




# **Asset Purchase Facility Corporate Bond Purchase Scheme - Market Notice 12 September 2016**

 This Market Notice sets out the details and operation of the Corporate Bond Purchase Scheme (CBPS or the Scheme).



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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 CBPS is to impart monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies; by triggering portfolio rebalancing into riskier assets by sellers of assets; and by stimulating new issuance of corporate bonds.

The Bank will look to purchase, via the CBPS, a portfolio of up to £10 billion of sterling corporate bonds representative of issuance by firms making a material contribution to the UK economy, in order to impart broad economic stimulus. The Scheme will start to undertake purchases from 27 September 2016 and will operate for an initial period of 18 months.

## Eligibility

### Eligible issuers

The Bank will purchase bonds issued by companies (including their finance subsidiaries) that make a material contribution to economic activity in the UK, subject to the restrictions set out below. The Bank will consider a number of factors in making its eligibility decisions. Companies with significant employment in the UK or with their headquarters in the UK will normally be regarded as meeting this requirement, but the Bank will also consider 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. Further details can be found in the following [News Release](#). Corporate bonds issued by banks, building societies, insurance companies and other financial sector entities regulated by the Bank of England or the Financial Conduct Authority will not be eligible. Bonds will also not be eligible if issued by leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation.

### Eligible securities

The Bank will offer to purchase sterling corporate bonds of eligible issuers, with the following characteristics:

- Conventional senior unsecured or secured, unsubordinated debt.
- Bonds rated investment grade by at least one major rating agency and subject to the Bank's assessment process.
- Cleared and settled through Euroclear and/or Clearstream.
- Minimum amount in issue of £100 million.
- Minimum residual maturity of twelve months; no perpetual debt.
- At least one month since the security was issued.
- Securities will need to be admitted to official listing on an EU stock exchange.

Bonds with complex or non-standard structures will not be eligible. Convertible or exchangeable bonds will not be eligible.

Corporate bonds that contain a "Spens clause" will normally be eligible. These provide that on early redemption a cash payment is made to the bond holders that is the higher of the outstanding principal and the foregone interest and principal payments discounted at a rate equal to the redemption yield of a gilt of comparable maturity. Other corporate bonds that contain callable features will not normally be eligible.

Securities issued by a finance subsidiary will normally require a guarantee from within the issuer's group. The Bank



reserves the right to require a parent company guarantee in a form and substance satisfactory to the Bank.

The Bank has today published an initial list of eligible securities for the Scheme on its website. This list will be updated at least monthly, and CBPS counterparties may submit requests to the Bank to consider eligibility of additional issues.

In order to ensure purchases are representative of issuance, the Bank has allocated each bond that is currently eligible for purchase to one of nine sectors, using a common sector classification, as indicated in the published eligibility list. The Bank intends to make purchases such that its 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 also seek to avoid over concentration in particular sectors or issuers and may choose not to make purchases of particular sectors or issuers for any reason at any time, including where the Bank is unable to make a purchase owing to applicable law and regulation. Further details can be found in the following [News Release](#).

The Bank will keep the eligibility criteria under review. The Bank will reserve the right in its sole discretion to deem any security ineligible for any reason, including deeming securities ineligible, or ceasing purchase of securities, that it has previously offered to purchase.

### Eligible counterparties and applications

The Bank will offer to make purchases of investment grade sterling denominated bonds only via firms that the Bank is satisfied are market makers in such securities and are counterparties in its Open Market Operations.

Counterparties must have access to the Bank's electronic tendering system, Btender, in order to participate in CBPS reverse auctions.

Those wishing to participate as counterparties in the Scheme must complete the Expression of Interest for the Corporate Bond Purchase Scheme and submit it by email to [✉ Applications@bankofengland.co.uk](mailto:Applications@bankofengland.co.uk). For the avoidance of doubt, as this is a separate scheme to the previous Corporate Bond Secondary Market Scheme, applicants (including participants of previous or other APF schemes) will be required to complete the Expression of Interest Form and to sign a new Admission Letter. The Bank reserves the right to reject applications without explanation.

As a condition of participation in the Scheme, counterparties will be asked to send to the Bank quotes on eligible securities that are sent in the normal course of their business ('dealer runs') as well as indications of bonds which they would like to sell or take a position ('dealer axes'). Further details are provided in the APF Operating Procedures; see our relevant webpage.

Participation will be governed by the Terms and Conditions for the Asset Purchase Facility also available on our website.

## Operating parameters

### Purchase process

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 security in an auction at least once a week.

The Bank reserves the right to modify the structure of its purchase operations or to carry out secondary market purchases via other methods, such as bilateral purchases, should it be deemed necessary.

The MPC will keep under review the case for participating in the primary market.

### Size of operations



The Bank will look to purchase, via the CBPS, a balanced portfolio of up to £10 billion of sterling corporate bonds. The purchase pace is intended over time to be consistent with this target, but may fluctuate above or below it depending on seasonality, market conditions and the pattern of offers received in operations.

In each purchase operation, the Bank will initially stand ready to purchase up to £10 million nominal of each bond.

Successful offers above the Bank's minimum spread will be allocated based on their attractiveness across bonds within each auction until the quantity that the Bank is willing to purchase has been reached.

### **Operational Mechanism – Transaction process**

In its auctions, the Bank will seek offers as a spread to a specified reference gilt. Offers will be allocated on a uniform spread basis so that all successful transactions for any individual bond will be allotted at the same single spread. In a uniform format every successful offer is allocated at the highest accepted price for that bond. Offers at the clearing spread may be pro-rated. The Bank will reserve the right to reject any offers, for any reason, including in the light of other offers received.

The Bank will, for each security, privately set a minimum spread to the yield on a specified reference gilt. It will not purchase securities at offers below this spread.

In order to ensure purchases are representative of issuance, for sectors which are over-represented in the APF's holdings relative to that sector's share in list of eligible bonds, the Bank will adjust the minimum spread it sets in order to slow purchases in that sector. 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.

### **Operational Mechanism – Submission of offers**

The Bank will announce on its wire services page and on the Bank's website each Friday at 16.00 the list of eligible securities for which the Bank will invite offers during the following week's operations, along with the reference gilt for each security.

The list of eligible securities, along with the reference gilt for each security, will be published on the Bank's wire services pages, and on the Bank's website, on the day of the auction at 09:00.

Offers should be submitted using Btender between 11.00 and 11.45.

Participants may submit no more than three offers per eligible security within each auction.

Offers must be expressed as the basis point spread to the relevant reference gilt, in increments of whole basis points. The minimum offer size for an individual security is £1 million nominal, the offer should be expressed in increments of £0.1 million nominal.

The Bank may, at its discretion, take offers submitted by phone or via email to the Bank's Sterling dealing desk during an operation, using the phone number and email address provided to counterparties by the Bank. In this event, counterparties:

- must provide the specified ticker of the security; the nominal amount offered; and a spread to the reference gilt.
- should make no more than three offers for an individual security in a single operation and no more than fifteen offers in total in a single operation.
- submitting multiple offers across the operation should also provide the weighted average spread of those offers to 3 decimal places. That is, the sum across all offers of the nominal offer size multiplied by the spread for each offer, divided by the total nominal value of offers.

Reference gilt yields will be set for each bond as the mid-market yields published on the UK Debt Management



Office's wire service pages at 12.30.

The Bank will reveal to participants in Btender their allocation of offers as soon as possible following 12.30. The minimum allocation amount per successful offer is £0.1 million nominal and allocation amounts will be expressed to participants in increments of £0.1 million nominal.

The corporate bond purchases will normally settle on a T+2 basis.

The Bank reserves the right to cancel an auction at any time before the results are published. If an auction is cancelled it may be re-scheduled to take place later the same day, or on a subsequent day.

All counterparties must comply with the APF Operational Procedures, which provide more detail on the operational and settlement procedures.

### **Published information**

From 6 October, the Bank will publish on its wire services and website each Thursday at 15.00 the aggregate total stock of APF corporate bonds purchased, reported on a settlement date basis.

From 3 November, the Bank will publish on its website at 15.00 on the first Thursday of the month: any updates to the list of eligible securities for the Scheme; the representative share for each of the nine sectors; and, the Banks' holdings in each of these sectors.



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