other offers received; and reserves the right to set a maximum offer price / minimum yield.

49 Offers will be allocated in descending yield order, based on the attractiveness of offers for different stocks relative to market yields. Offers that are accepted at the

lowest yield may be scaled down on a pro rata basis and will be rounded down to the nearest allocation increment, currently set at £0.1 million.

50 Offers are accepted in full or in part at the counterparty's offer price. The amount of each accepted offer in total proceeds will be paid to the counterparty.

51 The Bank reserves the right to cancel an auction at any time before the results are published. If an auction is cancelled it may be re-scheduled to take place later the same day, or on a subsequent day.

#### Published information

52 The results of the competitive auction will be announced on the Bank's wire services pages<sup>2</sup> as soon as possible after its end. The Bank will publish, for each stock offered, the amount purchased, in terms of the total proceeds; the total size of offers received; the weighted average price; the highest accepted price; and the lowest accepted price.

53 The Bank will publish each Friday at 10.00 the total amount of gilts purchased in these operations that week, in terms of the total proceeds; and the sum of gilts purchased, less maturities, to date.

#### Applications to participate

54 Those wishing to participate in the auctions, both those wishing to participate in the competitive auctions, and those wishing to submit non-competitive offers, should complete the Application Form for gilt purchases available at [www.bankofengland.co.uk/markets/apf/appform090305.doc](http://www.bankofengland.co.uk/markets/apf/appform090305.doc) and submit it by email to [APF\\_applications@bankofengland.co.uk](mailto:APF_applications@bankofengland.co.uk).

55 Participation will be governed by the Terms and Conditions for the Asset Purchase Facility, and, in the case of counterparties participating in the competitive auctions, by the Asset Purchase Facility Btender Terms. Each is available at [www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm).

56 The Bank reserves the right to reject applications without explanation.

---

<sup>2</sup> Reuters BOE/Markets1; Bloomberg BOEO 1

## Settlement

57 In the case of participants in the competitive auction, confirmation of the amount allocated will be available in Btender.

58 In the case of those counterparties that submitted successful non-competitive offers, the Bank will send a written electronic confirmation of each transaction on the day of purchase.

59 Gilt purchases will normally settle on a T+1 basis.

60 All counterparties must comply with the Settlement Procedures for the Asset Purchase Facility, available at [www.bankofengland.co.uk/markets/apf/settlementprocedures.pdf](http://www.bankofengland.co.uk/markets/apf/settlementprocedures.pdf).

## Gilt lending

61 The Bank intends to consult with market participants about the possibility of lending gilts from the portfolio it will acquire.

Bank of England  
5 March 2009