



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

4 November 2022

Andrew Bailey
Governor
Bank of England
Threadneedle Street
London
EC2R 8HA

Dear Andrew,

EXTENSION OF ASSET PURCHASE FACILITY FOR FINANCIAL STABILITY

Thank you for your letter. As you note, September saw significant repricing of financial assets, which particularly affected long-dated UK government debt and revealed a particular stability issue around Liability Driven Investments.

In light of this, on 28 September, you began to carry out temporary purchases of long-dated UK government bonds (gilts) through the Asset Purchase Facility (APF) under the Bank's financial stability objective to restore orderly conditions. On 11 October you widened the scope of your gilt purchases to include index-linked gilts in response to a further, significant repricing of UK government debt. As announced on 28 September, these operations were strictly time limited, with the auctions ending on 14 October as planned.

On 10 October, you announced further measures to support market functioning and an orderly end to the temporary gilt purchase scheme on 14 October. These included the expansion in scale of the remaining gilt purchase auctions, and the launch of the Temporary Expanded Collateral Repo Facility (TECRF) which will remain open until 10 November. The Bank's current judgement is that it can support the TECRF with its existing capital position, without the need for an indemnity by HMT. Please discuss with my officials at the earliest opportunity if that judgement changes, and the risks to the Bank's capital position increase, noting that this may result in indemnification by HMT being required in future.

Ahead of the intervention, my predecessor confirmed the Treasury's authorisation of an increase of up to £100 billion in the amount of gilts that the APF can purchase, financed

through the issuance of central bank reserves.¹ The authorised limit for the APF increased from £866 billion to £966 billion. The total gilt purchases under this new operation reached £19.3 billion when the daily auctions ended as planned on 14 October.

I am therefore writing to agree to reduce the authorised maximum size of the APF from £966 billion, as was agreed on 28 September 2022, to £886 billion. This reduction reflects the unused portion of the recent £100 billion financial stability related APF expansion. I confirm that the Government will continue to indemnify the Bank, and the Bank of England Asset Purchase Facility Fund (BEAPFF) from any losses arising out of, or in connection with, the APF under the terms of the existing APF indemnity.

Whilst these recent gilt purchases are covered by the existing APF indemnity, I recognise that the financial stability purpose of these purchases is different to the monetary policy purpose of the existing assets held in the APF. I note that the oversight arrangements in place for these financial stability related purchases are of the same high standards as exists for assets acquired for monetary policy purposes. Similarly, the financial reporting of these financial stability related purchases will be to the same rigorous standards as the existing reporting in place for the monetary policy purchases. We have agreed to write again separately in the coming month to confirm a further reduction in the authorised maximum size in relation to the ongoing unwind of assets acquired for monetary policy purposes.

The risk management framework for the APF previously agreed with the Treasury will remain in place. In line with enhanced oversight arrangements for the expanded APF, regular risk oversight meetings of Treasury and Bank senior officials will continue to monitor the scheme's implementation, unwind and risks to the Exchequer.

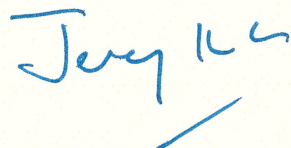
I agree with the objectives you set out to guide exit of the scheme and governance around the intervention. I welcome your intention to commence sales in a timely but orderly way consistent with the Bank's statutory objectives for monetary and financial stability, including that markets are not at a level of dysfunction that means value for money cannot be achieved. As set out in your letter, I note that Bank officials will liaise with the UK Debt Management Office (DMO) when developing these plans in order to minimise interference with the DMO's issuance programme.

I note that the Monetary Policy Committee (MPC) was notified of the temporary and targeted financial stability operations at the outset of the intervention and was informed of the decision by the Bank's Executive to postpone the beginning of gilt sale operations that were due to commence on 3 October. These operations commenced on 1 November. The MPC's annual target of an £80 billion stock reduction is unaffected and unchanged.

¹ This was confirmed on 28 September through private letters to the Chairs of the Public Accounts Committee and Treasury Committee, and through a Written Ministerial Statement on 12 October following parliamentary recess <https://questions-statements.parliament.uk/written-statements/detail/2022-10-12/hcws319>

I am copying this letter to the Chairs of the Treasury Committee and the Public Accounts Committee and depositing it immediately in the libraries of both Houses of Parliament and on the Treasury website.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive style with a diagonal slash at the end.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer

