



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for
Scholarly Publishing at Yale

YPFS Resource Library

4-2-2020

Asset Purchase Facility (APF): Additional Corporate Bond Purchases – Market Notice 2 April 2020

Bank of England/Central Bank of the United Kingdom

<https://elischolar.library.yale.edu/ypfs-documents/10759>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.



Asset Purchase Facility (APF): Additional Corporate Bond Purchases – Market Notice 2 April 2020

- i** The Corporate Bond Purchase Scheme (CBPS or “the Scheme”) was launched in August 2016. It imparts monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies. It does this by triggering portfolio rebalancing into riskier assets by sellers of assets, and by stimulating new issuance of corporate bonds.



Published on 02 April 2020

The Corporate Bond Purchase Scheme (CBPS or “the Scheme”) was launched in [August 2016](#)¹. It imparts monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies. It does this by triggering portfolio rebalancing into riskier assets by sellers of assets, and by stimulating new issuance of corporate bonds.

At its special meeting on 19 March 2020 the MPC judged that a further package of measures was warranted to meet its statutory objectives. It 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.¹

In its monetary policy statement for the meeting ending 25 March 2020, the MPC commented on how this £200bn would be split between gilts and corporate bonds, noting that “the majority of additional asset purchases would comprise UK government bonds. Some additional sterling non-financial investment-grade corporate bonds would also be purchased”.²

In line with the MPC’s statement, the Bank intends to purchase at least £10 billion of eligible sterling non-financial corporate bonds in coming months, taking the stock of purchased corporate bonds to at least £20 billion. It expects to make these purchases at a significantly faster pace than in the 2016 scheme. Accordingly the Bank has increased the maximum purchase size per bond in each auction from £10mn to £20mn. The Bank will keep the size of the Scheme and purchase pace under review in light of prevailing market conditions, market function and any future MPC decisions.

The Bank will undertake operations via reverse auctions beginning on 7 April 2020. The Bank intends initially to hold three purchase operations a week on Tuesdays, Wednesdays and Thursdays.

Corporate bond purchases will commence using the eligible list published on 22 August 2019, ahead of the 2019 reinvestment round, adjusted for maturities and securities that no longer meet the eligibility criteria.³ The Bank will update the list of eligible securities periodically, typically monthly. The Bank expects to publish a first update to the eligible list in mid-April. Bonds with standard par call options within 3 months of the maturity date may be considered eligible for purchase going forwards and may therefore, in the Bank’s sole discretion, be included in any updated eligible list.

As set out when the CBPS was launched in 2016, the Scheme is “designed to purchase a balanced portfolio of bonds across eligible issuers and sectors, so that we purchase a representative portion of the market and do not influence the allocation of credit to particular companies or sectors of the economy”.⁴ The Bank will continue to purchase bonds across eligible sectors, such that the Scheme’s aggregate holdings are representative of each sector’s share of the total outstanding face value of eligible bonds.

The Bank expects to publish updated representative sector shares, alongside the update to the eligibility list in mid-April 2020. The Bank will keep its approach to targeting these sector shares under review in light of general market conditions and its experience of operating the Scheme, including the liquidity of individual sectors.

Eligibility

Eligible issuers

The Bank will purchase bonds issued by companies (including their finance subsidiaries) that make a material contribution to economic activity in the UK, subject to the restrictions set out below. The Bank will consider a number of factors in making its eligibility decisions. Companies with significant employment in the UK or with their



headquarters in the UK will normally be regarded as meeting this requirement, but the Bank will also consider whether the company generates significant revenues in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK.

Corporate bonds issued by banks, building societies, insurance companies and other financial sector entities regulated by the Bank or the Financial Conduct Authority will not be eligible. Bonds will also not be eligible if issued by leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation.

Eligible securities

The Bank will offer to purchase sterling corporate bonds of eligible issuers, with the following characteristics:

- a. Conventional senior unsecured or secured, unsubordinated debt.
- b. Bonds rated investment grade by at least one major rating agency and subject to the Bank's assessment process.
- c. Cleared and settled through Euroclear and/or Clearstream.
- d. Minimum amount in issue of £100 million.
- e. Minimum residual maturity of twelve months; no perpetual debt.
- f. At least one month since the security was issued.
- g. Securities will need to be admitted to official listing on an EU stock exchange.

Bonds with complex or non-standard structures will not be eligible. Convertible or exchangeable bonds will not be eligible.

Corporate bonds that contain a "Spens clause" will normally be eligible.⁵ Other corporate bonds that contain callable features will not normally be eligible, though the Bank will keep this under review and may – and in its sole discretion – include corporate bonds with standard par call options within 3 months of maturity.

Securities issued by a finance subsidiary will normally require a guarantee from within the issuer's group. The Bank reserves the right to require a parent company guarantee in a form and substance satisfactory to the Bank.

The list of eligible securities for CBPS purchases can be found on its [website](#).³ The Bank intends to publish an updated list of eligible securities for the Scheme in mid-April 2020.

In order to ensure purchases are representative of issuance the Bank has allocated each bond that is currently eligible for purchase to a sector, using a common sector classification, as indicated in the published eligibility list. The Bank's approach continues to involve purchasing bonds such that the Scheme's holdings are representative of each sector's share – in terms of the face value of bonds outstanding – of the list of eligible bonds. The Bank will also seek to avoid over-concentration in particular sectors or issuers and may choose not to make purchases of particular sectors or issuers for any reason at any time, including where the Bank is unable to make a purchase owing to applicable law and regulation. The Bank will keep its approach to targeting these sector shares under review in light of general market conditions and its experience of operating the Scheme, including the liquidity of individual sectors.

The Bank will keep the eligibility criteria under review. The Bank will reserve the right in its sole discretion to deem any security ineligible for any reason, including deeming securities ineligible, or ceasing purchase of securities, that it has previously offered to purchase.

Eligible counterparties and applications

The Bank will offer to make purchases of investment grade sterling denominated bonds only via firms that the Bank is satisfied are market makers in such securities and who are counterparties in its Open Market Operations. Counterparties must have access to the Bank's electronic tendering system, Btender, in order to participate in CBPS reverse auctions.



Those wishing to participate as counterparties in the Scheme must complete the Expression of Interest for the [Corporate Bond Purchase Scheme](#) and submit it by email to [✉ Applications@bankofengland.co.uk](mailto:Applications@bankofengland.co.uk). The Bank reserves the right to reject applications without explanation.

As a condition of participation in the Scheme, counterparties will be asked to send to the Bank quotes on eligible securities that are sent in the normal course of their business ('dealer runs') as well as indications of bonds which they would like to sell or take a position ('dealer axes'). Further details are provided in the [APF Operating Procedures](#) [↗](#). Eligible counterparties for the 2019 reinvestment do not need to apply.

Participation will be governed by the [Terms and Conditions](#) [↗](#) for the Asset Purchase Facility.

Operating parameters

Purchase process

The Bank will participate in the secondary market by holding reverse auction operations. The Bank initially intends to hold three purchase operations a week, on Tuesdays, Wednesdays and Thursdays. The Bank will structure each auction around bonds issued by firms from certain sectors and will include each eligible security from those sectors in an auction at least once a week.

The Bank reserves the right to modify the structure of its purchase operations or to carry out secondary market purchases via other methods, such as bilateral purchases, should it be deemed necessary.

As in previous CBPS programmes, the MPC will keep under review the case for participating in the primary market.

Size of operations

The Bank will look to purchase, via the CBPS, at least an additional £10 billion of corporate bonds, taking the stock of purchased corporate bonds to at least £20 billion. The purchase pace will, over time, be consistent with this target but may fluctuate depending on seasonality, market conditions and the pattern of offers received in operations.

In each purchase operation, the Bank will initially stand ready to purchase up to £20 million nominal of each bond.

Operational Mechanism – Transaction process

In its auctions, the Bank will seek offers as a spread to a specified reference gilt. Offers will be allocated on a uniform spread basis so that all successful transactions for any individual bond will be allotted at the same single spread. In a uniform format every successful offer is allocated at the highest accepted price for that bond. Offers at the clearing spread may be pro-rated. The Bank will reserve the right to reject any offers, for any reason, including in the light of other offers received.

The Bank will, for each security, privately set a minimum spread to the yield on a specified reference gilt. It will not purchase securities at offers below this spread.

Successful offers above the Bank's minimum spread will be allocated based on their attractiveness across bonds within each auction until the quantity that the Bank is willing to purchase has been reached.

In order to ensure purchases are representative of issuance, the Bank will adjust the minimum spread it sets in order to increase or decrease the pace of purchase.

Operational Mechanism – Submission of offers

The Bank will announce on its wire services page (see Reuters BOE/Markets1; Bloomberg BOEO 1) and on the Bank's website each Friday at 16.00 the list of eligible securities for which the Bank will invite offers during the following week's operations, along with the reference gilt for each security.



The list of eligible securities, along with the reference gilt for each security, will be published on the Bank's wire services pages, and on the Bank's website, on the day of the auction at 9:00.

Offers should be submitted using Btender between 11.00 and 11.30.

Offers must be expressed as the basis point spread to the relevant reference gilt, in increments of whole basis points. The minimum offer size for an individual security is £1 million nominal, the offer should be expressed in increments of £0.1 million nominal.

The Bank may, at its discretion, take offers submitted by phone or via email to the Bank's Sterling dealing desk during an operation (or other means as advised by the Bank), using the phone number and email address provided to counterparties by the Bank. In this event, counterparties:


- must provide the specified ticker of the security; the nominal amount offered; and a spread to the reference gilt.
- should make no more than three offers for an individual security in a single operation and no more than fifteen offers in total in a single operation.
- submitting multiple offers across the operation should also provide the weighted average spread of those offers to 3 decimal places. That is, the sum across all offers of the nominal offer size multiplied by the spread for each offer, divided by the total nominal value of offers.

Reference gilt yields will be set for each bond as the mid-yields as published by TradeWeb, at 11:45.

The Bank will reveal to participants in Btender their allocation of offers as soon as possible following 11.45. The minimum allocation amount per successful offer is £0.1 million nominal and allocation amounts will be expressed to participants in increments of £0.1 million nominal.

The corporate bond purchases will normally settle on a T+2 basis.

The Bank reserves the right to cancel an auction at any time before the results are published. If an auction is cancelled it may be re-scheduled to take place later the same day, or on a subsequent day.

All counterparties must comply with the [APF Operational Procedures](#) , which provide more detail on the operational and settlement procedures.

As described more fully in the Terms and Conditions, the Bank retains discretion to make any amendments it sees fit in relation to the CBPS. Such amendments may be made in relation to an individual counterparty or a group of counterparties.

Published information

The Bank currently publishes the aggregate total stock of APF corporate bonds as at the first Thursday of each month at 15:00 each Thursday on the Bank's website and wires services. The Bank will continue to publish this aggregate stock updated on a weekly basis commencing 16 April 2020.

The Bank will publish on its website the list of eligible securities for the Scheme; the representative share for each sector; and the Banks' holdings in each of these sectors on its website on a monthly basis.

1. [Asset Purchase Facility \(APF\): Asset Purchases and TFSME - Market Notice 19 March 2020](#)
2. [Monetary Policy Summary for the special Monetary Policy Committee meeting on 19 March 2020](#)
3. [Information for participants](#)
4. [Corporate bond purchase scheme: eligibility and sectors](#)



5. These provide that on early redemption a cash payment is made to the bond holders that is the higher of the outstanding principal and the foregone interest and principal payments discounted at a rate equal to the redemption yield of a gilt of comparable maturity.



BANK OF ENGLAND