

BANK OF ENGLAND MARKET NOTICE: ASSET PURCHASE FACILITY CORPORATE BOND SECONDARY MARKET SCHEME

1 The Bank is today announcing an extension to the Asset Purchase Facility (APF) to aid market liquidity further by regularly offering to make sales of corporate bonds as part of its Corporate Bond Secondary Market Scheme. These sales will be in addition to continuing with the Scheme's existing purchase programme. The extension has no implications for the accomplishment of the wider asset purchase programme being undertaken in line with the Monetary Policy Committee's decisions.

2 These changes will take effect from the week beginning 4 January 2010, with the first sales operation taking place on Friday 8 January 2010.

3 Other than as amended by this Market Notice, previous Market Notices relating to the Bank's Asset Purchase Facility Corporate Bond Secondary Market Scheme will continue to apply.

4 An updated consolidated Market Notice for the Asset Purchase Facility Corporate Bond Secondary Market Scheme, incorporating these changes, can be found at www.bankofengland.co.uk/markets/marketnotice091222cons.pdf

Introduction

5 The focus of the Corporate Bond Secondary Market Scheme is to facilitate market-making by banks and dealers, to help to reduce liquidity premia on corporate bonds, and so remove obstacles to corporate access to capital markets.

6 Since the launch of the Scheme, conditions in the sterling corporate bond primary market have improved. However, trading conditions in secondary markets continue to be somewhat restricted. The changes announced today are aimed at improving secondary market liquidity by the Fund operating as a seller, as well as a buyer, of bonds. The Bank's intention is for the Scheme to continue for as long as the abnormal conditions in corporate credit markets persist.

7 The overall size of the Bank's portfolio of corporate bonds will vary in line with the intensity of offers by market participants to buy and sell bonds in the Scheme; the Bank will not target any particular portfolio size. In the event that the size of the corporate bond

portfolio reduced while the Monetary Policy Committee's programme of asset purchases continued, that would be offset by greater purchases of gilts.

Operation of the Facility

8 The Bank will regularly offer to make small sales of corporate bonds as part of its Corporate Bond Secondary Market Scheme, consistent with the aim to catalyse secondary market liquidity. These sales will be in addition to the Scheme's existing purchase programme. Eligible counterparties remain the same as for the purchase programme.

9 Participation will be governed by the Terms and Conditions for the Asset Purchase Facility also available at www.bankofengland.co.uk/markets/apf/documentation.htm.

Eligible securities

10 In line with its overall objective, the APF will normally offer to sell each security in which it has a nominal holding over £1 million. The Bank will reserve the right in its sole discretion not to sell any security for any reason, including securities which it has previously offered to sell and vice versa.

Operational mechanism

11 The Bank will undertake purchase operations twice a week, on Tuesdays and Thursdays. The Bank will include a range of eligible securities with similar maturities in each operation. The Bank will plan to include each eligible security in a purchase operation at least once a week.

12 The Bank will hold one sale operation a week, on Fridays. The Bank plans to offer to sell each eligible security each week.

Size of operations

13 In each sale operation the Bank will stand ready to sell between £1 million and £5 million nominal of each relevant bond it holds. In deciding how much of each bond to sell the Bank will take into account a number of factors, including the size of the Bank's existing holdings of the issuer's bonds.

Transaction process

14 The Bank's electronic system, Btender, will be used for both sales and purchases.

15 Consistent with the APF's corporate bond purchase operations, sale auctions will be undertaken on a uniform spread basis so that all successful bids for any individual bond will be allotted at the same spread. Bids at the clearing spread may be pro-rated. The Bank reserves the right to reject any bid, for any reason, including in the light of other bids received.

16 The Bank will, for each security it holds, privately set a maximum spread to the yield on a specified reference gilt. It will not sell securities at bids above this spread. Successful bids below the Bank's maximum spread will be ranked and allocated until the fixed quantity the Bank is willing to sell has been allocated.

17 The Bank will keep under review the level of the maximum spreads and the size of sales in the light of the pattern of participation in the Scheme, market conditions, and the delivery of the objectives of the Scheme. It will also keep under review the auction mechanism.

18 The Bank will not normally restrict the total amount sold to a single participant, although it reserves the right to do so.

Submission of bids

19 The indicative list of holdings of securities for which the Bank is inviting bids in the auction will be published on the Bank's wire services pages¹, and on the Bank's website², the day before the auction at 14.00, along with the reference gilt for each security.

20 The list of holdings of securities for which the Bank is inviting bids in the auction will be confirmed on the Bank's wire services pages, and on the Bank's website³, on the day of the auction at 09.00, along with the reference gilt for each security. At this point the operation will be available for counterparties to view in the Bank's electronic system, Btender.

21 The use of Btender is subject to the Asset Purchase Facility Btender Terms, available at www.bankofengland.co.uk/markets/apf/documentation.htm.

¹ Reuters BOE/Markets1; Bloomberg BOEO 1

² <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

³ <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

22 Bids to buy corporate bonds from the Fund should be submitted using Btender between 11.00 and 11.30.

23 Bids must be expressed as a basis point spread to the relevant reference gilt, in increments of whole basis points. All yields will be quoted on a semi-annual basis.

24 The Bank may, at its discretion, accept bids submitted by phone or via email to the Bank's Sterling dealing desk 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; and the nominal amount bid.
- should make no more than three bids for an individual security in a single operation.
- submitting multiple bids across the operation should also provide the weighted average spread of those bids to 3 decimal places.

25 Reference gilt yields will be set for each bond as published on the UK Debt Management Office's wire service pages at 11.45.

26 The minimum bid size for an individual security from an individual participant is £1 million nominal. The bid amount should be expressed in increments of £0.1 million nominal.

27 The minimum allocation amount is £0.1 million nominal. Allocation amounts will be expressed in increments of £0.1 million nominal.

28 The Bank's sterling dealers will confirm in Btender at 11.45, or soon thereafter, whether a bid has been accepted.

Published information

29 At 11.45, or soon thereafter, the Bank will publish on its wire services pages and on the Bank's website⁴ information on the successful yield spreads and quantities sold for each individual bond.

Settlement arrangements

30 In the case of those counterparties that do not have access to Btender, the Bank will send a written electronic confirmation of each transaction on the day of sale.

⁴ <http://www.bankofengland.co.uk/markets/apf/announcements.htm>

- 31 The Fund's sales of corporate bonds will normally settle on a T+3 basis.
- 32 Counterparties must comply with the Settlement Procedures for the Asset Purchase Facility, available at www.bankofengland.co.uk/markets/apf/documentation.htm.