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Asset Purchase Facility (APF): Asset Purchases and TFSME - Market Notice 19 March 2020

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Asset Purchase Facility (APF): Asset Purchases and TFSME - Market Notice 19 March 2020

i In light of actions to tackle the spread of Covid-19, and evidence relating to the global and domestic economy and financial markets, the Monetary Policy Committee (MPC) held an additional special meeting on 19 March.



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Over recent days, and in common with a number of other advanced economy bond markets, conditions in the UK gilt market have deteriorated as investors have sought shorter-dated instruments that are closer substitutes for highly liquid central bank reserves. As a consequence, UK and global financial conditions have tightened.

At its special meeting on 19 March, the MPC judged that a further package of measures was warranted to meet its statutory objectives. It therefore voted unanimously to increase the Bank of England's holdings of UK government bonds and sterling non-financial investment-grade corporate bonds by £200 billion to a total of £645 billion, financed by the issuance of central bank reserves; and to reduce Bank Rate by 15 basis points to 0.1%. The Committee also voted unanimously that the Bank of England should enlarge the Term Funding Scheme with additional incentives for SMEs (TFSME).

This Market Notice sets out operational details for additional asset purchases and the change of terms relating to the TFSME. Other than as amended by this Market Notice, previous Market Notices relating to the Bank's gilt purchases, purchases of corporate bonds and TFSME will apply.

APF: Additional Gilt Purchases

Operations to make gilt purchases will commence on 20 March 2020 when the Bank intends to purchase £5.1bn of gilts spread evenly between short, medium and long maturity buckets. These operations will last for 30 minutes from 12.15 (short), 13.15 (medium) and 14.15 (long).

Offers for different stocks will be allocated based on the attractiveness of offers for each stock relative to market mid yields for the stocks, as published by Tradeweb, at the close of the auction. There will be no minimum allocation to a particular stock.

The Bank intends to continue to purchase evenly across the three gilt maturity sectors. However, the maturity sectors will be redefined as: gilts with a residual maturity of 3-7 years (short); those with a residual maturity of 7-20 years (medium); and those with a residual maturity of over 20 years (long). The Bank will keep the definition of the maturity sectors under review in light of market conditions and subsequent policy actions.

The Bank will confirm details of the following week's operations each Friday at 12.00 (London time), beginning on 20 March with details of purchases for the week commencing 23 March.

The Bank intends to conclude the reinvestment of cash flows associated with the 7 March 2020 gilt held in the APF on Monday 23 March, when it will purchase gilts in short, medium and long maturity buckets. Additional purchase operations will then follow on Tuesdays, Wednesdays and Thursdays.

The Bank initially intends to purchase each of the short, medium and long maturity sector on each purchase day (i.e. three operations per purchase day). The Bank will keep the schedule of operations under review in light of prevailing market conditions.

The Bank intends to set and vary the pace of its gilt purchases in response to market conditions and to support market functioning.

Given prevailing conditions, the Bank intends – at least initially – to make purchases at a materially higher pace than in the recent past. This pace will be kept under review in light of market conditions and any subsequent policy actions.

Change to the schedule gilt reinvestments announced on 30 January 2020:



Prior to the 19 March announcement the Bank was in the process of reinvesting of the £17.5bn cash flows associated with the maturity on 7 March 2016 of a gilt owned by the APF.

As noted above, and consistent with supporting current market conditions, the Bank will complete the remaining £10.2bn of gilt purchases by conducting sets of auctions (short, medium, long maturity sectors) on Friday 20 March and Monday 23 March (i.e. three auctions on each day).

APF: Additional Corporate Bond Purchases

As part of the increase in APF asset purchases the MPC has approved an increase in the stock of purchases of sterling corporate bonds, financed by central bank reserves.

The Bank will publish details of its intended purchases of corporate bonds in coming weeks. Further operational details and documentation will be provided in an updated Market Notice prior to launch.

APF: Operational mechanisms

The Bank will participate in the secondary market for gilts and corporate bonds by holding reverse auctions.

With respect to corporate bond purchases, the Bank reserves the right to carry out secondary market purchases via other methods, such as bilateral purchases, should it be deemed necessary. The MPC will keep under review the case for participating in the primary market.

Term Funding Scheme with additional incentives for SMEs (TFSME)

Following today's special meeting of the MPC the Initial Borrowing Allowance for the TFSME will be increased from 5% to 10% of participants' stock of real economy lending, based on the Base Stock of Applicable Loans.

Other than as amended by this Market Notice, the previous Market Notice issued on 11 March 2020 will apply.

