



Market Notice

4 August 2016

Asset Purchase Facility: Corporate Bond Purchase Scheme

1. This Market Notice sets out, at a high level, the design of the Corporate Bond Purchase Scheme. Purchases of sterling corporate bonds, financed by the creation of central bank reserves, will be undertaken via the Asset Purchase Facility (APF) in accordance with the decisions of the Monetary Policy Committee (MPC). Further details on the Corporate Bond Purchase Scheme (CBPS or the Scheme) will be made available via an additional Market Notice in early September prior to activation of the Scheme.
2. The purpose of the CBPS is to impart monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies; by triggering portfolio rebalancing; and by stimulating new issuance of corporate bonds.
3. The Bank will look to purchase, via the CBPS, a portfolio of up to £10bn of sterling bonds representative of issuance by firms making a material contribution to the UK economy, in order to impart broad economic stimulus.
4. The CBPS will operate for an initial period of 18 months.

Eligible issuers

5. The Bank will purchase bonds issued by companies (including their finance subsidiaries) that make a material contribution to economic activity in the UK, subject to the restrictions set out below. Companies with a genuine business in the UK will normally be regarded as meeting this requirement.
6. Corporate bonds issued by banks, building societies and insurance companies will not be eligible. Bonds will also not be eligible if issued by leveraged investment vehicles or from companies within groups that are predominantly banks, building societies or insurance companies.

Eligible securities

7. The Bank will offer to purchase sterling corporate bonds of eligible issuers, with the following characteristics:
 - a. Conventional senior, unsubordinated debt.
 - b. Bonds rated investment grade by at least one major rating agency and subject to the Bank's assessment process.

- c. Cleared and settled through Euroclear and/or Clearstream.
 - d. Minimum amount in issue of £100 million.
 - e. Minimum residual maturity of twelve months; no perpetual debt.
 - f. At least one month since the security was issued.
 - g. Securities will need to be admitted to official listing on an EU stock exchange.
8. Bonds with complex or non-standard structures will not be eligible. Convertible or exchangeable bonds will not be eligible.
9. Corporate bonds that contain a “Spens clause” will normally be eligible.¹ Other corporate bonds that contain callable features will not normally be eligible.
10. Securities issued by a finance subsidiary will normally require a guarantee from within the issuer’s group. The Bank reserves the right to require a parent company guarantee in a form and substance satisfactory to the Bank.
11. The Bank will make purchases so as to avoid over concentration in particular sectors or firms.
12. The Bank will keep the eligibility criteria under review. The Bank will publish an initial list of eligible securities on its website ahead of the launch of the CBPS. This list will then be updated from time to time. Counterparties may request the Bank to consider the eligibility of additional securities.
13. The Bank will reserve the right in its sole discretion to deem any security ineligible for any reason, including deeming securities ineligible that it has previously offered to purchase.

Eligible counterparties and applications

14. The Bank will offer to make purchases of investment grade sterling denominated bonds only via firms that the Bank is satisfied are market makers in such securities and are counterparties in its Open Market Operations. Firms must have access to the Bank’s electronic tendering system, Btender, in order to participate in CBPS reverse auctions.

Operational mechanism

15. The Bank will participate in the secondary market by holding reverse auctions. The Bank reserves the right to carry out secondary market purchases via other methods, such as bilateral purchases, should it be deemed necessary.
16. The MPC will keep under review the case for participating in the primary market.

¹ These provide that on early redemption a cash payment is made to the bond holders that is the higher of the outstanding principal and the foregone interest and principal payments discounted at a rate equal to the redemption yield of a gilt of comparable maturity.

17. The Bank's CBPS is expected to commence in mid-September. Further operational details and documentation will be provided in an updated Market Notice prior to launch.

Closure of the Corporate Bond Secondary Market Scheme and Secured Commercial Paper Facility

18. As well as being used for monetary policy purposes, the APF has the ability to purchase private sector assets to help improve liquidity in credit markets that are not functioning normally. In the past, the APF has used several mechanisms to facilitate these purchases including the Corporate Bond Secondary Market Scheme. In 2013, the Corporate Bond Secondary Market Scheme was moved to operating only if warranted by market demand. There has been no indication of such demand in the intervening period, and with the introduction of the CBPS, the Bank is today formally closing the Corporate Bond Secondary Market Scheme.

19. The Secured Commercial Paper Facility has not been used since 2011, and so the Bank is today formally closing the facility.

Bank of England

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