Bank of England announces plans for auctions to provide funds at a 3 month maturity

Bank of England/Central Bank of the United Kingdom
The Bank of England announces that it plans to conduct an auction in which it will provide funds at a 3-month maturity against a wider range of collateral, including mortgage collateral, than in the Bank’s weekly open market operations. The first auction will be next week; and three further auctions will be held at weekly intervals. The size of the initial auction will be £10 billion; the size of future auctions will be decided in due course.

This measure is being taken in order to alleviate the strains in longer-maturity money markets.

Those eligible to participate in the auction are reserves banks and banks with access to the Bank’s standing facilities.

The interest rate will be a floating rate expressed as a spread over Bank Rate prevailing over the term of the auction. The rate paid will be as bid by participants, subject to a minimum rate set at the Bank’s standing lending facility rate.

The additional funds injected in the first auction will be accommodated by widening the range around reserves targets within which reserves are remunerated. This will help to ensure that the secured overnight rate is in line with the Bank Rate set by the Monetary Policy Committee.

The Bank will announce details, including a detailed timetable and collateral and haircuts, on Friday 21 September.