

Asset Purchase Facility

Quarterly Report 2019 Q1



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⁾

As 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 2019. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.⁽⁴⁾

The Fund is governed by a Board of Directors, and publishes an Annual Report and Accounts.⁽⁵⁾ The Fund and the Bank are indemnified by the Treasury from any losses arising out of or in connection with the Facility.⁽⁶⁾

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.⁽⁷⁾

The APF's size and activity has evolved over time as the MPC has voted to undertake additional asset purchases, or to launch new schemes, in order to meet the 2% inflation target. Most recently, the MPC voted in August 2016 to introduce a package of measures to support the UK economy: a Term Funding Scheme (TFS); a £10 billion Corporate Bond Purchase Scheme (CBPS); and a £60 billion increase to the target for the stock of purchases of UK government bonds, financed by the creation of central bank reserves, to £435 billion.⁽⁸⁾ The agreement to increase the size and broaden the composition of the APF to cover these new measures was set out in an exchange of letters between the Governor and the Chancellor on 4 August 2016.⁽⁹⁾ In August 2017 the MPC voted unanimously to close the drawdown period for the 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.⁽¹⁰⁾ 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, on 21 January 2019 all TFS drawings, and the collateral backing them, were transferred from the APF to the Bank of England's balance sheet. Under the same framework, the Treasury also committed to a capital injection of £1.2 billion which has now been completed. Figures for the TFS have continued to be included in the operations section of this *Report* for the parts of the period prior to the exposures being transferred. After that point loans and collateral do not sit in the APF, so updates on the TFS, which is now in runoff, will not feature in future iterations of this *Report*. Details of usage and outstanding balances will continue to be available via the Bank of England's website.⁽¹¹⁾

(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 February *Inflation Report* is available at www.bankofengland.co.uk/inflation-report/2019/february-2019.

(5) The 2017/18 report can be found at www.bankofengland.co.uk/asset-purchase-facility/2018/2017-18.

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

(7) 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.

(8) Further detail on these measures can be found at www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2016/mpc-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.

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

(11) For more details see www.bankofengland.co.uk/weekly-report/balance-sheet-and-weekly-report.

Quarterly Report 2019 Q1

Operations

Table A summarises the stock of APF gilt and corporate bond purchases, and lending under the TFS, in 2019 Q1, 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 Q4 ^(f)	434,987	–	121,443
2 January 2019	434,987	9,579	121,443
9 January 2019	434,987	–	121,443
16 January 2019	434,987	–	121,442
23 January 2019	434,987	–	(g)
30 January 2019	434,987	–	–
6 February 2019	434,987	9,579	–
13 February 2019	434,987	–	–
20 February 2019	434,987	–	–
27 February 2019	434,987	–	–
6 March 2019	434,987	9,579	–
13 March 2019	416,650	–	–
20 March 2019	418,942	–	–
27 March 2019	422,379	–	–

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 Q4 measured as the amount outstanding as at 26 December 2018.
- (g) On 21 January TFS drawings moved to the Bank of England's balance sheet and are therefore not reported after this date.

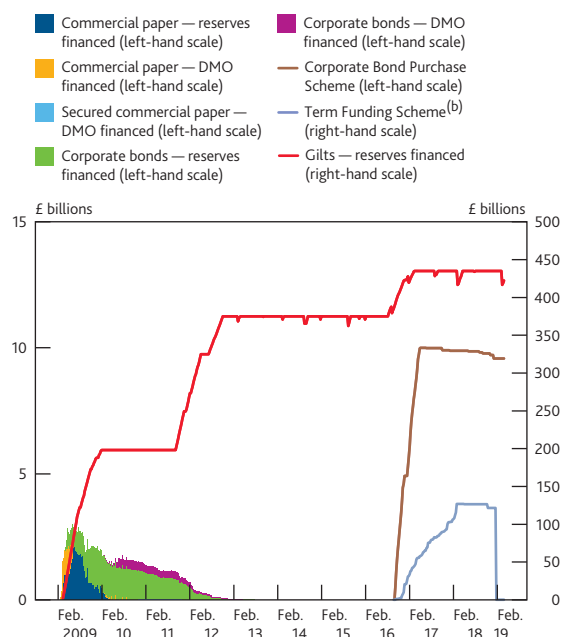
No corporate bond purchases took place during the quarter.⁽¹²⁾ The stock of corporate bonds held by the APF at the end of 2019 Q1, valued at initial purchase price and net of sales and redemptions was £9.579 billion.

As noted above, all loans and collateral relating to the TFS transferred from the APF to the Bank of England's balance sheet on 21 January 2019. Loans under the TFS fell by £42 million during 2019 Q1, of which £1 million occurred prior to the transfer to the Bank of England's balance sheet.

During Q1 the APF made £8.022 billion of gilt purchases, as part of a programme to reinvest the cash flows associated with the maturity on 7 March of the 4.5% 2019 gilt owned by the APF. Reinvestment auctions were planned to continue until 24 April 2019.

Chart 1 shows the cumulative net value of APF transactions between the establishment of the Fund and 31 March 2019. As at 31 March 2019, cumulative assets purchased and amounts lent, net of sales, redemptions and repayments (including the transfer of the TFS to the Bank of England), totalled £431.958 billion.

Chart 1 Cumulative net value of APF transactions by type^(a)



Source: Bank of England.

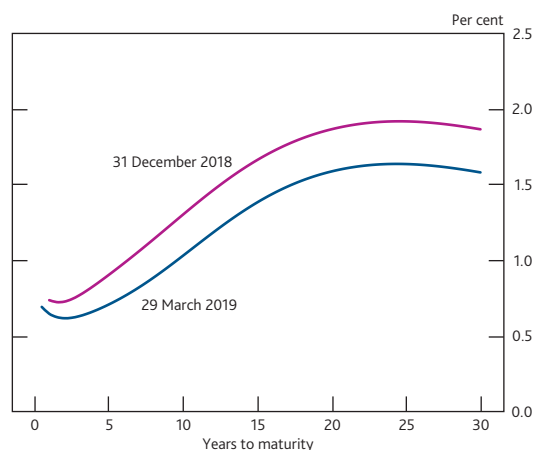
- (a) Data based on settled transactions.
- (b) On 21 January 2019 the TFS drawings were moved to the Bank's balance sheet and therefore are not reported after this date.

Conditions in UK government and corporate bond markets

UK government bond market

During 2019 Q1, nominal gilt yields fell on average, by around 25 basis points (Chart 2).

Chart 2 UK nominal spot rates^(a)



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

- (a) 31 December 2018 and 29 March 2019 were the last working days of their respective quarters.

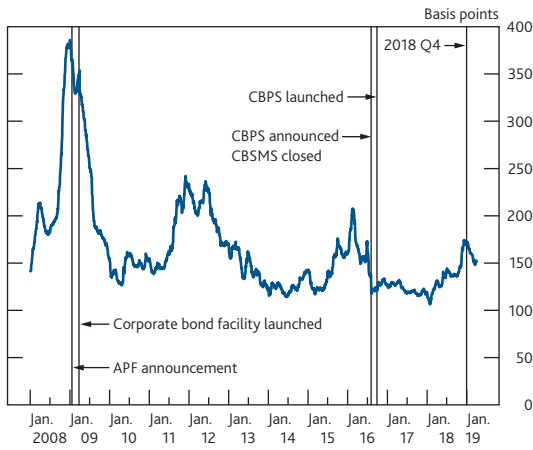
(12) There are a number of factors that could result in a reduction of stock, such as redemptions, mandatory or voluntary corporate actions, a material change in an issuer's risk profile and/or a material change in the eligibility of a given issuer. The Bank reserves the right to sell bonds in the event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

Gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the Debt Management Office (DMO).⁽¹³⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 31 March 2019 was £4.207 billion.

UK corporate bond market

Sterling investment-grade non-financial corporate bond spreads narrowed by 19 basis points over 2019 Q1 (Chart 3).

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

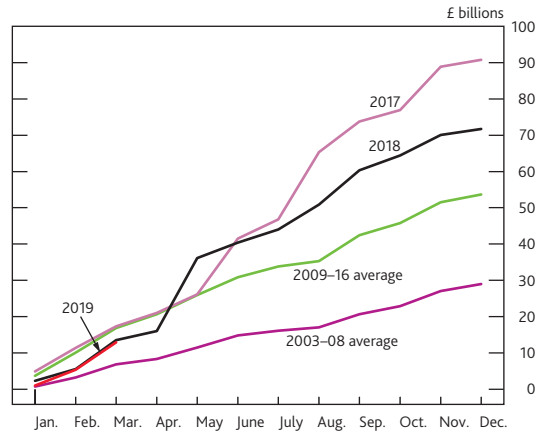


Sources: ICE BofAML and Bank calculations.

(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 2019 Q1 was very marginally lower than in 2018 Q1 (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.

More information on recent market conditions can be found in *Inflation Reports*⁽¹⁴⁾ and minutes of the MPC meetings.⁽¹⁵⁾

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

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

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