

# Asset Purchase Facility

Quarterly Report 2017 Q1



**BANK OF ENGLAND**



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# Asset Purchase Facility

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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<sup>(1)</sup> and detailed in an exchange of letters with the then Governor on 29 January 2009.<sup>(2)</sup> 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.<sup>(3)</sup>

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 March 2017. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.<sup>(4)</sup>

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.<sup>(5)</sup>

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.<sup>(6)</sup>

Before 4 August 2016, in line with the MPC's decisions,<sup>(7)</sup> 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 to support the UK economy. 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 households and businesses in the United Kingdom. Lending under the TFS is financed by the creation of central bank reserves and borrowing by counterparties is collateralised. 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.<sup>(8)</sup> Also, the target for the stock of purchases of UK government bonds, financed by the creation of 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.<sup>(9)</sup>

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<sup>(10)</sup> (CPF), the Secured Commercial Paper Facility<sup>(11)</sup> (SCPF) and the Corporate Bond Secondary Market Scheme<sup>(12)</sup> (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.

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(1) The Chancellor's statement is available at [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/press\\_05\\_09.htm](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](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf) and [www.bankofengland.co.uk/markets/apfgovletter090129.pdf](http://www.bankofengland.co.uk/markets/apfgovletter090129.pdf).

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

(4) The February *Inflation Report* is available at [www.bankofengland.co.uk/publications/Documents/inflationreport/2017/feb.pdf](http://www.bankofengland.co.uk/publications/Documents/inflationreport/2017/feb.pdf).

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

(6) The exchange of letters can be found at [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/194038/chx\\_letter\\_091112.pdf](http://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](http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter121109.pdf).

(7) For more history of MPC asset purchase decisions, see [www.bankofengland.co.uk/monetarypolicy/Pages/decisions.aspx](http://www.bankofengland.co.uk/monetarypolicy/Pages/decisions.aspx).

(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](http://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](http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter040816apf.pdf) and [www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter040816apf.pdf](http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter040816apf.pdf).

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

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

(12) For more details see [www.bankofengland.co.uk/markets/Pages/apf/corporatebond/default.aspx](http://www.bankofengland.co.uk/markets/Pages/apf/corporatebond/default.aspx).

## Quarterly Report 2017 Q1

### Operations

Table A summarises the stock of APF gilt and corporate bond purchases, and lending under the TFS, in 2017 Q1, reported on a settlement date basis.

**Table A** APF transactions by type (£ millions)

Week ending <sup>(a)</sup>	Gilts <sup>(b)</sup>	Corporate Bond Purchase Scheme <sup>(c)</sup>	Term Funding Scheme <sup>(d)</sup>
2016 Q4 <sup>(e)</sup>	422,905	4,912	20,665
4 January 2017	422,905	4,912	21,172
11 January 2017	424,905	4,912	25,542
18 January 2017	427,905	5,287	30,867
25 January 2017	419,337	5,670	31,370
1 February 2017	422,337	6,096	33,920
08 February 2017	424,887	6,589	38,029
15 February 2017	427,212	7,055	38,489
22 February 2017	429,536	7,401	41,964
1 March 2017	431,861	7,705	42,931
08 March 2017	434,186	7,980	43,914
15 March 2017	434,961	8,222	45,135
22 March 2017	434,961	8,533	47,245
29 March 2017	434,961	8,816	53,493

Source: Bank of England.

- (a) Week-ending data are as at close of business on each Wednesday. The last Wednesday of the quarter was 29 March 2017.  
 (b) The overall stock of APF gilt purchases, less redemptions, valued at initial purchase price.  
 (c) The overall stock of APF Corporate Bond Purchase Scheme purchases, less redemptions, valued at initial purchase price.  
 (d) The total amount of loans made through the Term Funding Scheme, less repayments.  
 (e) 2016 Q4 measured as the amount outstanding as at 28 December 2016.

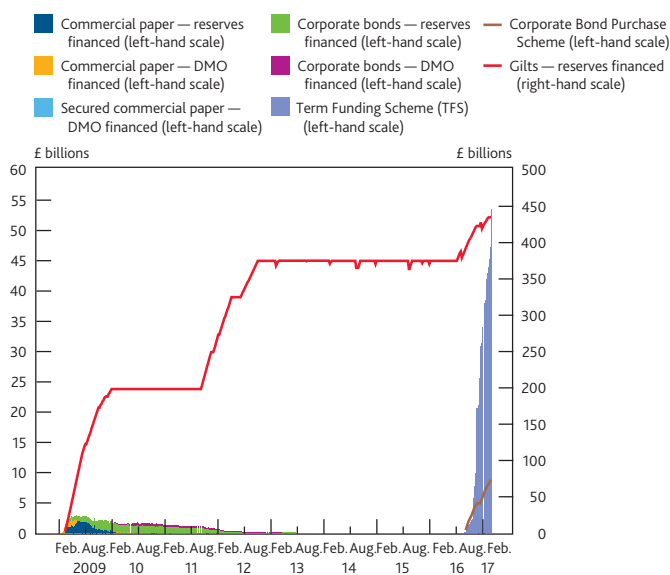
Gilt transactions to the value of £12.1 billion took place during the quarter. This included the completion of the £60 billion programme of new purchases announced in August 2016, as well as the reinvestment of £11.6 billion of cash flows associated with the maturity on 22 January 2017 of a gilt owned by the APF.

Corporate bond transactions to the value of £3.9 billion took place during the quarter. This does not include the Corporate Bond Purchase Scheme auctions that took place in the last week of March as they had not settled by 29 March 2017, the last Wednesday of the quarter.

The total amount of loans made through the Term Funding Scheme during the quarter, less repayments, was £32.8 billion.

Chart 1 shows the cumulative net value of APF transactions by type between the establishment of the Fund and 29 March 2017. As at 29 March 2017, cumulative assets purchased and amounts lent, net of sales, redemptions and repayments, totalled £497.3 billion.

**Chart 1** Cumulative net value of APF transactions by type, including TFS drawings<sup>(a)</sup>



Source: Bank of England.

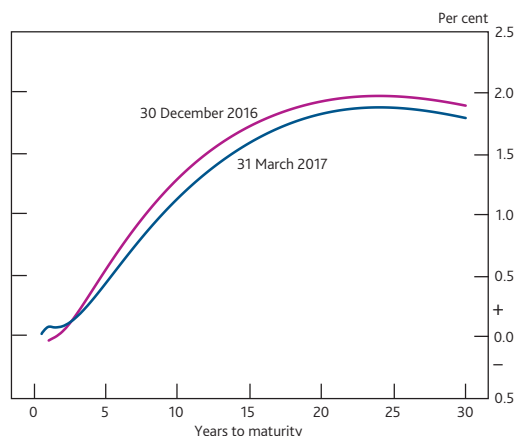
(a) Data based on settled transactions.

## Conditions in UK government and corporate bond markets

### UK government bond market

During 2017 Q1, nominal gilt yields fell on average, by around 11 basis points (Chart 2).

**Chart 2** UK nominal spot rates



Sources: Bloomberg and Bank calculations.

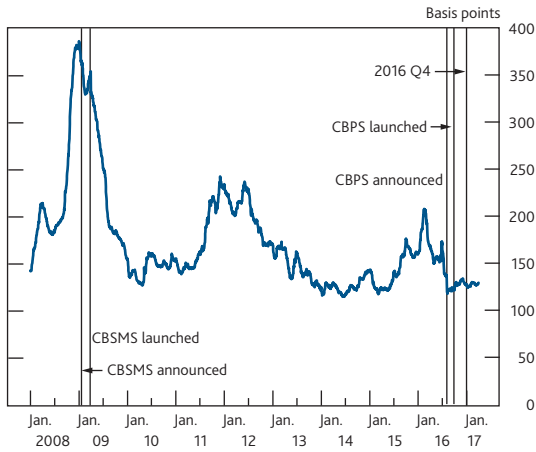
A significant amount of the gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.<sup>(1)</sup> The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 31 March 2017 was £1.1 billion.

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

**UK corporate bond market**

Sterling investment-grade non-financial corporate bond spreads were little changed in 2017 Q1 (Chart 3).

**Chart 3** Sterling investment-grade non-financial corporate bond spreads<sup>(a)</sup>

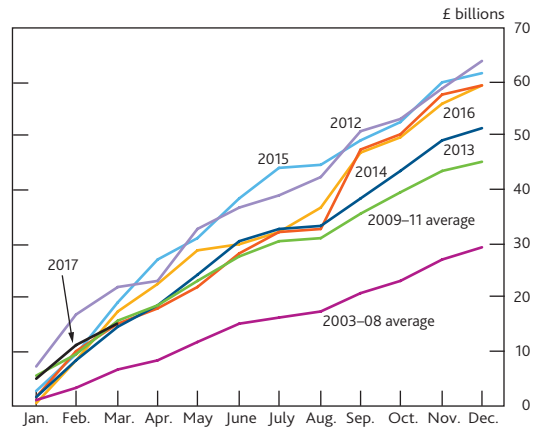


Sources: BofA Merrill Lynch Global Research, used with permission, and Bank calculations.

(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 2017 Q1 was higher than in 2016 Q1 and higher than the 2003–08 Q1 average (Chart 4).

**Chart 4** Cumulative gross issuance of bonds by UK PNFCs<sup>(a)</sup>



Sources: Thomson Reuters Deals Business Intelligence and Bank calculations.

(a) Issuance by UK private non-financial corporations (PNFCs) or their financing vehicles. Includes investment-grade and non-investment grade bonds and medium-term notes. 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*<sup>(1)</sup> and in the minutes of the MPC meetings.<sup>(2)</sup>

(1) See [www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2017/q1/default.aspx](http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2017/q1/default.aspx).  
 (2) See [www.bankofengland.co.uk/publications/minutes/pages/mpc/default.aspx](http://www.bankofengland.co.uk/publications/minutes/pages/mpc/default.aspx).