



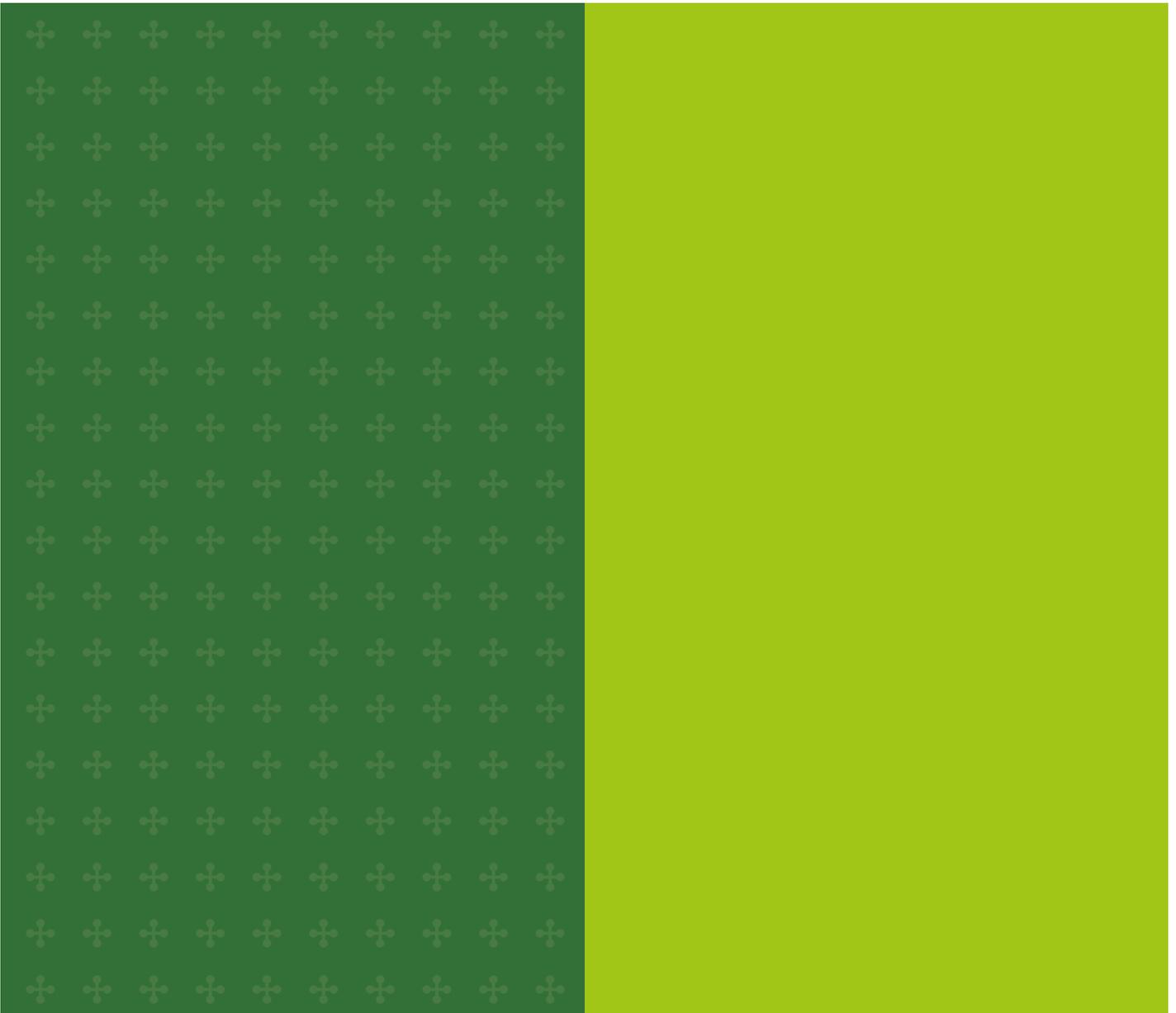
BANK OF ENGLAND

Markets



Asset Purchase Facility

Quarterly report | 2019 Q2





BANK OF ENGLAND

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 30 June 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. 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⁾

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.⁽⁷⁾ 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.⁽⁸⁾ In August 2017 the MPC 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.⁽⁹⁾ 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 are therefore no longer included in this *Report*. Details of usage and outstanding balances continue to be available via the Bank of England's website.⁽¹⁰⁾

(1) [Chancellor's Statement](#), 19 January 2009.

(2) Exchange of letters between the [Bank](#) and [HM Treasury](#), 29 January 2009.

(3) Exchange of letters between the [Bank](#) and [HM Treasury](#), 17 February and 3 March 2009.

(4) [The May Inflation Report](#).

(5) [Asset Purchase Facility Annual Report 2018-19](#).

(6) Exchange of letters between the [Bank](#) and [HM Treasury](#), 9 November 2012.

(7) [Summary and minutes of August 2016 MPC meeting](#).

(8) Exchange of letters between the [Bank](#) and [HM Treasury](#), 4 August 2016.

(9) [Memorandum of Understanding and Exchange of Letters on the Bank's financial framework](#), June 2018.

(10) [Bank of England balance sheet and weekly report](#).

Quarterly Report 2019 Q2

Operations

Table A summarises the stock of APF gilt and corporate bond purchases in 2019 Q2, 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) |
|------------------------|----------------------|---|
| 2019 Q1 ^(d) | 422,379 | — |
| 3 April 2019 | 425,817 | 9,534 |
| 10 April 2019 | 429,255 | — |
| 17 April 2019 | 432,693 | — |
| 24 April 2019 | 433,839 | — |
| 1 May 2019 | 434,985 | — |
| 8 May 2019 | 434,985 | 9,500 |
| 15 May 2019 | 434,985 | — |
| 22 May 2019 | 434,985 | — |
| 29 May 2019 | 434,985 | — |
| 5 June 2019 | 434,985 | 9,468 |
| 12 June 2019 | 434,985 | — |
| 19 June 2019 | 434,985 | — |
| 26 June 2019 | 434,985 | — |

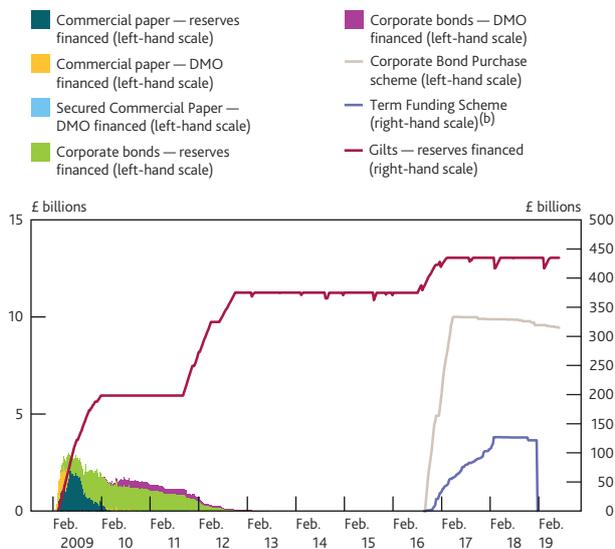
Source: Bank of England

- (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) 2019 Q1 measured as the amount outstanding as at 27 March 2019.

No corporate bond purchases took place during the quarter.⁽¹¹⁾ The stock of corporate bonds held by the APF at the end of 2019 Q2, valued at initial purchase price and net of sales and redemptions was £9.468 billion. At its meeting ending on 19 June 2019, the MPC agreed to reinvest the cash flows associated with reductions in the stock of corporate bonds held by the APF back into eligible corporate bonds, commencing in September 2019.

During Q2 the APF made £12.606 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 completed on 24 April 2019. At its meeting ending on 19 June 2019, the MPC agreed to reinvest £3.8 billion of cash flows associated with the redemption of the July 2019 gilt held by the APF.

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.

⁽¹¹⁾ 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.

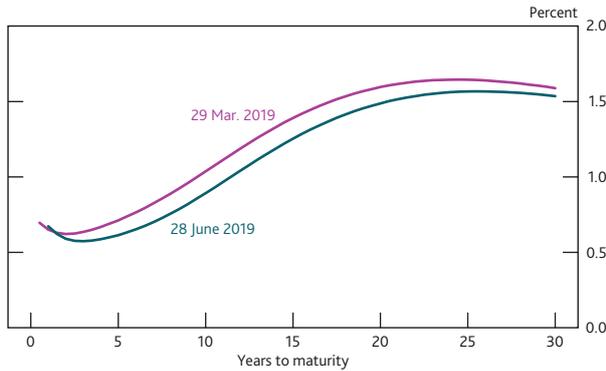
Chart 1 shows the cumulative net value of APF transactions between the establishment of the Fund and 30 June 2019. As at 30 June 2019, cumulative assets purchased net of sales, redemptions and repayments totalled £444.453 billion.

Conditions in UK government and corporate bond markets

UK government bond market

During 2019 Q2, nominal gilt yields fell on average, by around 10 basis points (**Chart 2**).

Chart 2 UK nominal spot rates^(a)



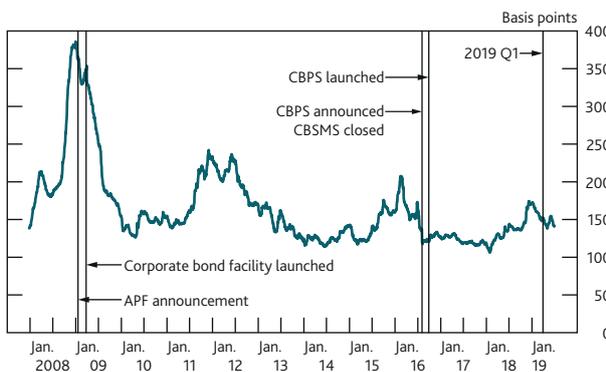
Sources: Bloomberg Finance L.P., Tradeweb and Bank calculations.
 (a) 29 March 2019 and 28 June 2019 were the last working days of their respective quarters.

Gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.⁽¹²⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 June 2019 was £3.844 billion.

UK corporate bond market

Sterling investment-grade non-financial corporate bond spreads narrowed by 10 basis points over 2019 Q2 (**Chart 3**).

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

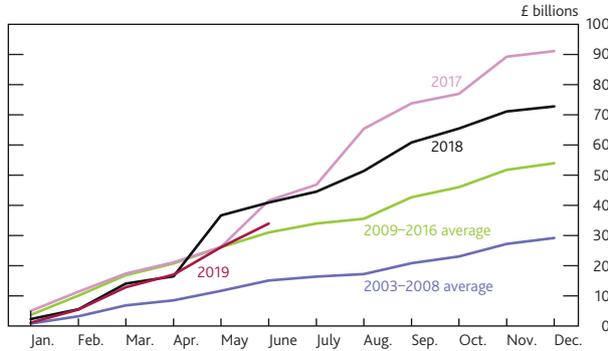


Sources: ICE BofAML and Bank calculations.
 (a) Spread over government rates, adjusted for the embedded option values of certain bonds (option-adjusted spread).

(12) [Joint Bank-DMO Statement on Gilt Lending, August 2009.](#)

Gross issuance of corporate bonds by UK private non-financial corporations (PNFCs) in 2019 Q2 was lower than in 2018 Q2 (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*⁽¹³⁾ and minutes of the MPC meetings.⁽¹⁴⁾

(13) Bank of England *Inflation Reports*.

(14) *Minutes of MPC meetings*.