

## **BANK OF ENGLAND MARKET NOTICE: ASSET PURCHASE FACILITY**

### **COMMERCIAL PAPER FACILITY**

#### Operation of the facility

- 1 The Fund will purchase Commercial Paper (CP) during a defined period each business day.
- 2 The Fund will purchase, at a minimum spread over risk-free rates, newly issued CP in the primary market via dealers, and after issuance from other eligible counterparties in the secondary market.

#### Length of 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.

#### Eligible issuers

- 4 The Fund will purchase CP issued by companies (including their finance subsidiaries) that make a material contribution to economic activity in the United Kingdom. UK incorporated companies, including those with foreign-incorporated parents, of sufficient size to sustain a CP programme and with a genuine business in the UK, will normally be regarded as meeting this requirement.

- 5 Paper issued by non-bank financial companies will in principle be eligible, subject to the Bank being satisfied that the issuer makes a significant contribution to corporate financing in the UK. Paper issued by leveraged investment vehicles will not be eligible.

- 6 Companies that do not currently issue CP but are capable of doing so will in principle be eligible to utilise the CP Facility.

- 7 The Bank will require issuers whose CP will be offered to the Bank in the primary market to contact the Bank directly, to discuss its eligibility and to provide the necessary documentation. Issuers should contact the Bank at

[APF\\_applications@bankofengland.co.uk](mailto:APF_applications@bankofengland.co.uk). The Bank will require such issuers to sign a confidentiality agreement. When the Bank confirms issuer eligibility before 16:00, securities will be eligible for sale to the Bank from the following business day.

### Eligible securities

8 Initially, the Fund will purchase only sterling-denominated CP. The Bank will keep under review whether to propose any extension of the list of currencies in the future.

9 The Fund will purchase the sterling CP of eligible issuers, with the following characteristics:

- A maturity of three months if issued to the Bank at issue via a dealer.
- A residual maturity of three months or less if sold to the Bank by a secondary market holder.
- A minimum short-term credit rating of A-3 / P-3 / F-3 from at least one of Standard & Poor's, Moody's and Fitch. Issuers with split ratings where one or more rating is below the minimum are not eligible. Issuers at the lowest rating that are on negative watch will not be eligible.
- Issued directly into Crest, Euroclear or Clearstream.

10 If an issuer is downgraded below the minimum credit ratings set out above, the CP will be permitted to mature as normal, but the issuer will be unable to access the Fund again until they meet the required minimum credit ratings; and the Bank will not make any further secondary market purchases.

11 The Bank will not approve as eligible any CP which has certain non-standard features (eg extendibility, subordination). Further details will be available from the Bank, in the light of consultation.

12 Securities issued by a finance subsidiary should be appropriately guaranteed.

13 Eligible counterparties that wish to offer CP to the Bank in the secondary market must confirm the eligibility of specific securities with the Bank prior to offering it for sale, using the template provided at

[www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm) . The Bank will require full documentation. Eligible counterparties should contact the Bank at

[APF eligibility enquiries@bankofengland.co.uk](mailto:APF_eligibility_enquiries@bankofengland.co.uk). Confirmation of eligibility will be provided bilaterally to the counterparty submitting the request. When the Bank confirms their eligibility before 16:00, securities will be eligible for sale to the Bank from the following business day.

14 The names of issuers and securities purchased or eligible will not be disclosed publicly.

15 The Bank reserves the right at its sole discretion to deem any security ineligible for any reason, and to deem ineligible securities it has previously purchased and vice versa.

#### Limits on the Bank's holdings

16 Purchases of CP in the primary markets will be limited by issuer. Any such limits applying to individual issuers will be made available, on request, to the issuer only.

17 Where two or more issuers are part of the same Group, an aggregate limit may be applied within which any limits applying to the individual issuers are wholly or partly fungible.

#### Eligible counterparties

18 The Fund will purchase CP in the primary market from dealers acting as principal; and will also purchase CP from secondary market holders. Counterparties must, inter alia, be appropriately authorised for the purposes of the Financial Services and Markets Act (FSMA).

19 More than one legal entity in a Group may participate where they undertake different kinds of activity (eg banking and asset management).

#### Prices

20 The Fund will purchase securities at a spread above the risk-free rate, as based on the current overnight index swap (OIS) curve.

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

22 CP 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 3-month rate that it will apply on its wire services page at 10.00 on each business day. Money market yield conventions will be applied. The spread to the OIS rate at which the Bank will purchase CP will vary according to the credit rating of the issuer. Initially it will be as shown in the table below :-

	A1/P1/F1 or higher	A2/P2/F2	A3/P3/F3
Spread to maturity- matched OIS rate	75bp	125bp	300bp

23 CP 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 facility, payable separately. The fee will initially be 25bp.

24 Where an issuer has a split rating, the spread will be that derived from the lowest rating.

#### Submission of offers

25 Offers to sell CP to the Fund should be submitted by phone to the Bank's Sterling dealing desk between 10.00am and 12 noon.

26 For primary market sales, counterparties must provide, inter alia, details of the issuing entity 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 participant is £1 million nominal. The offer amount should be expressed in increments of £0.1 million nominal.

28 The Bank's sterling dealers will confirm as soon as possible by return phone whether an offer has been accepted and will confirm the cash amount and, for primary market sales, maturity date.

29 In its primary market purchases, the Bank will purchase the CP of a particular issuer from one dealer only each day. In that case, the Bank would accordingly require issuers seeking to sell CP to the Bank in the primary market via a number of dealers to ensure that only one such dealer seeks to sell its CP to the Bank on any particular day.

#### 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 CP 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/index.htm](http://www.bankofengland.co.uk/markets/apf/index.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 CP purchased that week up until the previous day, in terms of the amount paid to the sellers; and (ii) the sum of CP purchased, less redemptions, to date.

#### Applications to participate

34 Those wishing to participate as counterparties, both CP dealers and investors, should complete the Application Form for the Commercial Paper Facility available at

[www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm) and submit it by e-mail to [APF\\_applications@bankofengland.co.uk](mailto:APF_applications@bankofengland.co.uk) .

35 Participation will be governed by the Terms and Conditions for the Asset Purchase Facility also available at [www.bankofengland.co.uk/markets/apf/index.htm](http://www.bankofengland.co.uk/markets/apf/index.htm) .

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

#### Next steps

37 As described above, companies that do not currently issue CP but are capable of doing so, and of meeting the Bank's eligibility criteria, will be able to utilise the CP Facility if they so choose. The Bank stands ready to discuss with such companies and other interested parties how to ensure that the facility could be effective for such potential new issuers.

#### Asset-backed CP

38 Asset- backed CP will not initially be eligible for sale into the Facility. The Bank is ready to discuss with interested market participants the possible use of asset-backed CP as a means to enable a broader range of companies to be able to access the Facility, if that can be achieved consistently with the objective of the Fund to invest in assets of high credit-quality.

Bank of England  
13 February 2009