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## Asset Purchase Facility Corporate Bond Secondary Market Scheme

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BANK OF ENGLAND

# Market Notice

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20 September 2012

## Asset Purchase Facility Corporate Bond Secondary Market Scheme

1. This Market Notice sets out the details and operation of the Corporate Bond Secondary Market Scheme.
2. Through the Corporate Bond Secondary Market Scheme, the Bank offers to make regular small purchases and sales of a wide range of high-quality corporate bonds. The focus of this Scheme is to facilitate market-making by banks and dealers, to help to reduce liquidity premia on high-quality corporate bonds, and so remove obstacles to corporate access to capital markets.

### Eligible issuers

3. The Fund will purchase corporate bonds issued by companies (including their finance subsidiaries) that make a material contribution to economic activity in the United Kingdom. UK incorporated companies, including those with foreign-incorporated parents, with a genuine business in the UK will normally be regarded as meeting this requirement.
4. Corporate bonds issued by non-bank financial companies, excluding building societies, will in principle be eligible, subject to the Bank being satisfied that the issuer makes a significant contribution to corporate financing in the UK. Bonds will not be eligible if issued by leveraged investment vehicles or from companies within groups that are predominantly banks, investment banks or building societies.

### Eligible Securities

5. Initially, the Fund will purchase only sterling-denominated corporate bonds. The Bank will keep under review whether to propose any extension of the list of currencies in the future.
6. The Fund will offer to purchase, via reverse auctions, the sterling corporate bonds of eligible issuers, with the following characteristics:
  - Conventional senior, unsubordinated debt.
  - A minimum long-term credit rating of BBB-/Baa3 from two or more of Fitch, Moody's and Standard and Poor's. Issuers with split ratings where one or more rating is below the minimum

will not be eligible. Issuers at the lowest eligible rating and also on negative watch or negative outlook from the same agency will not be eligible.

- Cleared and settled through Euroclear and/or Clearstream.
- Minimum amount in issue of £100 million.
- Minimum residual maturity of twelve months; no perpetual debt.
- At least one month since the security was issued.
- Securities will need to be admitted to official listing on an EU stock exchange.

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

8. Corporate bonds that contain a “Spens clause” will normally be eligible. 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. Other corporate bonds that contain callable features will not normally be eligible.

9. 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.

10. The Bank publishes a list of eligible securities for the Scheme on the Bank’s website<sup>1</sup> that may be updated from time to time, including at the request of counterparties if considered appropriate by the Bank.

11. Requests from counterparties to confirm the eligibility of specific securities should be made using the template provided at [www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm). The Bank may seek full documentation.

12. The Bank will reserve the right in its sole discretion to deem any security ineligible for any reason, and to deem ineligible securities that it has previously offered to purchase and/or sell and vice versa.

### **Eligible counterparties and applications**

13. The Fund will purchase or sell sterling corporate bonds only via firms that are market makers in such securities in order to facilitate their activities in supporting secondary market liquidity.

14. The Bank will take receipt of applications to become a counterparty only from those firms that are also counterparties in its gilt-purchase Open Market Operations.

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<sup>1</sup> <http://www.bankofengland.co.uk/markets/apf/corp-bond-eligibilitylist.xls>

15. In order to assist the Bank in assessing whether the Scheme is achieving its objectives, counterparties will be expected to submit to the Bank information each week on their indicative bids and offers for eligible bonds; actual spreads to reference gilts at which they have bought or sold eligible bonds; and the volume of their transactions in eligible bonds. The Bank will provide further detail to counterparties on how to provide this information.

16. If any counterparty abuses, or seeks to abuse, the auctions or the Scheme more generally, the Bank retains the discretion immediately to exclude the counterparty from the Scheme and take up the issue with the Senior Management of the organisation.

17. There is one application form for applicants applying for the Corporate Bond Secondary Market Scheme. Those wishing to participate as counterparties should complete the Application Form for the Corporate Bond Secondary Market Scheme available at [www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm) and submit it by e-mail to [APF\\_applications@bankofengland.co.uk](mailto:APF_applications@bankofengland.co.uk). Applicants who have previously applied to become counterparties in other elements of the Asset Purchase Facility may refer back to material in their previous application.

18. Counterparties will be expected to have access to the Bank's electronic tendering system, Btender.

19. Participation will be governed by the Terms and Conditions for the Asset Purchase Facility also available at [www.bankofengland.co.uk/markets/apf/documentation.htm](http://www.bankofengland.co.uk/markets/apf/documentation.htm).

20. The Bank reserves the right to reject applications without explanation.

21. The Bank will consider extending the range of eligible counterparties further to certain regulated investors in the light of experience in operating this Scheme and, in particular, if market making did not revive or in the Bank's view the initial set of counterparties were not acting in a way consistent with the objectives of the Scheme.

### **Operational mechanism**

22. The Bank will hold one purchase operation a week, on Thursdays. The Bank will normally offer to purchase each eligible security in every purchase operation.

23. The Bank will hold one sale operation a week, on Fridays. The Fund will normally offer to sell each security in which it has a holding each week.

### **Size of operations**

24. In each purchase operation the Bank will stand ready to purchase between £1 million and £5 million nominal of each bond. In each sale operation the Bank will stand ready to sell between £0.1 million and £5 million nominal of each bond.

25. In deciding how much of each bond to purchase and/or sell the Bank will take into account a number of factors, including the amount outstanding of the issue, the total stock of bonds issued by the issuer in relation to the size of the overall corporate bond universe, and the size of the Bank's existing holdings of the issuer's bonds. The Bank reserves the right to review the fixed quantities the Bank is willing to purchase or sell in the light of the pattern of participation in the Scheme, and market conditions.

### **Transaction process**

26. Auctions will be undertaken on a uniform spread basis so that all successful transactions in any individual bond will be allotted at the same spread. Bids/offers at the clearing spread may be pro-rated. The Bank will reserve the right to reject any bids or offers, for any reason, including in the light of other bids and offers received.

27. In each purchase operation, 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 ranked and allocated until the fixed quantity the Bank is willing to purchase has been allocated.

28. In each sale operation, the Bank will, for each security, privately set a maximum spread to the yield on a specified reference gilt. It will not sell securities at bids above this spread. Successful bids below the Bank's maximum spread will be ranked and allocated until the fixed quantity the Bank is willing to sell has been allocated.

29. The Bank will keep under review the level of the spreads and the size of transactions in the light of the pattern of participation in the Scheme, market conditions, and the delivery of the objectives of the Scheme. It will also keep under review the auction mechanism.

30. The Bank will not normally restrict the total amount purchased from or sold to a single participant although it reserves the right to do so.

### **Submission of transactions**

31. The list of eligible securities for which the Bank is inviting bids/offers will be published on the Bank's wire services pages<sup>2</sup>, and on the Bank's website<sup>3</sup>, the day before the auction at 14.00, along with the reference gilt for each security.

32. The list of eligible securities for which the Bank is inviting bids/offers will be confirmed on the Bank's wire services pages, and on the Bank's website<sup>4</sup>, on the day of the auction at 09.00, along with the reference gilt for each security. At this point the operation will be available for counterparties to view in Btender.

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<sup>2</sup> Reuters BOE/Markets1; Bloomberg BOEO 1

<sup>3</sup> <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

<sup>4</sup> <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

33. Operations will run using the Bank's electronic tendering system, Btender. The use of Btender is subject to the Asset Purchase Facility Btender Terms, available at [www.bankofengland.co.uk/markets/apf/documentation.htm](http://www.bankofengland.co.uk/markets/apf/documentation.htm).
34. Bids/offers should be submitted using Btender between 11.00 and 11.30.
35. Bids/offers must be expressed as a basis point spread to the relevant reference gilt, in increments of whole basis points. All yields will be quoted on a semi-annual basis.
36. The Bank may, at its discretion accept bids/offers submitted by phone or via email to the Bank's Sterling dealing desk 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; and the nominal amount offered.
  - should make no more than three bids/offers for an individual security in a single operation.
  - submitting multiple bids/offers across the operation should also provide the weighted average spread of those bids/offers to 3 decimal places.
37. Reference gilt yields will be set for each bond as those published on the UK Debt Management Office's wire service pages at 11.45.
38. The minimum offer size for an individual security is £1 million nominal. The minimum bid size for an individual security is £0.1 million nominal. The bid/offer amount should be expressed in increments of £0.1 million nominal.
39. The minimum allocation amount is £0.1 million nominal. Allocation amounts will be expressed in increments of £0.1 million nominal.
40. The Bank's sterling dealers will confirm from 11.45 or soon after using Btender whether a bid/offer has been accepted.

#### **Published information**

41. At 11.45 or soon after the Bank will publish on its wire services pages and on the Bank's website<sup>5</sup> information on the successful yield spreads and quantities transacted in individual eligible bonds.
42. Each Friday at 10.00 the Bank will also publish on the Bank's wire services pages and on the Bank's website the total amount of corporate bonds purchased and sold from the previous Friday up until the previous day, reported on a trade dated basis, and the sum of corporate bonds purchased, less sales, redemptions and non-operation based transactions since operations began in March 2009, reported on a settled basis. Purchases are reported in terms of the amount paid to the sellers. Sales are reported in terms of the value at which the securities were originally purchased.

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<sup>5</sup> <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

## **Settlement arrangements**

43. In the case of those counterparties that do not have access to Btender, the Bank will send a written electronic confirmation of each transaction on the day of purchase.
44. The Fund's purchases or sales of corporate bonds will normally settle on a T+3 basis.
45. Counterparties must comply with the Settlement Procedures for the Asset Purchase Facility, available at [www.bankofengland.co.uk/markets/apf/documentation.htm](http://www.bankofengland.co.uk/markets/apf/documentation.htm).

## **Limits**

46. So as not to adversely affect liquidity in individual securities, the Bank will set a private limit on the maximum proportion of each security that it will be willing to hold.
47. To manage concentration risk, the Bank will also set a private limit on the maximum proportion of an issuers' outstanding bonds that it will be willing to hold through the Scheme.

Bank of England  
20 September 2012