

BANK OF ENGLAND MARKET NOTICE: ASSET PURCHASE FACILITY SECURED COMMERCIAL PAPER FACILITY

Introduction

Through the Secured Commercial Paper (SCP) Facility (“the Facility”), the Bank is seeking to purchase SCP which meets its eligibility criteria and assists in the provision of credit to support economic activity in the United Kingdom. The purpose of the Facility is to help improve the function of the private market by standing ready to make primary market purchases and by acting as a backstop for secondary market investors.

Operation of the Facility

1 The Fund will purchase asset-backed commercial paper securities (“securities”) from approved programmes during a defined period each business day.

2 The Fund will purchase, at a minimum spread over risk-free rates, newly issued securities in the primary market via dealers and, after issuance, from other eligible counterparties in the secondary market.

Length of the Facility

3 The Bank’s intention is for the Facility to operate for as long as the highly abnormal conditions in corporate credit markets persist and materially impair the financing of real economic activity.

4 It is the Bank’s intention to provide 12 months notice of any withdrawal of the Facility. Recognising the lead time to set up eligible programmes, the Bank would commit not to serve such notice during an initial period of three months after the Facility’s launch date. After this initial period, the Bank would only serve notice of withdrawal of the Facility if there were evidence, to the satisfaction of the Bank, that conditions in corporate credit markets were normalising. Following the announcement of any withdrawal, the Facility would remain open for the 12 month notice period to programmes which had been confirmed as eligible, or have applications lodged with the Bank, which subsequently lead to their becoming eligible, for the Facility.

Financing of the Facility

5 Purchases under the Facility may be financed by advances to the Bank from the Debt Management Office or, with authorisation by the Monetary Policy Committee, by the issuance of central bank reserves.

Eligible programmes

6 The Bank will require programme sponsors who wish to apply for their programmes to be eligible for the Facility to contact the Bank directly to discuss their eligibility and to provide the necessary documentation. Programme application forms can be found at www.bankofengland.co.uk/markets/apf/securedcpf/eligibility.htm. Programme sponsors should contact the Bank at APF_SCP_eligibility_enquiries@bankofengland.co.uk to obtain the remainder of the supporting documentation requiring completion. When the Bank confirms a programme's eligibility before 16:00, securities will be eligible for sale to the Bank from the following business day.

7 A list of eligible programmes will be made available on the Bank of England website at www.bankofengland.co.uk/markets/apf/securedcpf/eligibility.htm.

8 The Bank reserves the right in its sole discretion to deem any programme ineligible for the Facility for any reason.

Eligibility Criteria

9 Consistent with setting appropriate constraints on risk exposures incurred by the Fund, the Bank will look in detail at the underlying assets of each programme, with particular attention paid to the maturity of the underlying asset pools, the complexity of transaction structures, the credit risk of each transaction and its contribution to activity in the United Kingdom economy. Whilst not an exhaustive list, the following types of assets are likely to be deemed acceptable:

- Direct short-term credit to companies, such as trade receivables and equipment leases complying with maturity restrictions; and
- Short-term credit to consumers, such as for credit cards and short-term loans.

10 Inclusion of the following types of assets in a programme's pool will be likely to make the programme ineligible:

- Term ABS bonds (i.e. with average lives longer than nine months);
- Emerging market transactions;
- Synthetic assets.

11 The following eligibility criteria will also apply:

- Ratings of the underlying assets in the programme must be consistent with the A-1/P1/F1 programme rating. Sponsors will be required to provide information sufficient for the Bank to assess the underlying quality of each asset pool, such as the models used to determine levels of credit enhancement.
- The weighted average life of the programme's assets must not exceed nine months, with no underlying asset to have an expected final maturity of more than one and a half years.
- The Bank must be consulted prior to the addition of any new asset pools into the programme vehicle.
- Programme sponsors will be required to provide monthly reports on the programme assets to the Bank in a manner agreed upon between the parties.
- The Bank will be keen to ensure appropriate diversification of asset pools.
- There will not be any restriction on the currency of assets but only sterling-denominated securities will be purchased.
- The Bank will want to discuss the interest-rate and currency hedging arrangements in the programme.

Eligible Securities

12 The Fund will purchase only sterling-denominated securities, with the following characteristics:

- a maturity of one week to nine months if sold to the Bank at issue via a dealer; or
- an original maturity of nine months or less if sold to the Bank by a secondary market holder; and
- a minimum initial short-term credit rating of A-1 / P-1 / F-1 from at least two of Standard & Poor's, Moody's and Fitch. Programmes with split ratings where one rating is below the minimum will not be eligible. Programmes rated A-1 / P-1 / F-1 that are on negative watch will be eligible; and
- issued directly into Crest, Euroclear or Clearstream.
- The Bank will not approve as eligible any security with non-standard features (e.g. extendibility, subordination).

13 Should securities issued from an approved programme be downgraded below the minimum credit ratings set out above, the Bank would seek to discuss with the programme sponsor the circumstances of the downgrade before determining whether that merited any change to that programme's eligibility. Subject to the securities remaining investment grade and the Bank being satisfied as to the continuing credit quality of the underlying assets, further purchases might be considered.

Limits on the Bank's holdings

14 Purchases will be limited by programme and limits will be communicated by the Bank to programme sponsors. Sponsors will be required to declare if they have issued sterling securities in excess of this limit.

15 The maximum proportion of a programme's outstanding securities considered eligible for purchase by the Fund will be based on the proportion of the underlying assets in the programme providing credit to borrowers that make a material contribution to economic activity in the UK, as agreed by the programme sponsor with the Bank.

16 Other than the above restriction, the Fund will not impose additional limits on its purchases of securities issued by an approved programme. This will ensure that the Facility is effective in supporting market activity by acting as a ‘backstop’ purchaser, but is not intended to replace private investors.

Eligible counterparties

17 The Fund will purchase securities in the primary market from counterparties which are dealers acting as principal; and will also purchase securities from secondary market holders. Counterparties must, inter alia, be appropriately authorised for the purposes of the Financial Services and Markets Act (FSMA). All counterparties in the Commercial Paper Facility are automatically deemed to be counterparties in the SCP Facility.

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

19 The Bank reserves the right to reject applications without explanation.

Prices

20 The Fund proposes to purchase securities at a spread above the risk-free rate, as based on the maturity-matched overnight index swap (OIS) curve as determined by the Bank on the day of purchase.

21 The Bank will keep its pricing under review in the light of market conditions and its experience in operating the Facility.

22 Securities purchased in the primary market will be discounted using a rate based on the maturity-matched overnight index swap (OIS) rate, as determined by the Bank on the day of purchase. The Bank will publish the 1-month, 3-month, 6-month and 9-month rates that it will apply for the relevant maturity securities on its wire services page at 10.00am on each business day. Money market yield conventions will be applied.

23 Initially, the spread to the OIS rate at which the Bank will purchase SCP will be 100bp.

24 Securities purchased in the secondary market will be purchased at the lower of amortised cost from the issue price and the price as given by the method for primary market purchases described above. The Bank plans to apply an additional fee for use of the secondary market Facility, payable separately. The fee will initially be 25bp.

Submission of offers

25 Offers to sell securities to the Fund should be submitted by phone to the Bank's Sterling dealing desk between 10.00am and 11.00am.

26 For primary market sales, counterparties must provide, inter alia, details of the relevant programme and the nominal amount offered. Maturity dates will follow the "modified following" convention. For secondary market sales, counterparties must provide the ISIN/ticker of the security; the money market yield on an amortised cost basis; the maturity date; and the nominal amount offered.

27 The minimum size of an individual security that the Fund will purchase from an individual counterparty is £1 million nominal. The offer amount should be expressed in increments of £0.1 million nominal.

28 For primary market purchases, the Bank's Sterling dealers will confirm as soon as possible by return phone call whether an offer has been accepted and will confirm the cash amount and maturity date. Secondary market purchases will be confirmed at the end of the dealing window.

29 In the event that a sponsor has issued sterling securities in excess of the agreed limit, and where offers to sell securities to the Fund would result in a breach of the limit agreed with programme sponsors, the offer or offers received that day would be pro-rated such that those limits were not breached.

Settlement arrangements

30 The Bank will send a written electronic confirmation of each transaction on the day of purchase.

31 The Fund's purchases of securities will normally settle on a T+2 basis.

32 Counterparties must comply with the Settlement Procedures for the Asset Purchase Facility, available at www.bankofengland.co.uk/markets/apf/documentation.htm.

Published information

33 The Bank plans to publish each Friday information on the use of this Facility as follows:
(i) the total amount of securities purchased that week up until the previous day, in terms of the amount paid to the sellers; and (ii) the sum of securities purchased, less redemptions, to date.

Applications to participate

34 Those wishing to participate as counterparties, SCP dealers or investors, should complete the Application Form for the CP and SCP Facilities available at www.bankofengland.co.uk/markets/apf/applications.htm and submit it by e-mail to APF_applications@bankofengland.co.uk .

Bank of England,

30 July 2009