

Bank of England

The Rt Hon Jeremy Hunt
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Andrew Bailey
Governor

22 November 2022

Dear Jeremy

Asset Purchase Facility

Stock of holdings in the Asset Purchase Facility

As you are aware, the Bank currently holds a stock of high quality assets within the Asset Purchase Facility (APF), arising from activities in support of its statutory objectives for both monetary and financial stability. This includes:

- A portfolio of UK government bonds (gilts) and sterling non-financial investment-grade corporate bonds held for monetary policy purposes, which is being reduced in line with the instructions of the MPC. The Bank ceased reinvestment of assets in this portfolio in February 2022, and has since commenced sales of corporate bonds on 28 September 2022 and gilts on 1 November 2022.
- A portfolio of long-dated conventional and index-linked gilts, acquired as part of the Bank's temporary and targeted intervention for financial stability purposes, which ended on 14 October 2022. As set out in [earlier this month](#), the Bank intends to unwind this portfolio in a way that is timely but orderly, via a demand-led approach which will make gilts in the portfolio available to interested buyers from 29 November 2022.

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury. I agreed with the then Chancellor on 3 February 2022 that, as the

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size of APF holdings changes, the authorised maximum size of the APF should be adjusted to reflect the size of the portfolio every six months.¹

I can confirm that the stock of APF holdings, as of 16 November, comprises:

- £835.2bn of gilts and £16.4bn of corporate bonds held for monetary policy purposes; and
- £19.3bn of gilts purchased for financial stability purposes.

The authorised maximum size of the APF can now be adjusted to a total of £871bn, of which £16.4bn can be corporate bonds. This will be reviewed and confirmed between us again in April 2023, alongside the relevant APF Quarterly Report.²

Cash flow arrangements

As you are aware, the Bank and HMT agreed in 2012 to transfer coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer in order to facilitate more efficient cash management across the public sector as a whole.³ It was recognised that this arrangement would result initially in payments from the APF to the Government, and indeed between 2013 and end-September of this year a cumulative total of around £123bn of cash transfers have been made from the APF to HMT. It was also agreed that, consistent with the APF indemnity, reverse payments from the Government to the APF were likely to be needed in the future as Bank Rate increases and as the APF's holdings are unwound by the MPC, and that these reverse payments would be met by the Government on a timely basis. In line with this, the first quarterly transfer from HMT to the APF has already occurred, involving the transfer of £828m in October 2022.⁴

In order to increase public transparency in relation to APF cash flows, in May 2022 the Bank published a projection of the estimated path of cash transfers and committed to updating this on a regular basis as part of the existing APF Quarterly Report. The first of these updates, showing the Bank's projection of the expected cash flow profile, based on prevailing market rates and the MPC's stance of policy at 31 October, is included within the APF Quarterly Report for 2022 Q3 published

¹ [Exchange of letters between the Governor and the Chancellor on the Asset Purchase Facility - February 2022 | Bank of England](#)

² Details of the maturity profile of APF-owned gilts is provided on the Bank's website. See [Results and usage data | Bank of England](#).

³ [Exchange of letters regarding the transfer of excess cash from the Asset Purchase Facility to HM Treasury – November 2012 | Bank of England](#)

⁴ [Written Ministerial Statement](#) made on 19 October 2022 in relation to the Contingencies Fund Advance.

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today.⁵ The eventual size of cash transfers will of course continue to depend on the path of market interest rates and the evolution of the Bank's policy for unwinding the assets held in the APF. Our officials will continue to discuss the size and direction of future cash flows regularly.

I would be grateful if you could confirm the changes in size and composition of the APF set out in this letter.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive style with a small dot above the 'i' in Bailey.

⁵ [Asset Purchase Facility Quarterly Report 2022 Q3](#)