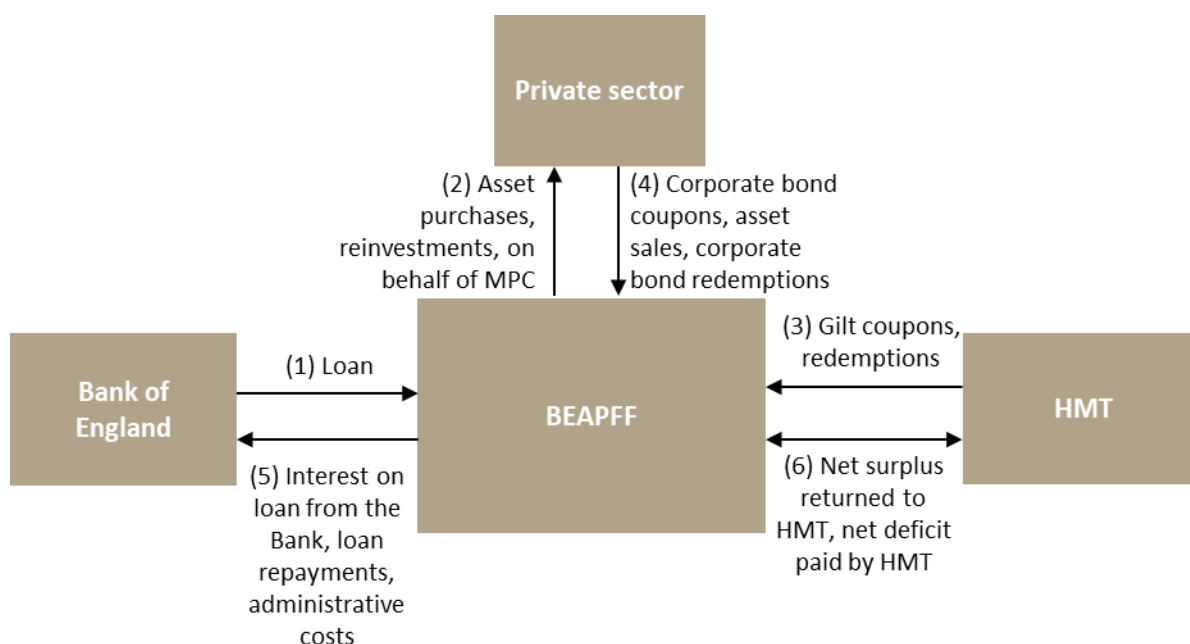


Cash transfers between BEAPFF and HMT

Transfers between BEAPFF and HMT are shown in Figure 1. They are only made as a result of actual cash movements, such as the receipt by BEAPFF of coupons (interest payments) on gilts or corporate bonds, or the payment of administration costs. No cash is transferred as a result of non-monetary gains or losses such as, for example, revaluations of assets because of fluctuations in their market price.

Figure 1 Cash flows to and from BEAPFF



Commentary: A loan from the Bank to BEAPFF (1) funds the purchase of assets, by BEAPFF, acting on behalf of the MPC (2). Interest earned from gilts (3) and corporate bond coupons (4) is netted off against interest on the loan from the Bank to BEAPFF and against administrative costs (5). The net amount (allowing for a small buffer to be retained by BEAPFF) is transferred between HMT and BEAPFF (6).

When a gilt matures, and redemption proceeds are paid to BEAPFF (3), the MPC may decide either to repay the loan (5) or to reinvest by buying other gilts in the secondary market (2) – the latter course of action has been taken by the MPC, as agreed in their meetings up to and including 20th June 2019. The process is similar for corporate bonds.

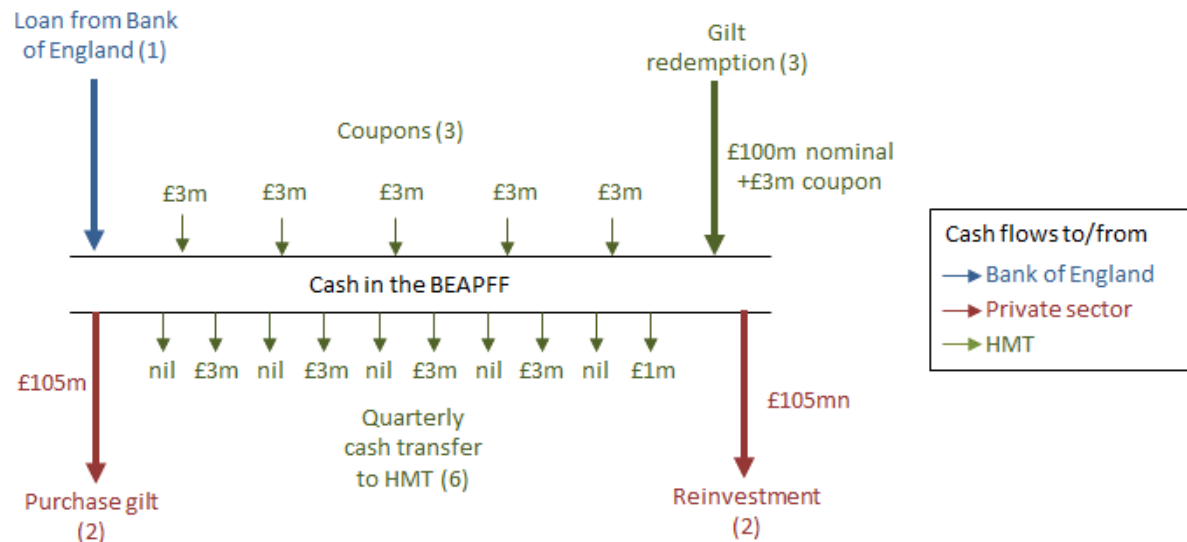
In summary, the amount transferred each quarter is calculated as follows:

- coupons received by BEAPFF on gilts and other assets; *minus*
- interest paid by BEAPFF on the loan from the Bank of England, and administration costs paid by BEAPFF to the Bank; *plus or minus*
- an adjustment for the surplus or shortfall on sale or redemption of assets.

In principle the net payment can be in either direction. As of July 2019, the payment has always been from BEAPFF to HMT. At some stage it is likely that the cash flows from the APF to HM Treasury will need to be reversed in order to meet the terms of the indemnity, as monetary conditions normalise and Bank Rate rises, or capital losses crystallise as gilts are sold or allowed to redeem without reinvestment.

If the redemption proceeds from a gilt are different to the amount of money BEAPFF spent buying the gilt originally, the difference between the two is transferred between BEAPFF and HMT. For example, if a gilt matures at a lower price than it was originally purchased for, BEAPFF will be reimbursed by HMT for the shortfall (in practice rather than HMT making a payment to BEAPFF, this is achieved by netting off this sum from other amounts). To illustrate this, the lifecycle of a gilt in the BEAPFF is illustrated in **Figure 2** below. Amounts shown are for illustrative purposes only and do not represent actual transactions.

Figure 2 Illustrative lifecycle of a gilt in the BEAPFF (flows labelled consistently with Figure 1)



Commentary: The loan from the Bank (1) is used to purchase a gilt on behalf of the MPC in the secondary market (2) for £105mn. Coupons from that gilt are received by BEAPFF every six months (3) and paid across to HMT in the subsequent quarterly cash transfer (6). The gilt matures for £103mn (including a final coupon payment of £3mn), meaning there is a shortfall of £2mn on the original purchase price. To take account of that, the final coupon transfer to HMT is reduced by £2mn from £3mn to £1mn (6). If appropriate, the same amount paid for the gilt (£105mn) is then reinvested into another gilt (2).

The size of the quarterly transfers, and the overall net amount transferred to or from BEAPFF, depends on a number of factors, including the price of assets when they are bought or sold and the future path of Bank Rate. As of July 2019, all cash transfers have been made from the BEAPFF to HMT but it is likely that these cash flows will need to be reversed in future. BEAPFF is fully indemnified by HMT; any financial losses as a result of asset purchases are borne by HMT, and any gains are owed to HMT.

The Quarterly Bulletin article 'The profile of cash transfers between the Asset Purchase Facility and Her Majesty's Treasury', linked below, provides more detail on the cash transfers and explains how the expected size of cash transfers varies depending on the assumptions made for these uncertain factors. For instance, other things being equal, if Bank Rate rises faster or to a higher level, then the ultimate size of the net transfers from the BEAPFF to HMT will be lower as a result of the higher cost of servicing the loan from the Bank of England.

The profile of cash transfers between the Asset Purchase Facility and Her Majesty's Treasury 