



BANK OF ENGLAND

Mark Carney
Governor

The Rt Hon Philip Hammond
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

3 August 2017

Dear Chancellor,

As a part of the package of monetary policy stimulus measures agreed at the meeting of the Monetary Policy Committee (MPC) ending on 3 August 2016, the Committee announced a Term Funding Scheme (TFS). Under this scheme, central bank reserves are lent to banks and building societies for an extended period at a rate close to Bank Rate. The purpose of the scheme is to ensure that the historically low level of Bank Rate is passed through to real economy lending rates for households and businesses.

The quantity and price of this funding is based on the amount of lending undertaken by eligible banks and building societies. I noted when the TFS was announced that total drawings would be determined by actual usage of the scheme, and could reach £100bn. Last August, you authorised an increase in the total size of the Asset Purchase Facility (APF) to £545bn, consistent with £100bn of TFS drawings.¹

The TFS has been very effective at ensuring that the change in Bank Rate has been passed through to real economy lending rates. New loan rates have declined substantially over the past year and so has the rate charged on the stock of Standard Variable Rate mortgages. With the stronger economy and lending growth, TFS drawings reached a total of £78bn at end July 2017, and we now expect they will slightly exceed £100bn by the end of the drawdown period. Consistent with this, I am requesting that you authorise an increase in the total size of the APF of £15bn to £560bn, in order to accommodate expected usage of the TFS by the end of the drawdown period, which the MPC agreed at their latest meeting will close at end February 2018.

The structure and operation of the APF would otherwise be unchanged from that described in my letter of 4 August 2016. The Bank will continue to provide Treasury officials with information to allow them to monitor the operation and financial performance of the facility. There will also be the opportunity for HMT to provide views to the MPC on the design of the TFS and private sector asset purchases, in light of their broader economic objectives and in view of the risks posed to the public sector balance sheet. Any changes to the maximum size and composition of assets held in the APF will continue to be agreed through an exchange of letters between you and I. Changes to the parameters within the risk control framework will also continue to be agreed between Bank and Treasury officials.

¹ See <http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter040816apf.pdf>

The Bank will also continue to operate the APF in an open and transparent manner. The Asset Purchase Facility Quarterly Report² includes details of all of the transactions undertaken, as it has done since the Facility's inception.

For the purposes of transparency and accountability, I would be grateful if you could confirm that the Government will continue to indemnify the Bank and the APF from any losses arising out of or in connection with the facility.

I am copying this letter to the Rt Hon Nicky Morgan MP, Chair of the Treasury Committee.

A handwritten signature in black ink, appearing to read 'Mark Carney', written in a cursive style.

² See <http://www.bankofengland.co.uk/publications/Pages/other/markets/apf/quarterlyreport.aspx>