



BANK OF ENGLAND

The Rt Hon Rishi Sunak
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A 2HQ

19 March 2020

Dear Rishi

In light of actions to tackle the spread of the virus, and evidence relating to the global and domestic economy and financial markets, the MPC held an additional special meeting on 19 March. Over recent days, and in common with a number of other advanced economy bond markets, conditions in the UK gilt market have deteriorated as investors have sought shorter dated instruments that are closer substitutes for highly liquid central bank reserves. As a consequence, UK and global financial conditions have tightened.

At its special meeting ending on 19 March 2020, the Monetary Policy Committee (MPC) agreed to implement a package of monetary policy stimulus measures in order to meet its statutory objectives.

In light of this, I am writing to request a number of changes to the authorisation of the Asset Purchase Facility (APF) and confirm some existing arrangements about how the Facility is used.

Existing Authorisations

As set out in your Philip Hammond's letter of August 2016, the APF is currently authorised to purchase up to £445bn of assets financed by the creation of central bank reserves. Assets eligible for purchase under this arrangement include gilts and high quality private sector assets, including corporate bonds, as specified in the exchange of letters at the time of the Facility's inception. The APF also has authorisation to purchase eligible private sector assets using Treasury Bills and the DMO's cash management operations, though the maximum total authorised amount of private sector asset purchases financed by Treasury Bills, the DMO's cash management operations or central bank reserves is £10bn.

The use of the APF for monetary policy

At its special meeting ending today, the Committee judged that a package of measures was warranted to meet its statutory objectives. It therefore voted unanimously to increase its holdings of UK government bonds and sterling non-financial investment-grade bonds by £200bn to a total of £645bn, financed by the issuance of central bank reserves, and to cut Bank Rate by 15 basis points to 0.1%. The Committee also voted unanimously that the Bank of England should enlarge the TFSME scheme financed by central bank reserves.

For these reasons, I am requesting that the APF is authorised to purchase up to a further £200bn of assets financed by the creation of central bank reserves. The majority of the additional purchases will be UK government bonds. Consistent with this, I am requesting that you authorise an increase in the total size of the APF of £445bn to £645bn.

These changes to the APF would further enhance the MPC's ability to pursue its remit by delivering the stimulus it judges necessary to meet its statutory objectives. Given the large size of the measures proposed by the MPC relative to the Bank's balance sheet, the Bank judges that they are most appropriately undertaken through the APF to benefit from its Government indemnity.

Governance, transparency and accountability

The operation of the APF, including the implementation of monetary policy decisions of the MPC, is managed through a wholly owned subsidiary of the Bank – the Bank of England Asset Purchase Facility Fund Limited. The Government indemnifies the Bank and the APF from any losses arising out of or in connection with the facility. Accountability, transparency and risk management are hence an important part of the framework of the APF.

The MPC remains accountable for its use of the APF in the same way that it is for any monetary policy decision. It will continue to explain its actions through the Monetary Policy Summary and Minutes which are published alongside its decisions, through the *Monetary Policy Report*, and through its regular evidence to the Treasury Committee through which the Bank is accountable to Parliament.

The Bank will continue to operate the APF in an open and transparent manner. Details of how the Bank intends to carry out its operations will continue to be set out in Market Notices. The Asset Purchase Facility Quarterly Report will include details of all of the transactions undertaken, as it has done since the Facility's inception.

In line with the requirements in the monetary policy remit, because these amendments to the APF could have potential effects on the allocation of credit and pose risks to the Exchequer, officials at the Bank and HMT have already discussed how the proposed amendments affect the governance of the APF.

The risk control framework between the Bank and the Treasury – under which the Bank is responsible for managing the risks in the APF - will remain in place. The APF will also benefit from changes the Bank introduced during 2015, which expanded our financial risk management arrangements, with separate departments responsible for first-line risk management and second-line activities, including risk challenge, reporting to a senior Executive Risk Committee and through that Committee to Court.

The Bank will provide Treasury officials with enhanced information to allow them to monitor the operation and financial performance of the facility. There will also be the opportunity for HMT to provide views to the MPC on the design of private sector asset purchases, in light of their broader economic objectives and in view of the risks posed to the public sector balance sheet. Any changes to the maximum size and composition of assets held in the APF will continue to be agreed through an exchange of letters between you and I. Changes to the parameters within the risk control framework will also continue to be agreed between Bank and Treasury officials.

When, in the future, a reduction in the monetary stimulus provided by the APF becomes appropriate in order to achieve the inflation target, the MPC will take every step to ensure such a reduction is implemented in an orderly fashion. A reduction in the size of the APF could be achieved in part as assets and loans mature. Were asset sales judged to be appropriate, the Bank would liaise with the DMO in order to minimise interference with the DMO's own issuance programme, and would consider the views of market participants as to how best to minimise disruption in private asset markets. The decision and final responsibility, nevertheless, would be with the MPC.

I would be grateful if you could authorise the changes in size and composition of the APF that I have requested in this letter, confirm the other existing arrangements set out above, and for the purposes of transparency and accountability confirm that the Government will continue to indemnify the Bank and the APF from any losses arising out of or in connection with the facility.

Yours Sincerely

Andrew