

Asset Purchase Facility

Quarterly Report 2018 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 2018. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.⁽⁴⁾

At the start of the period covered by this report, the Fund's Board of Directors comprised the Bank's Executive Directors for Markets, Monetary Analysis and Research & Statistics, Banking, Payments and Financial Resilience, and Finance. In December 2018, the Executive Director for Finance resigned as a Director of the Fund on leaving the Bank; it is intended that a successor will be appointed in due course. The Directors make recommendations on the assets to be purchased to the Governor, who decides after consulting 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 then 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 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 was authorised to purchase 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⁾ And 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.⁽⁹⁾ Operations to increase the stocks of APF gilt and CBPS purchases to the levels set by the MPC in August 2016 were completed in 2017 Q1 and Q2 respectively.

(1) The Chancellor's statement is available at https://webarchive.nationalarchives.gov.uk/20090211135027/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/-/media/BoE/Files/Letter/2009/governor-letter-290109.

(3) The exchange of letters is available at www.bankofengland.co.uk/-/media/BoE/Files/Letter/2009/governor-letter-050309 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/inflation-report/2018/november-2018.

(5) For more details see www.bankofengland.co.uk/asset-purchase-facility/2018/2017-18.

(6) The exchange of letters can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/194038/chx_letter_091112.pdf and www.bankofengland.co.uk/-/media/boe/Files/Letter/2012/governor-letter-091112.

(7) For more history of MPC asset purchase decisions, see www.bankofengland.co.uk/monetary-policy.

(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/market-notices/2016/asset-purchase-facility-corporate-bond-purchase-scheme-market-notice-august-2016.

(9) The exchange of letters can be found at www.bankofengland.co.uk/letter/2016/exchange-of-letters-between-the-governor-and-the-chancellor-regarding-the-expansion-of-the-apf.

At its meeting ending on 2 August 2017, the MPC stated that, consistent with its decision to maintain the stock of CBPS assets at £10 billion, it expected to reinvest cash flows associated with any reduction in the stock of CBPS assets back into eligible corporate bonds.⁽¹⁰⁾ That would take place once the required reinvestment had reached a sufficient size to allow an auction programme to be conducted. The MPC also voted unanimously to close the drawdown period for the Term Funding Scheme (TFS) on 28 February 2018, as envisaged when the scheme was introduced.

On 21 June 2018, the Bank and HM Treasury agreed a new capital and income framework for the Bank, codified by a new Memorandum of Understanding on the Financial Relationship between HM Treasury and the Bank.⁽¹¹⁾ Its objectives are to ensure that the Bank's policy work is fully funded, and that the Bank is equipped with capital resources consistent with the monetary and financial stability remits it has been given by Parliament, while maintaining responsible stewardship of public funds. The framework captures a set of principles for determining which monetary policy or financial stability operations should be undertaken on the Bank's balance sheet and which should be indemnified by the Treasury. In keeping with these principles, the commitment of a capital injection of £1.2 billion from the Treasury will enable the Term Funding Scheme to be transferred from the APF to the Bank's balance sheet during the 2018/19 financial year.

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⁽¹²⁾ (CPF), the Secured Commercial Paper Facility⁽¹³⁾ (SCPF) and the Corporate Bond Secondary Market Scheme⁽¹⁴⁾ (CBSMS) were used for that purpose. The CPF was closed on 15 November 2011 and the SCPF and CBSMS were closed on 4 August 2016.

(10) Monetary Policy Summary and Minutes of the Monetary Policy Committee meeting ending on 2 August 2017 available at www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2017/august-2017.

(11) The Memorandum of Understanding and exchange of letters is available at www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

(12) For more details see <http://webarchive.nationalarchives.gov.uk/20110205071118/https://www.bankofengland.co.uk/markets/apf/cp/index.htm>.

(13) For more details see <http://webarchive.nationalarchives.gov.uk/20110205071658/https://www.bankofengland.co.uk/markets/apf/securedcpf/index.htm>.

(14) For more details see <http://webarchive.nationalarchives.gov.uk/20110205071811/http://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 2018 Q4, reported on a settlement date basis.

Table A Summary of stocks in Asset Purchase Facility Schemes^(a) (£ millions)

Week ending	Gilts ^(b)	Corporate Bond Purchase Scheme ^{(c)(d)}	Term funding Scheme ^(e)
2018 Q3 ^(f)	434,987	–	126,448
3 October 2018	434,987	9,779	126,448
10 October 2018	434,987	–	126,448
17 October 2018	434,987	–	126,448
24 October 2018	434,987	–	126,448
31 October 2018	434,987	9,779	126,448
7 November 2018	434,987	–	126,448
14 November 2018	434,987	–	121,448
21 November 2018	434,987	–	121,448
28 November 2018	434,987	–	121,448
5 December 2018	434,987	9,716	121,443
12 December 2018	434,987	–	121,443
19 December 2018	434,987	–	121,443
26 December 2018	434,987	–	121,443

Source: Bank of England.

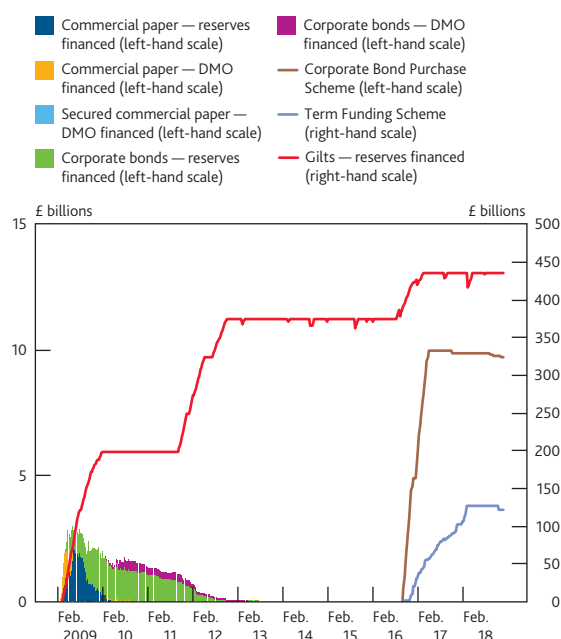
- (a) The outstanding amount in each facility is reported on a settlement date basis.
- (b) The overall stock of APF gilt purchases, less redemptions, valued at initial purchase price.
- (c) The overall stock of APF Corporate Bond Purchase Scheme purchases, less redemptions, valued at initial purchase price.
- (d) On 3 August 2017 the Bank announced a change to the publication schedule, see Market Notice.
- (e) The total amount of loans made through the Term Funding Scheme, less repayments.
- (f) 2018 Q3 measured as the amount outstanding as at 26 September 2018.

No corporate bond purchases took place during the quarter.⁽¹⁵⁾ The stock of corporate bonds held by the APF at the end of 2018 Q4, valued at initial purchase price and net of sales and redemptions was £9.716 billion.

The Term Funding Scheme closed to new drawings on 28 February 2018. The stock fell by £5.005 billion during the quarter, bringing the total to £121.443 billion.

There were no gilt purchases made during Q4.⁽¹⁶⁾ Chart 1 shows the cumulative net value of APF transactions by type between the establishment of the Fund and 31 December 2018. As at 31 December 2018, cumulative assets purchased and amounts lent, net of sales, redemptions and repayments, totalled £566.146 billion.

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



Source: Bank of England.

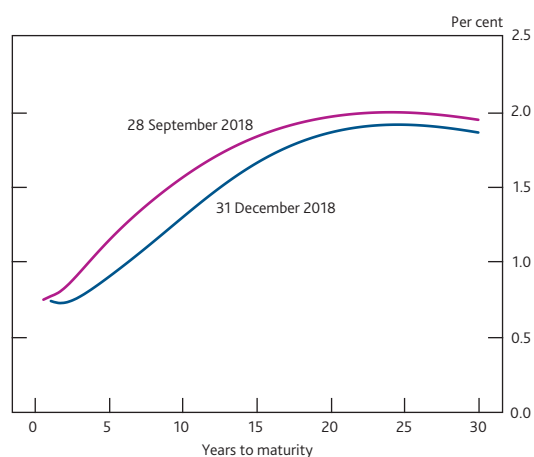
(a) Data based on settled transactions.

Conditions in UK government and corporate bond markets

UK government bond market

During 2018 Q4, nominal gilt yields fell on average, by around 15 basis points (Chart 2).

Chart 2 UK nominal spot rates^(a)



Sources: Bloomberg Finance L.P., Tradeweb and Bank calculations.

(a) 28 September and 31 December were the last working days of their respective quarters.

(15) There are a number of factors that could result in a reduction of stock, such as redemptions, mandatory or voluntary corporate actions, a material change in an issuer's risk profile and/or a material change in the eligibility of a given issuer. The Bank reserves the right to sell bonds in the event that a given issuer no longer meets the conditions for eligibility enumerated in previous Market Notices.

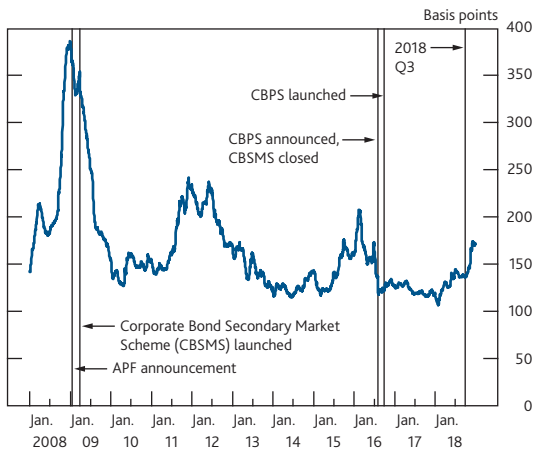
(16) 2018 Q4 is measured to 31 December 2018.

Gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.⁽¹⁷⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 31 December 2018 was £4.495 billion.

UK corporate bond market

Sterling investment-grade non-financial corporate bond spreads widened by 13 basis points on average over 2018 Q4 (Chart 3).

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

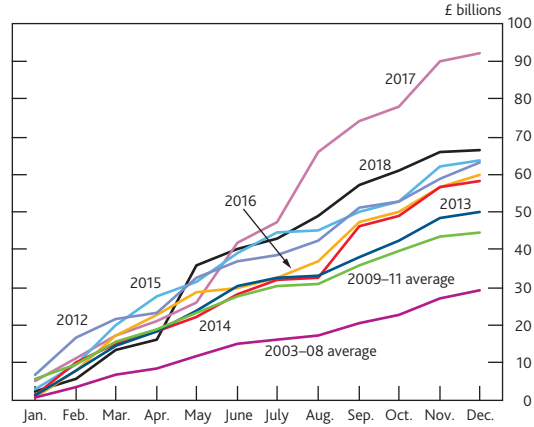


Sources: ICE BofAML and Bank calculations.

(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 2018 Q4 was lower than in 2017 Q4 (Chart 4).

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



Source: Deals Business Intelligence from Refinitiv.

(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 recent market conditions can be found in *Inflation Reports*⁽¹⁸⁾ and minutes of the MPC meetings.⁽¹⁹⁾

(17) For more details see www.dmo.gov.uk/media/13991/sa060809b.pdf.

(18) See www.bankofengland.co.uk/inflation-report/inflation-reports.

(19) See www.bankofengland.co.uk/monetary-policy-summary-and-minutes/monetary-policy-summary-and-minutes.