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

Mark Carney
Governor
Bank of England
Threadneedle Street
London
EC2R 8AH

20 November 2017

Dear Governor

ASSET PURCHASE FACILITY INDEMNITY

Thank you for your letter of 20 November, requesting 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 at rates close to Bank Rate during a defined drawdown period, which will close at the end of February 2018.

I agree with your assessment that the TFS has been effective in ensuring the low level of Bank Rate has been passed on to interest rates available to households and businesses. 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 of £25 billion to £585 billion, in order to accommodate expected usage of the TFS by the end of the drawdown period.

I note that, in line with the requirements in the Monetary Policy Committee 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.

Yours sincerely

Philip Hammond