



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

22 September 2022

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

Dear Andrew,

Unwinding the Asset Purchase Facility

Thank you for your letter of 22 September 2022, setting out the Monetary Policy Committee's decision to begin reducing the Asset Purchase Facility's (APF) stock of purchased assets through a programme of gilt sales.

The Government's commitment to the 2% CPI inflation target and the independence of the Bank remains absolute. The APF is indemnified by the Government, and it will continue to indemnify the APF as the stock of purchased assets declines.

The MPC's decision will see the stock of UK government bonds (gilts) held in the APF fall in a gradual and predictable way, initially by an amount of £80 billion over a twelve-month period beginning in October 2022, which will be delivered via gilt maturities and a programme of gilt sales over the same period. I note that you have liaised with the UK Debt Management Office (DMO) in designing your strategy for gilt sales in order to minimise interference with the DMO's issuance program as set out in your letter.

As agreed, the maximum authorised size of the APF will be confirmed through an exchange of letters between us every six months, which began in April 2022, with our next exchange due to take place alongside the next APF Quarterly Report.

The risk management framework previously agreed with HM Treasury will remain in place as the APF falls in size. In line with enhanced oversight arrangements put in place when the APF was expanded, regular risk oversight meetings of senior HM Treasury and Bank of England officials will continue to monitor the scheme's implementation and risks to the Exchequer, and officials will continue to work together to manage the cash flows between the APF and HMT. Any future cash transfers will be handled under the terms of the indemnity as has been the case to date.

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

Kind regards,

A handwritten signature in black ink, appearing to read 'Kwasi Kwarteng', with a horizontal line above the 'K' in 'Kwarteng'.

RT HON KWASI KWARTENG MP
Chancellor of the Exchequer