

Asset Purchase Facility

Quarterly Report 2016 Q3



BANK OF ENGLAND



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Asset Purchase Facility

The Bank of England Asset Purchase Facility Fund was established as a subsidiary of the Bank of England on 30 January 2009, in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009⁽¹⁾ and detailed in an exchange of letters with the then Governor on 29 January 2009.⁽²⁾ This remit was subsequently expanded to enable the Fund to be used as a monetary policy tool, at the request of the Monetary Policy Committee (MPC), as detailed in the exchange of letters on 17 February and 3 March 2009.⁽³⁾

The then Governor noted in his letter of 29 January 2009, 'it is important that the Asset Purchase Facility (APF) is operated in an open and transparent manner. The Bank will publish a quarterly report on the transactions as part of the facility, shortly after the end of each quarter'. This report covers the three months to 30 September 2016. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.⁽⁴⁾

The Bank's Executive Directors for Markets and for Monetary Analysis and Research & Statistics are Directors of the Fund. The Directors make recommendations on the assets to be purchased to the Governor, who decides after consulting with Deputy Governors. The Fund and the Bank are indemnified by the Treasury from any losses arising out of or in connection with the Facility.⁽⁵⁾

HM Treasury announced arrangements to transfer gilt coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer on 9 November 2012. These arrangements are detailed in an exchange of letters between the Chancellor of the Exchequer and the then Governor.⁽⁶⁾

Before 4 August 2016, in line with the MPC's decisions,⁽⁷⁾ the APF had been authorised to purchase £375 billion of high-quality assets financed by the creation of central bank reserves. These purchases were completed on 31 October 2012 and the stock was thereafter maintained at £375 billion, through reinvestment of cash flows associated with the maturities of gilts owned by the APF, until 4 August 2016.

On 4 August 2016 the MPC voted to introduce a package of measures designed to provide additional monetary stimulus. A Term Funding Scheme (TFS) was introduced to provide term funding to banks at rates close to Bank Rate, with the aim of reinforcing the transmission of Bank Rate cuts to those interest rates actually faced by householders and businesses in the United Kingdom. A new Corporate Bond Purchase Scheme (CBPS) was set up to purchase high-quality private sector assets, financed by the creation of central bank reserves. The CBPS may buy up to £10 billion worth of sterling-denominated bonds of firms making a material contribution to the UK economy, subject to assessment against criteria designed to limit the risks involved in holding corporate debt.⁽⁸⁾ Also the target for the stock of purchases of UK government bonds, financed by central bank reserves, was increased by £60 billion to £435 billion. The aim of all these actions has been to boost the supply of money and credit in order to raise the rate of growth of nominal spending to a level consistent with meeting the inflation target in the medium term. The agreement to increase the size and broaden the composition of the APF to cover these new measures on a sustainable basis was set out in an exchange of letters between the Governor and the Chancellor on 4 August 2016.⁽⁹⁾

The APF may also be used to support financial stability by intervening in credit markets that are not functioning normally. Formerly, the Commercial Paper Facility⁽¹⁰⁾ (CPF), the Secured Commercial Paper Facility⁽¹¹⁾ (SCPF) and the Corporate Bond Secondary Market Scheme⁽¹²⁾ (CBSMS) were used for that purpose. There is no current need for such intervention. The CPF was closed on 15 November 2011 and the last open schemes (the SCPF and CBSMS) were closed on 4 August 2016.

(1) The Chancellor's statement is available at http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/press_05_09.htm.

(2) The exchange of letters is available at http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf and www.bankofengland.co.uk/markets/apfgovletter090129.pdf.

(3) The exchange of letters is available at www.bankofengland.co.uk/monetarypolicy/pdf/govletter090305.pdf and http://webarchive.nationalarchives.gov.uk/20091204142322/http://www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf.

(4) The August *Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/2016/aug.pdf.

(5) For more details see www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapannualreport1606.pdf.

(6) The exchange of letters can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194038/chx_letter_091112.pdf and www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter121109.pdf.

(7) For more history of MPC asset purchase decisions, see www.bankofengland.co.uk/monetarypolicy/Documents/mpcvoting.xlsx.

(8) Eligibility criteria for issuers and securities were published in a Market Notice on 4 August 2016. For more details see www.bankofengland.co.uk/markets/Documents/marketnotice160804apfcbps.pdf.

(9) The exchange of letters can be found at www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter040816apf.pdf and www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter040816apf.pdf.

(10) For more details see www.bankofengland.co.uk/markets/apf/cp/index.htm.

(11) For more details see www.bankofengland.co.uk/markets/apf/securedcpf/index.htm.

(12) For more details see www.bankofengland.co.uk/markets/apf/corporatebond/index.htm.

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Operations

Table A summarises the stock of assets purchased, or the amounts lent, in each facility in 2016 Q3, reported on a settlement date basis.

Table A APF transactions by type (£ millions)

Week ending ^(a)	Gilts ^(b)	Stocks	
		Corporate bonds ^(c)	Term funding scheme ^(d)
2016 Q2 ^(e)	374,907	–	–
7 July 2016	374,907	–	–
14 July 2016	374,907	–	–
21 July 2016	374,907	–	–
28 July 2016	374,907	–	–
4 August 2016	374,907	–	–
11 August 2016	378,365	–	–
18 August 2016	381,875	–	–
25 August 2016	385,385	–	–
1 September 2016	387,724	–	–
8 September 2016	379,116	–	–
15 September 2016	382,626	–	–
21 September 2016	384,965	–	0
28 September 2016	388,475	0	50

Source: Bank of England.

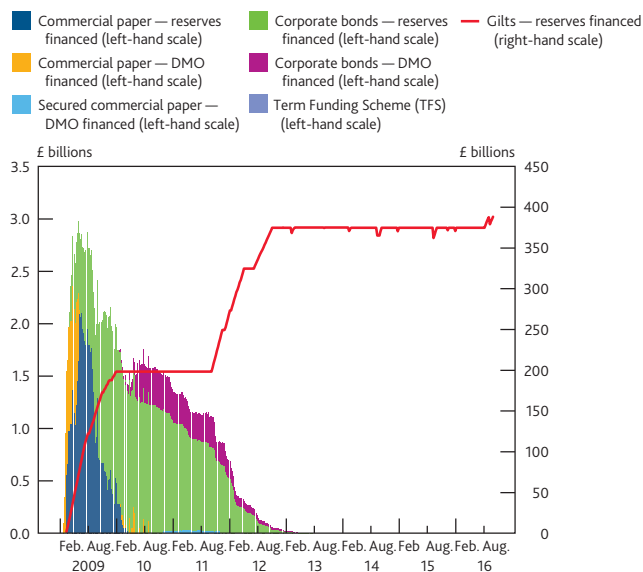
- (a) Data are as at close of business on a Thursday from the start of the review period to 15 September 2016, and as at close of business on a Wednesday from 21 September 2016. This change was made following the introduction of the Term Funding Scheme, to align with the publication of the Bank's *Weekly Report*.
- (b) The overall stock of APF gilt purchases, less redemptions, valued at initial purchase price. The stock is reported on a settlement date basis.
- (c) The overall stock of APF Corporate Bond Purchase Scheme purchases, less redemptions, valued at initial purchase price. The stock is reported on a settlement date basis. No transactions had settled as at close of business on 28 September 2016.
- (d) The total amount of loans made through the Term Funding Scheme, less repayments, reported on a settlement date basis.
- (e) 2016 Q2 measured as the amount outstanding as at 30 June 2016.

Gilt transactions to the value of £26.9 billion took place in the quarter. A part of those had not been fully settled by the last Wednesday of the quarter and are outside the scope of the review period of this report; they will be included in **Table A** of the 2016 Q4 *Report*. Also, the £12.1 billion of cash flows associated with the maturity on 7 September 2016 of a gilt owned by the APF were reinvested between 8 August 2016 and 31 October 2016, as part of the purchase programme set out in the Market Notice of 4 August 2016.⁽¹⁾

Additionally, the first Corporate Bond Purchase Scheme auctions took place in the week commencing 26 September 2016, but no transactions had settled by 28 September 2016, the last Wednesday of the quarter.

Chart 1 shows the cumulative net asset purchases by type between the establishment of the Fund and 28 September 2016. As of 28 September 2016 cumulative assets purchased net of sales and redemptions totalled £388.5 billion.

Chart 1 Cumulative net asset purchases by type: amounts outstanding, including Term Funding Scheme drawings^{(a)(b)}



Source: Bank of England.

- (a) Data based on settled transactions.
 (b) TFS drawings to date are not yet visible on the chart.

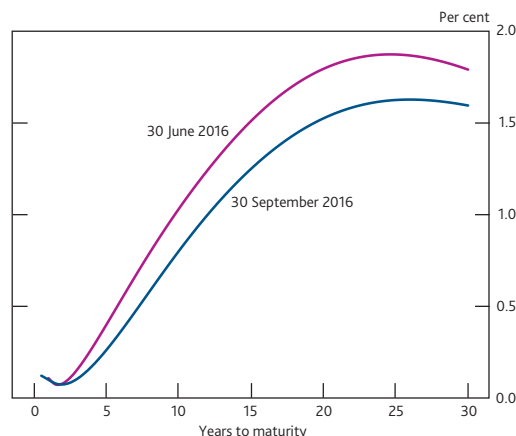
The total amount of loans made through the Term Funding Scheme since the drawdown window opened on 19 September 2016 until Wednesday 28 September 2016, less redemptions, was £50 million.

Conditions in UK government and corporate debt markets

UK government bond markets

During 2016 Q3, nominal gilt yields fell across the curve, by an average of around 20 basis points (**Chart 2**).

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

A significant amount of the gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.⁽²⁾ The

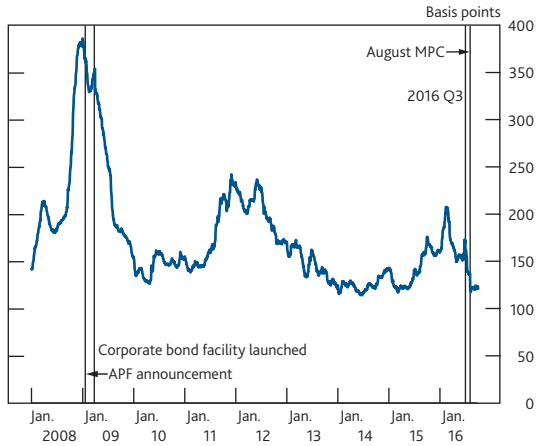
(1) www.bankofengland.co.uk/markets/Documents/marketnotice160804apfgilt.pdf.
 (2) For more details see www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf.

average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 September 2016 was £0.5 billion.

UK corporate debt markets

Sterling investment-grade non-financial corporate bond spreads decreased in 2016 Q3 (Chart 3).

Chart 3 Sterling investment-grade non-financial corporate bond spreads^(a)

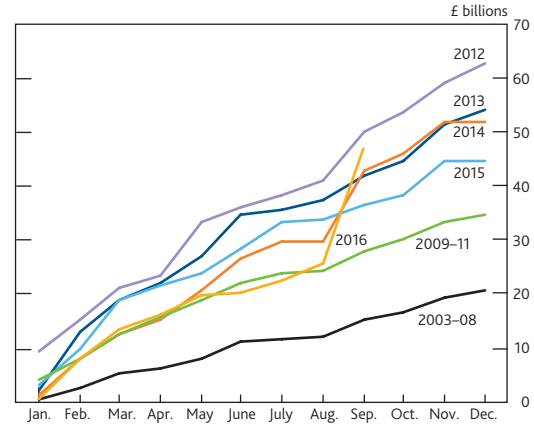


Sources: BofA Merrill Lynch Global Research, used with permission, and Bank calculations.

(a) Spread over government rates, adjusted for the embedded option values of certain bonds (option-adjusted spread).

Gross issuance of corporate bonds by UK private non-financial corporations (PNFCs) in 2016 Q3 was higher than in 2015 Q3 and higher than the 2003–08 Q3 average (Chart 4).

Chart 4 Cumulative gross issuance of bonds by UK PNFCs^(a)



Sources: Dealogic and Bank calculations.

(a) Issuance by UK PNFCs or their financing vehicles. Includes investment-grade and non-investment grade bonds. Data are subject to periodic revisions. 2003–08 and 2009–11 are averages over the respective periods.

More information on market conditions during the period can be found in the 'Markets and operations' section of the *Quarterly Bulletin*⁽¹⁾ and in the minutes of the MPC meetings.⁽²⁾

(1) See www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2016/q3/q3.pdf.

(2) See www.bankofengland.co.uk/publications/minutes/pages/mpc/default.aspx.