



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

6 February 2009

Asset Purchase Facility

The Bank is today publishing details about how it intends initially to operate the Asset Purchase Facility agreed with HM Government and described in an exchange of letters between the Chancellor and the Governor, dated 29 January. The broad aim of the Facility is to help improve financing conditions for companies.

The Bank has been authorised to purchase up to £50 billion of high-quality private sector assets under the Facility. The following sterling assets are initially eligible for purchase: commercial paper, corporate bonds, paper issued under the Credit Guarantee Scheme (CGS), syndicated loans and asset-backed securities created in viable securitisation structures. In order to control the financial risks associated with such transactions, the Bank is authorised to purchase only high-quality assets, broadly comparable to investment grade. The Bank's operations will vary according to the structure of, and conditions prevailing in, particular markets; and will evolve through time, in the light of experience with operating the Asset Purchase Facility and feedback from the market.

Information published today in a Market Notice sets out:

- Details of a **Commercial Paper Facility** to enable the purchase of investment grade sterling commercial paper issued by UK corporates, both at issuance and in the secondary market, subject to a minimum spread.

This could channel funds directly to parts of the corporate sector whilst also underpinning secondary market activity and helping to enlarge the private issuance market, and so removing obstacles to corporate access to capital markets.

The Bank expects that this Facility will be operational on 13 February.

- An outline proposal for a **Corporate Bond Secondary Market Scheme** under which the Bank would propose to provide a back-stop offer to purchase modest amounts of a wide range of investment-grade sterling UK corporate bonds with the aim of improving secondary market

liquidity, initially by facilitating market-making by banks and dealers.

By so doing it may help to reduce liquidity premia on high-quality corporate bonds, and so remove obstacles to corporate access to capital markets.

The Bank is consulting on this proposed facility, with a view to moving to launch as soon as possible.

In addition, the Bank is seeking feedback on an outline proposal for a planned facility for paper issued under the Government's **Credit Guarantee Scheme (CGS) Facility** for banks. Such a scheme could involve the Bank standing ready to transact in banks' CGS public bonds with intermediaries that commit to provide regular prices to counterparties as market makers in such securities, underpinning market-making and so secondary market activity.

More generally, the Bank plans to engage in a broader dialogue on ways in which the Asset Purchase Facility might be used to purchase syndicated loans and asset-backed securities with viable securitisation structures, with a view to improving liquidity in those markets and so their role in providing finance to the real economy.

The Bank will keep under review whether there is a case for proposing to the Chancellor that the list of eligible assets or currencies could usefully be expanded. The Bank will also keep under review whether to hedge any of the risks in the Fund's portfolio of assets.

Further details are published in a Market Notice, available on the Bank's website at:

<http://www.bankofengland.co.uk/markets/marketnotice090206.pdf>

Notes for editors

1. The Asset Purchase Facility was announced by HM Treasury on 19 January 2009. As the Governor stated in his letter to the Chancellor on 29 January: "The Facility provides the Bank with an additional tool to improve financing conditions in the economy. Purchases of assets by the Bank of England could help to improve liquidity in credit markets that are currently not functioning normally. This might stimulate further issuance of some credit instruments by corporate borrowers and encourage the resumption of capital market flows".

Letters between the Chancellor and the Governor published on 29 January are available on the Bank's website at:

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/news/2009/005.pdf>

2. The facility will be financed by the issue of Treasury bills and Debt Management Office cash management operations.

3. Assets will be purchased by Bank of England Asset Purchase Facility Fund Limited, a wholly-owned subsidiary of the Bank, which is the legal counterpart to market transactions. The Bank acts as agent for the Fund.
4. Today's announcement about the Asset Purchase Facility does not involve monetary policy operations. The Governor's letter to the Chancellor on 29 January stated: "The Monetary Policy Committee will keep under review whether it wishes to undertake asset purchases for monetary policy purposes. If the Committee were to conclude that this would be a useful additional tool for meeting the inflation target, I would inform you so that you could authorise the changes to the scale and operation of the facility that might be required. I note that in such circumstances a further exchange of letters would take place setting out the new arrangements."