

# Bank of England

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

**Andrew Bailey**  
Governor

16 January 2023

Dear Jeremy

As discussed in previous letters between us, from 28 September 2022 to 14 October 2022 the Bank of England initiated a series of measures to restore market functioning to meet its financial stability objective. This included making temporary and targeted purchases of index-linked and long-dated conventional UK government bonds (gilts) through the Asset Purchase Facility (APF), to help restore market functioning and reduce any risks from contagion to credit conditions for UK households and businesses. Overall, the Bank purchased a total of £19.3bn of gilts in these operations.<sup>1</sup>

Consistent with the objectives of the intervention, the Bank confirmed on **10 November 2022** that it intended to unwind this portfolio in a way that was timely but orderly. Starting from 29 November, the gilts in this portfolio were made available to interested buyers via reverse enquiry windows. This approach helped ensure that the unwind of this portfolio was responsive to market demand and did not trigger renewed dysfunction.

On **12 January 2023**, the Bank announced that it had completed the unwind of this portfolio. The FPC has welcomed the Bank's timely but orderly unwind of this portfolio. The MPC has been informed, in line with the Concordat governing MPC's engagement with the Bank Executive regarding balance sheet operations.

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury. The current authorised maximum size of the portfolio is £871bn, agreed between us in November and including £19.3bn arising from our temporary holdings of gilts described above. With sales of these gilts now complete, the

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<sup>1</sup> Comprising £12.1 billion of conventional gilts and £7.2 billion of index-linked gilts.

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authorised maximum size can be adjusted down to £851bn, of which £16.4bn can be corporate bonds.

I can also confirm that the loan from the Bank to the APF, used to fund these temporary purchases, will be repaid today. The relevant cash flows associated with the portfolio, including profits realised on the sales, have been incorporated into the usual quarterly cash transfer process between the APF and HM Treasury.

The Bank's action was successful in restoring market functioning and giving LDI funds time to build their resilience in the near-term to future volatility in the gilt market. The [Financial Stability Report - December 2022](#) set out the importance of improving longer-term resilience in the LDI sector in a number of ways. Some very welcome steps have already been taken, however further work will need to be done in the coming year. The Bank will continue to engage in ongoing parliamentary work to determine lessons learned from the LDI episode.

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.