



BANK OF ENGLAND

News release

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Asset Purchase Facility - Corporate Bond Secondary Market Purchase Scheme

The Bank is today publishing details of its Corporate Bond Secondary Market Scheme. The Bank announced an outline proposal for the scheme on 6 February as part of its Asset Purchase Facility.

The Scheme is designed to provide a backstop offer to purchase small amounts of a wide range of high-quality sterling corporate bonds in order to aid secondary market liquidity. The purchases should facilitate market-making by banks and dealers, to help to reduce liquidity premia on high-quality bonds, and so remove obstacles to corporate access to capital markets. The Bank will commence purchasing corporate bonds on 25 March.

The Bank is also announcing its readiness to make small purchases of bonds issued by banks under HM Government's Credit Guarantee Scheme (CGS) if there is a deterioration in market conditions. The CGS would provide a backstop bid for intermediaries that provide regular prices as market-makers in such securities.

The purchase of corporate and CGS bonds will be funded by central bank reserves with the aim of improving the functioning of corporate credit markets and will complement purchases of commercial paper under the Asset Purchase Facility, which began on 6 February. These transactions will be made using some of the £50 billion that the Bank has made available to inject money into the economy through private sector asset purchases as set out in the Governor's letter to the Chancellor, dated 17 February. As with purchases of commercial paper and gilts with effect from 6 March, purchases of corporate bonds and CGS bonds under these Schemes will contribute towards the MPC's objective for asset purchases funded by central bank reserves. It is likely, however, that the majority of overall purchases by value will come through the purchase of gilts, as detailed on 5 March.

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

<http://www.bankofengland.co.uk/markets/marketnotice090319.pdf>

Notes for editors

1. The Asset Purchase Facility was announced by HM Treasury on 19 January 2009 and was followed by an exchange of letters between the Chancellor and the Governor published on 29 January.

2. On 5 March, a further exchange of letters between the Chancellor and the Governor was published and are available on the Bank's website at:

<http://www.bankofengland.co.uk/monetarypolicy/Pages/framework/framework.aspx>. These announced that the Bank planned to use the Asset Purchase Facility for monetary policy purposes as well as for improving the functioning of corporate credit markets. In addition, the letters confirmed that future purchases under the facility would be financed by central bank reserves.

3. The intention to expand the type of assets eligible to be purchased was confirmed by the MPC in a News Release on 5 March available on the Bank's website at:

<http://www.bankofengland.co.uk/archive/Pages/digitalcontent/historicpubs/news/2009/019.aspx>.

4. Assets will be purchased by Bank of England Asset 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.

5. Further details of the Asset Purchase Facility are available on the Bank's website at:

<http://www.bankofengland.co.uk/markets/apf/index.htm>.