

BANK OF ENGLAND MARKET NOTICE: GILT PURCHASES; STERLING MONETARY FRAMEWORK

1 This Market Notice sets out changes to the arrangements for the purchase of gilts in the Asset Purchase Facility (APF) financed by central bank reserves, and changes to the operation of the Sterling Monetary Framework.

GILT PURCHASES

2 Following the increase in the MPC's target for asset purchases financed by reserves, announced earlier today, the Bank will extend the range of gilts eligible for purchase to include all conventional gilts with a minimum residual maturity of greater than three years.

3 In addition to conducting auctions to purchase gilts on Monday and Wednesday each week, the Bank will hold an additional auction, normally on Tuesday at 14.15-14.45. The Bank intends normally to offer to purchase gilts with a residual maturity of 10-25 years on Mondays, of 3-10 years on Wednesdays, and of greater than 25 years on Tuesdays. The next auctions will take place in the week beginning 10 August. The Bank will publish details of those operations at 16.00 today.

4 The Bank discussed these arrangements with the Debt Management Office, as part of contingency planning for a range of possible MPC decisions.

GILT LENDING

5 The Bank is also announcing today, in a joint statement with the DMO, an arrangement for a significant amount of the gilts acquired by the Bank via the APF to be made available for on-lending to the market by the DMO through the DMO's normal repo market activity.

STERLING MONETARY FRAMEWORK

6 The Bank is amending its operational approach to the provision of reserves. For the time being the Bank will cease to offer reserves in a weekly short-term Open Market Operation (OMO). Accordingly the OMO scheduled to take place today at 12.15 is cancelled.

7 The Bank will continue to offer reserves in long-term repo OMOs. The size of the funds on offer in the scheduled three-month long-term repo on 18 August will be £10 billion. The size of the funds on offer in subsequent operations will continue to be announced on the Friday ahead of the operation.

8 In three-month long-term repos, the minimum bid rate for bids against collateral routinely accepted in the Bank's short term OMOs will be amended to be the higher of (i) the equivalent maturity overnight index swap rate prevailing shortly before the start of the operation as determined by the Bank, and (ii) Bank Rate. The minimum bid rate for bids against the Wider Collateral Pool will continue to be 50 basis points higher than the minimum bid rate for bids against collateral routinely accepted in the Bank's short term OMOs.

9 For the time being, the level of reserves will therefore be a function of (i) the level of reserves injected via asset purchases, (ii) the reserves supplied in long-term repo OMOs, and (iii) the net impact of other sterling ("autonomous factor") flows across the Bank's balance sheet.

10 Other than as amended by this Market Notice, previous Market Notices relating to the Bank's asset purchases and to the operation of the SMF will continue to apply. The Bank will publish updated consolidated Market Notices in due course.

Bank of England
6 August 2009