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Asset Purchase Facility Corporate Bond Purchase Scheme: Eligibility and Sectors

Bank of England/Central Bank of the United Kingdom

Corporate bond purchase scheme: eligibility and sectors

Information on how we decide which corporate bonds to purchase using our asset purchase facility.

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On 4 August 2016, we announced a programme of corporate bond purchases, financed by central bank reserves, via the Asset Purchase Facility (APF). The purpose of the Corporate Bond Purchase Scheme (CBPS) is to impart monetary stimulus by:

- lowering the yields on sterling corporate bonds, reducing the cost of borrowing for companies
- triggering portfolio rebalancing into other assets by sellers of assets
- stimulating new issuance of sterling corporate bonds.

We will look to purchase, via the CBPS, a portfolio of up to £10bn of sterling investment grade bonds representative of issuance by firms making a material contribution to the UK economy, in order to impart broad economic stimulus. Our operations will be 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. The private market will continue to decide which companies can issue in the primary market. Corporate bonds issued by firms we regulate – such as banks, building societies, and insurance companies – will not be eligible.

This notice outlines in more detail how we decide what constitutes a material contribution to the UK economy, and how our operations have been designed to ensure our purchases are representative across the eligible set of bonds. Operational details are included in the Market Notice.

How does the Bank assess whether a company makes a material contribution to the UK?

To maximise the effectiveness and efficiency of the economic stimulus, we will purchase investment-grade bonds issued by companies that make a material contribution to economic activity in the UK. Companies, which may be incorporated in the UK or other jurisdictions, with a genuine business in the UK will normally be regarded as meeting this requirement. Eligibility decisions will be made by our risk management staff, taking into account a number of different factors. Companies with significant employment in the UK or with their headquarters in the UK will normally be regarded as meeting this requirement. We 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.

These criteria are needed because a wide range of companies issue sterling corporate bonds. Some of those companies are UK incorporated and have substantial business in the UK. Bonds issued by those companies will be eligible for purchase in the CBPS. Other companies are incorporated overseas, but have a genuine business interest in the UK. For example, a company headquartered outside of the UK but employing hundreds of people in the UK and generating sales of £20m in the UK would be considered to make a material contribution to the UK economy. As a result, investment-grade bonds issued by such a company would normally be considered eligible for purchase.

Open capital markets mean that companies are free to choose the currency of issuance which best matches their funding needs, in terms of price or maturity for instance. Some companies may choose to issue sterling bonds, despite not having material business activities in the UK. Bonds issued by those companies will not be eligible for purchase in the CBPS, because that would not be the most effective way to support the scheme's objective to impart monetary stimulus to the UK economy.

Our risk management staff will keep the eligibility of corporate bonds under review, including where there are changes in whether a company has a genuine business in the UK. View the list of bonds that are currently eligible for purchase under the CBPS. We will update the list each month to reflect any changes to the eligibility of bonds in the CBPS.

How does the Bank intend to purchase a portfolio of bonds representative of issuance?

In order to ensure purchases are representative of the set of eligible bonds, we have allocated each bond that is currently eligible for purchase to one of nine sectors, using a common sector classification as detailed in the eligibility list. We intend to make purchases so that our aggregate holdings are representative of each sector's share – in terms of the face value of bonds outstanding – within the list of eligible bonds.

We will participate in the secondary market by holding reverse auction operations. Initially, we will hold three purchase operations a week, on Tuesdays, Wednesdays and Fridays. We plan to structure each auction around bonds issued by firms from certain sectors and plan to include each eligible bond in an auction at least once a week.

The table below shows the list of sectors and the share that each sector accounts for in the list of bonds that are currently eligible. Bonds with a face value of £110bn are eligible at present. These bonds have a current market value of around £150bn, in line with the market value noted as the likely size of the eligible market in the August Inflation Report. We intend to publish our holdings in each of the nine sectors shown in the table below, any update to the list of eligible bonds, and the corresponding updated sector shares online every month.

Sector	Amount outstanding (£bn, face value)	Sector share (% of eligible list)
Electricity	27	25%
Consumer, Non-cyclical	17	15%
Industrial & Transport	16	14%
Communications	14	13%
Consumer, Cyclical	13	11%
Water	9	8%
Gas	8	7%
Energy	4	4%
Property & Finance	2	2%
Grand Total	110	100%

Footnote: As of 12 September 2016. This will be updated each month on the Bank's website. Totals may not sum due to rounding.

Initially, as the corporate bond portfolio is being built up, we expect there to be some deviation from the sector shares – the pattern of purchases is likely to result in some sectors being overweight and some underweight, potentially materially so. But over time, as the portfolio grows, we will seek to match closely the sector shares, so that our holdings are representative of the bonds eligible for purchase. In order to achieve this, for sectors which are over-represented relative to that sector's share in the eligible list of bonds, we will privately adjust the maximum price we are willing to pay for each bond in that sector, in order to slow purchases of those bonds. We will use a range of tools to manage the risks in the portfolio, including, as noted, restricting purchases to investment-grade bonds, and by ensuring our purchases do not become overly concentrated in individual bonds or issuers.

Press release

BANK OF ENGLAND