



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

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

16 January 2023

Dear Andrew,

Asset Purchase Facility

Thank you for your letter of 16 January 2023 setting out the change in the Asset Purchase Facility's (APF) stock of financial stability related assets.

As you note, on 10 November 2022 the Bank announced its intention to unwind the £19.3 billion gilt portfolio that was purchased in the temporary and targeted financial stability intervention, conducted between 28 September and 14 October 2022. I welcome the successful unwind of this portfolio on 12 January 2023 which I note has been completed in a timely and orderly manner, supporting orderly gilt market conditions and value for money considerations. I am grateful for the continued close collaboration between Bank and Treasury officials throughout this temporary intervention.

On 22 November 2022 we agreed to reduce the maximum size of the APF from £886 billion to £871 billion to reflect the reduction in the stock of assets held by the APF for monetary policy purposes since 5 May 2022. Following the successful sale of the APF's financial stability related stock of assets, I am writing to agree to reduce the authorised maximum size of the APF from £871 billion to £851 billion of which up to £16.4 billion can be corporate bonds.

As a result of the unwind of this portfolio, I note that the loan used to fund the temporary and targeted financial stability intervention will now be repaid by the APF to the Bank. The profit realised on the sales will be accounted for as part of the existing cash transfer process between HMT and the Bank. Any future cash transfers will be handled under the terms of the indemnity as has been the case to date.

HM Treasury and Bank of England officials will continue to monitor the APF's implementation, unwind, and risks to the Exchequer.

The above financial stability intervention in the gilt market was undertaken to enable Liability Driven Investment (LDI) funds to address risks to their resilience. I welcome the Bank's wider work through the Financial Policy Committee (FPC) and the December 2022 Financial Stability Report (FSR), which looked at the resilience of LDIs. This work was an important milestone in the lessons learned process and, as I set out previously in my letter to the FPC, the government fully supports this work. We look forward to keeping in close touch with the Bank, and other regulators to support ongoing parliamentary work to determine lessons learned from this experience.

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 HM Treasury website.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly stylized font.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer