

Bank of England

The Rt Hon Jeremy Hunt
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Andrew Bailey
Governor

28 April 2023

Dear Jeremy

Asset Purchase Facility

Stock of holdings in the Asset Purchase Facility

As you are aware, the Bank currently holds a stock of high quality assets within the Asset Purchase Facility (APF), arising from activities in support of its statutory objectives. This comprises a portfolio of UK government bonds (gilts) and sterling non-financial investment-grade corporate bonds held for monetary policy purposes, which is being reduced in line with the instructions of the Monetary Policy Committee (MPC).

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury (HMT). As the size of APF holdings changes, the authorised maximum size of the APF should be periodically adjusted to reflect the size of the portfolio.

I can confirm that the stock of APF holdings, as of 19 April 2023, comprised £815.3 billion of gilts and £6.0 billion of corporate bonds, all held for monetary policy purposes.

The maximum size of the APF can therefore now be adjusted to a total of £821.3 billion, including £6.0 billion of corporate bonds. This will be reviewed and confirmed between us again in October 2023, alongside the relevant APF Quarterly Report.

I would be grateful if you could confirm these changes.

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The Bank's approach to unwinding the APF

The unwind of the assets held in the APF for monetary policy purposes is being carried out at the request of the MPC. At its February 2022 meeting, the MPC agreed that the Bank should cease any reinvestments of future maturities falling due from the stock of asset purchases held in the APF, and asked Bank staff to design a sales programme to unwind its portfolio of corporate bonds.¹

In September 2022, the MPC agreed that the Bank should reduce the stock of gilt purchases by £80 billion over the following 12 months, to a total of £758 billion. This would include the proceeds of maturing gilts and gilt sales.² The MPC's approach to these decisions reflected its intention to reduce the size of its holdings in a gradual and predictable manner so as to maintain Bank Rate as its active monetary policy tool, and avoid disrupting the functioning of financial markets.

Since February 2022, £37.1 billion of the APF's gilt purchases have matured without replacement.³ In addition to these maturities, since November 2022 the Bank has also undertaken regular supplementary auctions to sell gilts back to market participants. As at 19 April 2023, this combination of maturities and sales had reduced the stock of purchases by £59.7 billion.

As of the same date, the stock of corporate bond holdings in the APF had reduced by £14.0bn, or over 70%, through a combination of maturities, sales by auction and buybacks by bond issuers.

In accordance with our longstanding agreement, the scale, pace and nature of APF unwind is chosen solely to meet the MPC's policy objectives. Subject to those policy objectives, the Bank's operations are governed, designed and risk managed with the aim of minimising cost and risk. That is achieved, amongst other things, through:

- The use of auction mechanisms that are carefully designed to maximise demand and competition. For instance, the use of multi-stock auctions allows us to accept only the best-priced bids across a range of bonds and participants. APF auctions also have built-in price protections whereby, for instance, the Bank sets a minimum level for the price it is willing to accept at auction.

¹ [Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 2 February 2022](#)

² [Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 22 September 2022](#)

³ Details of the maturity profile of APF-owned gilts is provided on the Bank's website. See [Results and usage data | Bank of England](#).

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- Close liaison with the DMO to ensure that our operations minimise interference with the DMO's own issuance programme and avoid disrupting market functioning.
- The application of comprehensive risk management techniques ensures that the financial risks posed by the portfolio are understood and controlled. For example, the use of credit risk assessments for remaining corporate bond holdings allows for the pricing of riskier issuers to be adjusted in some circumstances.
- Detailed public information on activity on the APF, and the design and control of auctions, available in the Bank's [Markets Operations Guide](#), which is updated periodically as our operations evolve; and
- Comprehensive governance, reporting and transparency arrangements consistent with the indemnity provided by HM Treasury and the HM Treasury Accounting Officer's requirement to protect the rights and assets of the taxpayer including value for money.

Cash flow arrangements

As you are aware, the Bank and HMT agreed in 2012 to transfer coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer in order to facilitate more efficient cash management across the public sector as a whole.⁴

It was recognised that this arrangement would result initially in payments from the APF to the Government, and indeed around £123bn of cash transfers were made from the APF to HMT between 2013 and September 2022. It was also recognised that it was likely that these cash flows would need to be reversed, with payments being made, on a timely basis, from the Government to the APF in order to meet the terms of the indemnity as Bank Rate rose and the APF's holdings were unwound by the MPC.

Consistent with these arrangements, quarterly transfers from HMT to the APF have taken place: the first occurred in October 2022, and the second in January 2023.

In order to ensure appropriate public transparency in relation to APF cash flows, in May 2022 the Bank published a projection of the estimated path of cash transfers and committed to updating this on a regular basis in APF Quarterly Reports. The latest projection is included in the 2023 Q1 Report, published today.⁵ The total future

⁴ [Exchange of letters regarding the transfer of excess cash from the Asset Purchase Facility to HM Treasury – November 2012 | Bank of England](#)

⁵ [APF Quarterly Report 2023 Q1](#)

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path of cash flows will continue to be highly dependent on the path of market interest rates, and on the MPC's desired path for unwinding the assets held in the APF. Our officials monitor the operational processes governing these cash flows closely, and will continue to do so going forward.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive style with a small dot above the letter 'i' in Bailey.