



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

3 August 2017

Mark Carney
Governor
The Bank of England
Threadneedle Street
London
EC2R 8HA

Dear Mark,

EXTENSION OF ASSET PURCHASE FACILITY

Thank you for your letter of 3 August, setting out the Monetary Policy Committee's (MPC) case for its decision to raise the limit on purchases that may be undertaken by the Asset Purchase Facility (APF). This will ensure that the Term Funding Scheme (TFS) can continue to lend central bank reserves to banks and building societies during a defined drawdown window at rates close to Bank Rate.

The TFS has been effective, with interest rates on new business lending lower than in June 2016, prior to its launch. We agreed in August 2016 that total TFS drawings would be determined by actual usage of the scheme. I am therefore willing to authorise an increase in the total size of the APF used to finance the TFS from £100 billion to £115 billion, in line with the current profile of TFS drawings and based on a drawdown window that will close at the end of February 2018. This will bring the maximum total size of the APF to £560 billion.

I note that, in line with the requirements in the MPC remit, the amendments to the APF that could affect the allocation of credit and pose risks to the Exchequer have been discussed with Treasury officials. The risk control framework previously agreed with the Treasury will remain in place. I confirm that the Government will continue to indemnify the Bank and the APF from any losses arising out of or in connection with the facility.

I am copying this letter to the Chair of the Treasury Committee and depositing a copy in the libraries of both Houses of Parliament.

A handwritten signature in blue ink, which appears to read 'Philip Hammond'.

PHILIP HAMMOND