

Asset Purchase Facility

Quarterly Report 2016 Q4



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 31 December 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. These actions were intended 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 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 November *Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/2016/nov.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 APF gilt and corporate bond purchases, and lending under the TFS, in 2016 Q4, reported on a settlement date basis.

Table A APF transactions by type (£ millions)

Week ending ^(a)	Gilts ^(b)	Corporate bond purchase scheme ^(c)	Term funding scheme ^(d)
2016 Q3 ^(e)	388,475	0	50
5 October 2016	391,985	507	70
12 October 2016	395,495	1,042	1,079
19 October 2016	399,005	1,559	1,279
26 October 2016	402,514	1,994	1,279
2 November 2016	404,854	2,361	1,382
9 November 2016	406,906	2,690	1,799
16 November 2016	409,906	3,070	2,135
23 November 2016	412,906	3,471	2,314
30 November 2016	415,906	3,964	5,779
7 December 2016	418,906	4,447	7,689
14 December 2016	421,905	4,612	9,895
21 December 2016	422,905	4,912	20,515
28 December 2016	422,905	4,912	20,665

Source: Bank of England.

- (a) Week-ending data are as at close of business on each Wednesday. The end of the review period is 28 December 2016, the last Wednesday of the quarter.
 (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.
 (d) The total amount of loans made through the Term Funding Scheme, less repayments, reported on a settlement date basis.
 (e) 2016 Q3 measured as the amount outstanding as at 28 September 2016.

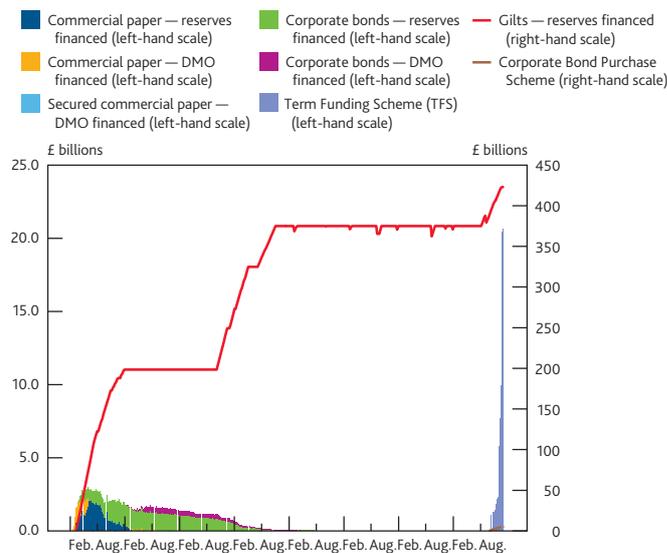
Gilt transactions to the value of £34.4 billion took place during the quarter. No redemptions of gilts owned by the APF occurred during the period. However, the £12.1 billion of cash flows associated with the maturity on 7 September 2016 of a gilt owned by the APF were reinvested between 8 August 2016 and 31 October 2016. Part of this reinvestment occurred in the review period of this report.

Corporate bond transactions to the value of £4.9 billion took place in the quarter. This includes the first Corporate Bond Purchase Scheme operations that had taken place in the last week of the previous quarter, but that settled after the end of the review period for the 2016 Q3 report.

The total amount of loans made through the Term Funding Scheme since the drawdown window opened on 19 September 2016 until 28 December 2016, less redemptions, was £20.7 billion.

Chart 1 shows the cumulative net value of APF transactions by type between the establishment of the Fund and 28 December 2016. As at 28 December 2016 cumulative assets purchased, or amounts lent, net of sales and redemptions, totalled £448.5 billion.

Chart 1 Cumulative net value of APF transactions by type, including TFS drawings^(a)



Source: Bank of England.

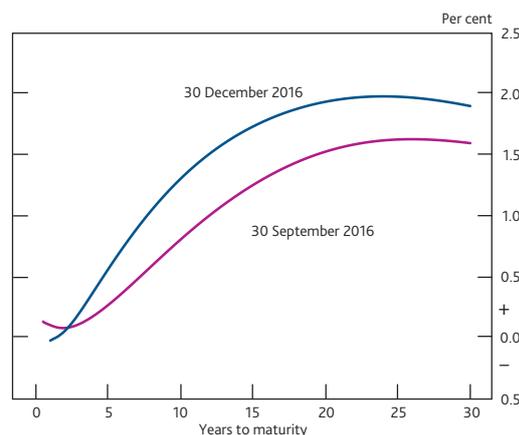
(a) Data based on settled transactions.

Conditions in UK government and corporate bond markets

UK government bond market

During 2016 Q4, nominal gilt yields rose on average by around 36 basis points (Chart 2).

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

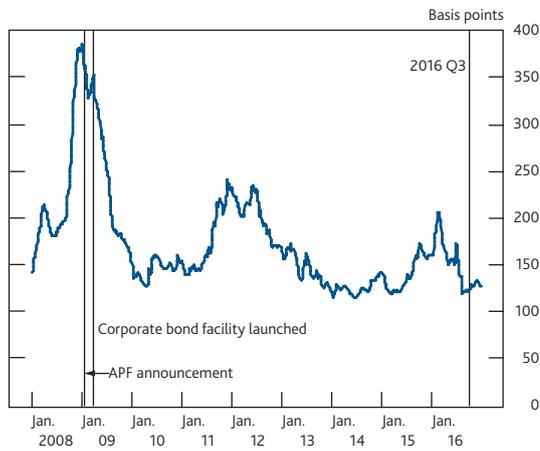
A significant amount of the gilts purchased via the Facility continued to be made available for on-lending to the market through the gilt lending arrangement with the DMO.⁽¹⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 31 December 2016 was £1.1 billion.

(1) For more details see www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf.

UK corporate bond market

Sterling investment-grade non-financial corporate bond spreads widened slightly in 2016 Q4 (Chart 3).

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

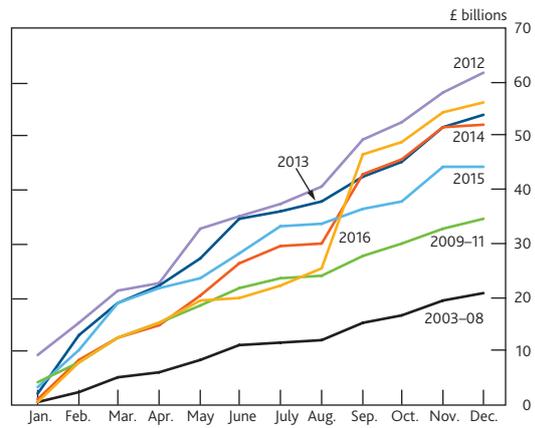


Sources: BofA Merrill Lynch Global Research, used with permission, and Bank calculations.

(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 Q4 was higher than in 2015 Q4 and higher than the 2003–08 Q4 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. Issuance includes investment-grade and non-investment grade bonds. Data are subject to periodic revisions. Lines for 2003–08 and 2009–11 show 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/Pages/quarterlybulletin/2016/q4/default.aspx.

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