Bank of England

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

Andrew Bailey
Governor

3 November 2023

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. This comprises 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 Monetary Policy Committee (MPC).

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury (HMT). As the size of APF holdings changes, the authorised maximum size of the APF should be periodically adjusted to reflect the size of the portfolio.

I can confirm that the stock of APF holdings, as of 1 November 2023, comprised £750.3 billion of gilts and £0.6 billion of corporate bonds, all held for monetary policy purposes.

The maximum size of the APF can therefore now be adjusted downwards from £821.3 billion as agreed in our exchange of letters on 28 April 2023 to a total of £750.9 billion, including £0.6 billion of corporate bonds. This will be reviewed and confirmed between us again in April 2024, alongside the relevant APF Quarterly Report.

I would be grateful if you could confirm these changes.

The Bank's approach to unwinding the APF

As you are aware, the MPC voted in September 2022 to begin active sales of the APF's stock of gilts over the following twelve months. A target reduction of £80 billion was set comprising both maturing gilts and sales, guided by three key principles. First, that Bank Rate is intended to be the active policy tool when adjusting the stance of monetary policy. Second, that sales should be conducted so as not to disrupt the functioning of financial markets. Third, and to help achieve that, sales should be conducted in a gradual and predictable manner over a period of time.

As outlined in my previous letter of 28 April 2023, the scale, pace and nature of APF unwind is chosen solely to meet the MPC's policy objectives.[1] Subject to those policy objectives, however, the Bank's operations are governed, designed and risk managed with the aim of minimising cost and risk. That is achieved, amongst other things, through:

- The use of auction mechanisms that are carefully designed to maximise demand and competition.
- Close liaison with the DMO.
- The application of comprehensive risk management techniques.
- Detailed public information on activity on the APF, and the design and control of auctions, available in the Bank's **Markets Operations Guide**.
- Comprehensive governance, reporting and transparency arrangements consistent with the indemnity provided by HM Treasury and the HM Treasury Accounting Officer's requirement to protect the rights and assets of the taxpayer including value for money.

As set out in the Minutes of the Monetary Policy Committee meeting ending on 20 September 2023, the MPC has judged that quantitative tightening is going smoothly.[2] There has been no evidence of a negative impact on market functioning across a range of financial market measures. APF reduction was likely to have had some tightening effect on yields, which, while difficult to measure precisely, was judged to have been modest. This was in line with the MPC's prior expectations, but the Committee will continue to learn from monitoring developments as the process progresses.

[1] **https://www.bankofengland.co.uk/-/media/boe/files/letter/2023/governor-apf-letter-april-2023.pdf**
[2] **Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 September 2023 (bankofengland.co.uk)**

In June 2023, the Bank completed planned sales of the APF's stock of sterling non-financial investment-grade corporate bonds. The APF will continue to hold very short maturity corporate bonds in the portfolio, which will mature fully by 5 April 2024.

At its September 2023 meeting, the MPC voted to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the period from October 2023 to September 2024, to a total of £658 billion. This reduction will continue to comprise both maturing gilts and sales.

As noted in the minutes of its September 2023 meeting, this increase in the pace of gilt stock reduction is unlikely to disrupt the functioning of financial markets. The Committee noted that a £100 billion gilt stock reduction over the year ahead would leave the pace of gilt sales broadly unchanged relative to the previous year, given some increase in APF gilt maturities. Additionally, the £80 billion reduction in APF gilt holdings in the year to September 2023 was accompanied by the near-complete unwind of the £20 billion corporate bond portfolio, such that the overall reduction in the size of the APF over the past year had also been around £100 billion. Taken together, these factors supported a small increase in the pace of reduction in the stock of gilts relative to the previous year, but it is not intended to set a precedent for future years.

Yours sincerely,