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# News release

12 September 2016

## Asset Purchase Facility corporate bond purchase scheme: press notice on eligibility and sectors

On 4 August 2016, the Bank announced a programme of corporate bond purchases, financed by central bank reserves, via the Asset Purchase Facility (APF). The purpose of the Corporate Bond Purchase Scheme (CBPS) is to impart monetary stimulus by lowering the yields on sterling corporate bonds, thereby reducing the cost of borrowing for companies; by triggering portfolio rebalancing into other assets by sellers of assets; and by stimulating new issuance of sterling corporate bonds.

The Bank will look to purchase, via the CBPS, a portfolio of up to £10 billion of sterling investment grade bonds representative of issuance by firms making a material contribution to the UK economy, in order to impart broad economic stimulus. The Bank's operations will be designed to purchase a balanced portfolio of bonds across eligible issuers and sectors, so that it purchases a representative portion of the market and does not influence the allocation of credit to particular companies or sectors of the economy. The private market will continue to decide which companies can issue in the primary market. Corporate bonds issued by firms regulated by the Bank – such as banks, building societies, and insurance companies – will not be eligible.

This notice outlines in more detail how the Bank determines what constitutes a material contribution to the UK economy, and how the Bank's operations have been designed to ensure its purchases are representative across the eligible set of bonds.[1]

How does the Bank assess whether a company makes a material contribution to the UK?

To maximise the effectiveness and efficiency of the economic stimulus provided, the Bank will purchase investment grade bonds issued by companies that make a material contribution to economic activity in the UK. Companies, which may be incorporated in the UK or other jurisdictions, with a genuine business in the UK will normally be regarded as meeting this requirement. Eligibility decisions will be made by the Bank's risk management staff, taking into account a number of different factors. Companies with significant

[1] Operational details are included in the Market Notice, available at: http://www.bankofengland.co.uk/markets/Pages/apf/corporatebondpurchases/default.aspx

employment in the UK or with their headquarters in the UK will normally be regarded as meeting this requirement. The Bank will also take into consideration whether the company generates significant revenues in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK.

These criteria are needed because a wide range of companies issue sterling corporate bonds. Some of those companies are UK incorporated and have substantial business in the UK. Bonds issued by those companies will be eligible for purchase in the CBPS. Other companies are incorporated overseas, but have a genuine business interest in the UK. For example, a company headquartered outside of the UK but employing hundreds of people in the UK and generating sales of £20mn in the UK, would be considered to make a material contribution to the UK economy. As a result investment grade bonds issued by such a company would normally be considered eligible for purchase.

Open capital markets mean that companies are free to choose the currency of issuance which best matches their funding needs, in terms of price or maturity for instance. Some companies may choose to issue sterling bonds, despite not having material business activities in the UK. Bonds issued by those companies will not be eligible for purchase in the CBPS, because that would not be the most effective way to support the scheme's objective to impart monetary stimulus to the UK economy.

The Bank's risk management staff will keep the eligibility of corporate bonds under review, including where there are changes in whether a company has a genuine business in the UK. The list of bonds that are currently eligible for purchase under the CBPS is available at http://www.bankofengland.co.uk/markets/Pages/apf/corporatebondpurchases/default.aspx. The Bank will update the list each month, to reflect any changes to the eligibility of bonds in the CBPS.

How does the Bank intend to purchase a portfolio of bonds representative of issuance?

In order to ensure purchases are representative of the set of eligible bonds, the Bank has allocated each bond that is currently eligible for purchase to one of 9 sectors, using a common sector classification, as detailed in the published eligibility list. The Bank intends to make purchases such that its aggregate holdings are representative of each sector's share – in terms of the face value of bonds outstanding – within the list of eligible bonds.

The Bank will participate in the secondary market by holding reverse auction operations. Initially, the Bank will hold three purchase operations a week, on Tuesdays, Wednesdays and Fridays. The Bank plans to structure each auction around bonds issued by firms from certain sectors and plans to include each eligible bond in an auction at least once a week.

The table below shows the list of sectors and the share that each sector accounts for in the list of bonds that are currently eligible. Bonds with a face value of £110bn are eligible at present. These bonds have a current market value of around £150bn, in line with the market value noted as the likely size of the eligible market in the August *Inflation Report*. Each month the Bank intends to publish on its website: its holdings in each of the 9 sectors shown in the table below, any update to the list of eligible bonds, and the corresponding updated sector shares.

| Sector | Amount outstanding (£bn, face value) | Sector share (% of eligible list) |
|---|---|---|
| **Electricity** | 27 | 25% |
| **Consumer, Non-cyclical** | 17 | 15% |
| **Industrial & Transport** | 16 | 14% |
| **Communications** | 14 | 13% |
| **Consumer, Cyclical** | 13 | 11% |
| **Water** | 9 | 8% |
| **Gas** | 8 | 7% |
| **Energy** | 4 | 4% |
| **Property & Finance** | 2 | 2% |
| **Grand Total** | 110 | 100% |

*Footnote: As of 12 September 2016. This will be updated each month on the Bank's website. Totals may not sum due to rounding.*

Initially, as the corporate bond portfolio is being built up, the Bank expects there to be some deviation from the sector shares – the pattern of purchases is likely to result in some sectors being overweight and some underweight, potentially materially so. But over time, as the portfolio grows, the Bank will seek to match closely the sector shares, such that its holdings are representative of the bonds eligible for purchase. In order to achieve this, for sectors which are over-represented relative to that sector's share in the eligible list of bonds, the Bank will privately adjust the maximum price it is willing to pay for each bond in that sector, in order to slow purchases of those bonds. The Bank will use a range of tools to manage the risks in the portfolio, including, as noted, restricting purchases to investment grade bonds, and by ensuring its purchases do not become overly concentrated in individual bonds or issuers.

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