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### Bank of England Market Operations Guide: Our tools

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# Bank of England Market Operations Guide: Our tools

 Further detail on the market-wide operations and facilities we use to achieve our monetary policy and financial stability objectives



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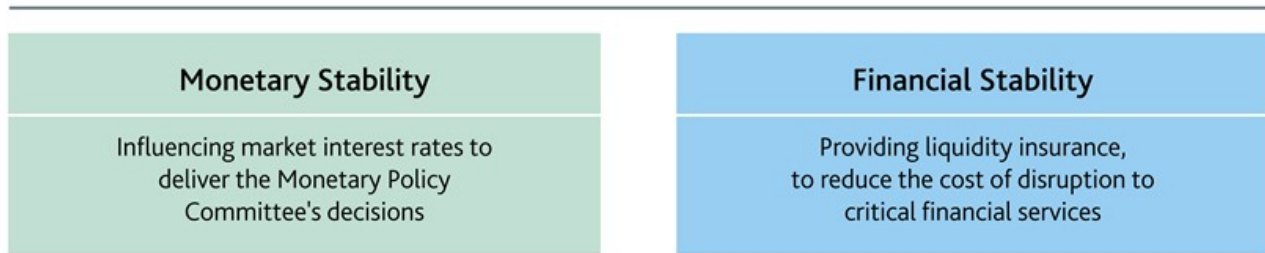
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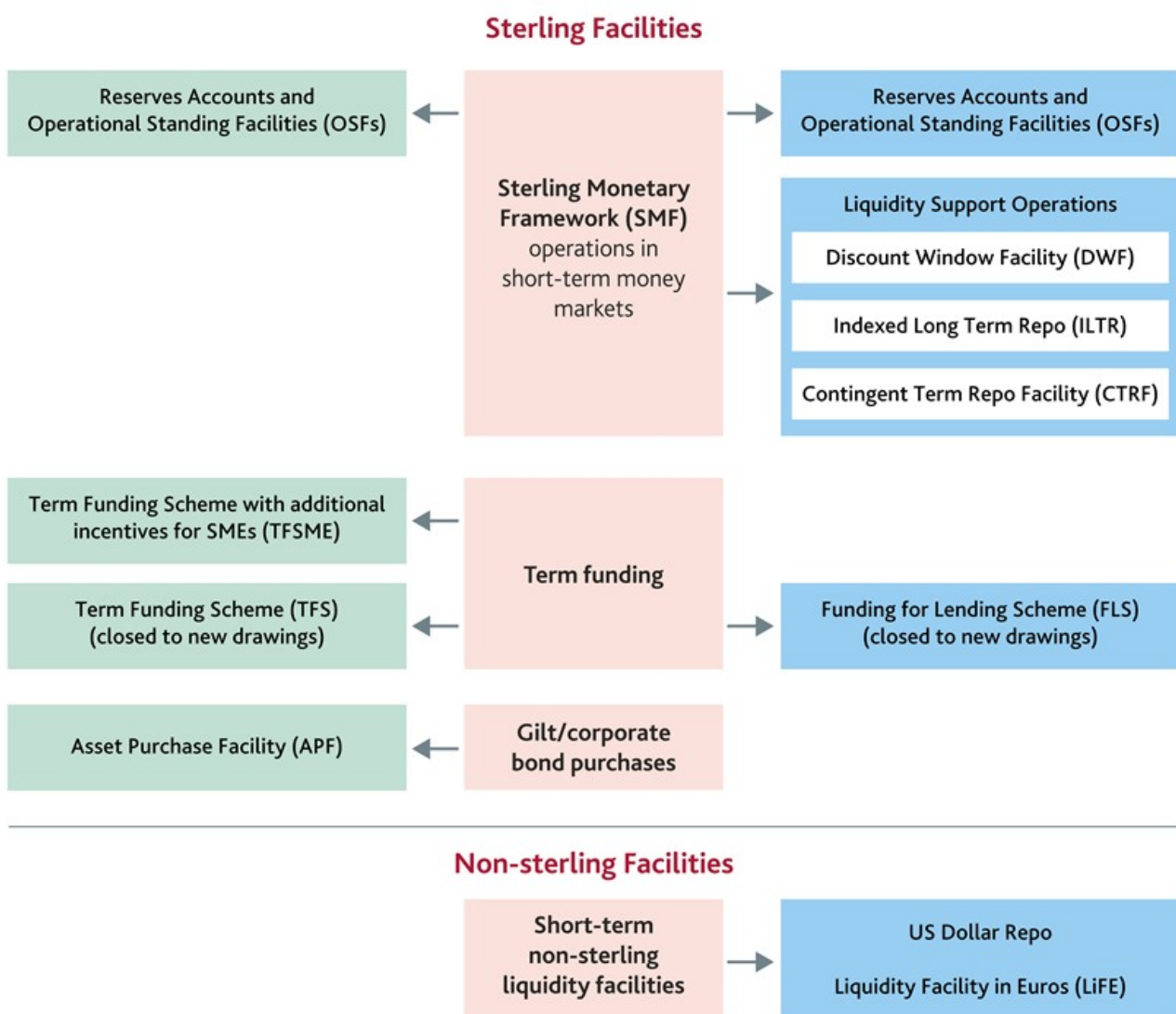
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## Short-term non-sterling liquidity facilities

## Our objectives



## Our tools How we use our balance sheet to achieve them



## Overview

This section of the Guide provides more detail on the market-wide operations and facilities we use to achieve our monetary policy and financial stability objectives. It also covers how firms can apply for access and make use of them. Our 'open for business' approach  means that where eligible firms meet our supervisory threshold conditions and have



appropriate collateral they can sign up to and use our facilities.

## Managing risk

When we lend to firms we naturally incur risk. To protect public money, we manage that risk in three ways:

- First, by applying appropriate eligibility criteria. To be eligible to participate in the Bank's operations, firms must be subject to robust supervisory oversight by the [Prudential Regulation Authority \(PRA\)](#) or a comparable prudential regulator. This oversight provides an important assurance that we are lending only to firms that meet minimum prudential standards.
- Second, by applying collateral requirements. When we lend through our facilities, whether in the form of cash (eg in the Indexed Long-Term Repo (ILTR)), or highly liquid securities (eg in the Discount Window Facility (DWF)), we manage our counterparty risk to the borrower by securing our lending against collateral posted by the borrowing firm. That collateral is subject to prudent haircuts.
- Third, by pricing our facilities appropriately. Pricing is carefully set to ensure that while our facilities are not a 'last resort,' they are also not likely to be cheaper than private markets in normal times. This helps ensure that firms adopt a prudent approach and avoid undue concentration, by balancing use of our liquidity insurance facilities with their use of other funding sources in the wider market.

## Who can apply

### Eligible participants

Compared with many central banks, access to our operations is open to a relatively wide set of eligible financial firms. Our eligibility criteria apply by type of firm.

We assess whether a particular group of firms should be eligible to participate based on a number of key considerations. These include:

- Their critical importance to the financial system
- The extent of overnight liquidity risk they run in the course of their business
- Whether they are subject to appropriate regulatory scrutiny

If we judge a category of firm to be eligible for access to the Bank's facilities, then all firms within that category are eligible to apply. But, only if they individually meet the Prudential Regulation Authority's (PRA) [threshold conditions](#) <sup>↗</sup> for authorisation (or a comparable test where firms are not PRA-regulated), and the operational and other requirements set out in our [Terms and Conditions](#) <sup>↗</sup> and [Operating Procedures](#) <sup>↗</sup>.

Participating in our operations is generally voluntary, and eligible firms can choose which operations they sign up to. The only exception is if a firm is a direct settling participant of the sterling high-value payment and securities settlement systems '[CHAPS](#)' or '[CREST](#)' <sup>↗</sup>. Eligible firms that meet this criterion must hold a reserves account. These are normally coupled with access to our Operational Standing Facility (OSF), which is a key tool for managing reserves balances on an intra-day basis. This is necessary to ensure participation in CHAPS and CREST can occur safely.

### Which types of firms can participate in our operations

	Bank APF asset purchases	Reserves accounts	Operational Standing Facilities	Discount Window Facility	Indexed Long-Term Repo	Contingent Term Repo (if activated)	Non-sterling facilities
<b>Banks/building societies</b>	yes	yes	yes	yes	yes	yes	yes
<b>Broker-dealers</b>	yes	yes	yes	yes	yes	yes	yes
<b>Central counterparties</b>	no	yes	yes	yes	no	no	no
<b>International Central Securities Depositories</b>	no	yes	yes	no	no	no	No

Participation is also subject to a range of legal and operational requirements. For instance, if a firm is part of a wider legal group structure, we may ask for a guarantee from another firm within that group.

We also expect participants to give us enough information to manage risks effectively. And, we require all participants to act in a way that is consistent with our objective of achieving competitive and fair sterling markets. Among other things, this can involve contributing to our [market intelligence](#) work.

## Collateral Requirements

When we lend through our facilities, we require collateral in return. The collateral must be of sufficient quality and quantity to protect our balance sheet from any risk of a counterparty failing to repay what it owes. If this does happen, we can sell or retain the collateral to cover our loss.

The collateral we ask for varies in quality, and not all collateral is eligible for all the facilities we offer.

### Eligible collateral for lending summary

We accept a broad range of collateral, split into three buckets in terms of liquidity:

- **Level A** collateral consists of assets expected to remain liquid in almost all market conditions, such as high-quality sovereign debt trading in very deep markets.
- **Level B** collateral consists of assets that will normally be liquid, such as sovereign debt, supranational and private sector debt and the highest-quality asset-backed securities.
- **Level C** collateral is comprised of typically less liquid assets, such as securitisations, securities delivered by the same entity that originated the underlying assets ('own name' assets) and portfolios of loans, including mortgages.

We do not normally accept equities as collateral for our facilities, but we have put in place the technical measures to do so at our discretion, should the need arise in the future. Participants wanting more information on this should contact us on [✉ applications@bankofengland.co.uk](mailto:applications@bankofengland.co.uk).

Our Sterling Monetary Framework (SMF) liquidity insurance facilities provide a 'liquidity upgrade.' This means we allow firms to swap less liquid collateral for the most liquid asset in the economy, central bank reserves.

SMF liquidity insurance facilities accept Level A, B and C collateral<sup>[1]</sup>, but the price we charge varies depending on the extent of the upgrade provided by the collateral used.

Our SMF operations focussed on implementing monetary policy – OSFs and short-term repos (which are currently inactive) – do not require any liquidity upgrade. For these, we only accept Level A collateral.

### Which collateral can be used for our facilities

	Collateral Level
<b>Liquidity Insurance</b> Discount Window Facility Indexed Long-Term Repo Contingent Term Repo Facility Non-sterling Repo	A, B and C
<b>Monetary Policy Implementation</b> Operational Standing Facilities Short-term Repo	A only
<b>Term Funding Schemes</b> Term Funding Scheme with additional incentives for SMEs Term Funding Scheme	A, B and C

### Collateral haircuts

Our collateral list is broad. It extends in principle to any asset we judge we can effectively and efficiently risk manage, subject to an appropriate discount applied to the market value of the asset. This 'haircut' is designed to protect us against falls in the value of collateral, so if a counterparty defaults, the sale of that collateral by us raises at least the amount borrowed against it. Higher quality assets offer us greater protection against asset value volatility, and so require lower haircuts.

For Level A, Level B and Level C securities, we publish 'base haircuts' [here](#).

Haircuts for Level C loan collateral are calculated for each pool of loans individually. They depend on our qualitative and quantitative assessment of the risks inherent in each portfolio. Haircuts reflect different risk characteristics. We may choose to apply 'add-ons' to address other risks that are specific to a particular counterparty or piece of collateral.

Read more about [collateral eligibility](#).

We strongly encourage firms to pre-position a broad range of collateral with us. This can include High Quality Liquid Assets (HQLA) where these are eligible for use as collateral, or come from their broader stock of eligible assets. Once satisfactory due diligence is complete, delivered eligible assets are considered pre-positioned and subsequently may be drawn against.

Pre-positioning allows us to risk assess, price, value collateral and set a suitable haircut in advance of drawdown, therefore allowing firms to use our liquidity facilities more quickly when needed.

We will discuss bilaterally with a firm in what order they would prefer us to use their collateral. We may also require counterparties to give us collateral diversified across a number of issuers (known as a collateral 'concentration limit').





Read more about [how firms can place and manage their collateral with us](#).

## Sterling Monetary Framework (SMF) operations

### Reserves accounts

Reserves accounts are sterling-denominated instant access accounts offered to eligible financial firms that are held in our [Real-Time Gross Settlement](#) <sup>[2]</sup> (RTGS) system. There is currently no maximum or minimum balance for most types of participants.<sup>[2]</sup>

Reserves accounts are a vital tool for implementing monetary policy since we remunerate reserves balances at Bank Rate, which is set by our [Monetary Policy Committee](#) (MPC) eight times a year (roughly every six weeks).

Bank Rate has historically been positive, but could also be zero or negative. Under a negative Bank Rate, the Bank could also choose to apply more than one rate to reserves balances, in a system called tiered remuneration. More information on the operational arrangements for negative rates can be found in our [SMF Operating Procedures](#) <sup>[2]</sup>.

Setting Bank Rate helps meet our [inflation target](#). Additionally, firms that are subject to prudential liquidity requirements can count reserves balances as High Quality Liquid Assets (HQLA). Read more about [regulatory requirements](#).

Reserves accounts can also be used for settlement of payment flows in certain payment systems that settle through the Bank's RTGS system. Balances held in this account can be used as a source of intraday liquidity by settlement banks.

For certain firms which are not eligible for reserves accounts, we can instead offer standalone [settlement accounts](#), to enable direct participation in payments systems that use our settlement services. More information on settlement accounts is available in our [Settlement Account Policy](#) <sup>[2]</sup>.

### Operational Standing Facility (OSF)

Our Operational Standing Facility (OSF) allows participating firms to deposit reserves with us, or borrow reserves directly from us, throughout each business day.

Firms can use this facility as a tool to manage any unexpected or frictional payment shocks that could arise due to technical problems in their own systems, or in the market-wide payments and settlements infrastructure.

The operational standing lending facility consists of an overnight lending transaction collateralised against high-quality, highly-liquid (Level A) assets. We apply a 25 basis point premium (0.25%) above Bank Rate for this facility.

The operational standing deposit facility consists of an overnight deposit transaction. This currently returns 10 basis points below Bank Rate.

We automatically couple reserves accounts (but not settlement accounts) with the OSF for all but the smallest participants.<sup>[3]</sup> Usage of the OSF is published subject to a lag, on the third Wednesday following the end of the corresponding maintenance period.

## Sterling Monetary Framework (SMF): Liquidity Operations

We offer a framework of liquidity insurance operations to support our financial stability objective.

We provide these facilities on a regular basis, on demand, and at our discretion.

Some of our facilities are bilateral (ie between us and one firm at a time) and others are market-wide (ie between us and a number of firms at a time). But all SMF facilities operate on published terms that do not vary across participants.

All of our liquidity facilities are intended to support our ‘open for business’ approach. This means there is no presumptive order of usage. An eligible firm can choose to meet a liquidity need by using our liquidity facilities, alongside market sources of liquidity and their own liquidity buffers according to their own preference.

The decision when and how to use facilities is up to each firm. We would not expect firms to rely solely on our facilities for routine day-to-day liquidity management (and we have priced those facilities accordingly). But neither are our facilities intended to be only a last resort.

### Our liquidity operations at a glance

Bilateral	Discount Window Facility	Firm-specific liquidity need requiring liquidity in bespoke size	<ul style="list-style-type: none"> <li>• On demand</li> <li>• Rollable 30-day term (five days for CCPs)</li> <li>• Usually gilts lent</li> </ul>
	Indexed Long-Term Repo	Predictable/regular need for term collateral transformation	<ul style="list-style-type: none"> <li>• At regular intervals (weekly or monthly)</li> <li>• Six-month term</li> <li>• Reserves lent</li> <li>• Auction prices</li> </ul>
Market-wide	Contingent Term Repo Facility	Actual or prospective market-wide stress meaning firms need cheap, plentiful cash at term	<ul style="list-style-type: none"> <li>• Triggered by the Bank</li> <li>• Flexible term</li> <li>• Reserves lent</li> <li>• Auction prices</li> </ul>

### Publishing usage of our liquidity operations

We publish usage of our liquidity insurance facilities in a way which complements the objectives of our facilities, and promotes financial stability. Our liquidity facilities are open for business and are intended to be used to meet firms’ liquidity needs as and when they arise.

Our approach seeks to balance transparency with discretion about individual counterparty relationships, and to minimise any potential risks to financial stability through premature publication. That is why usage data is typically only published averaged across counterparties, and why in the case of the DWF, we publish usage with a lag.

The SMF [terms and conditions](#) set out the obligations relating to confidentiality in connection with SMF facilities. Our approach seeks to promote our financial stability objective, and we work closely with other authorities (including the Financial Conduct Authority (FCA)) to achieve this.

Firms are of course responsible for their own transparency and disclosure obligations, including compliance with any legal or regulatory requirements.

There are a wide range of circumstances which could give rise to firms using our liquidity insurance facilities, and firms are encouraged to consider these circumstances on a case-by-case basis.

### The Discount Window Facility (DWF)

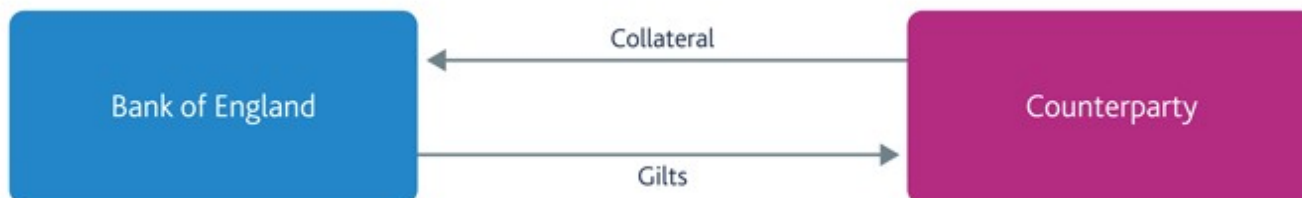
The Discount Window Facility (DWF) is a bilateral facility, where firms can borrow highly liquid assets (gilts or, in certain circumstances, cash) in return for other assets (collateral).

Participating firms need to meet PRA Threshold Conditions and have sufficient eligible collateral. If they meet these requirements, there is a presumption that we will lend via the DWF.

This facility is available on demand. It is intended for firms which anticipate, or experience, a previously unexpected liquidity need. The DWF may be drawn upon to meet such a need as and when required.

Firms should exercise their own judgement in applying for, and using, the DWF as part of effective liquidity management. While use of the DWF – and other sources of liquidity – should be considered alongside a firm’s own liquidity buffers, there is from the Bank’s perspective no presumptive order of usage in terms of drawing down on liquidity buffers before the use of the DWF (or vice versa).

### 1. Drawing



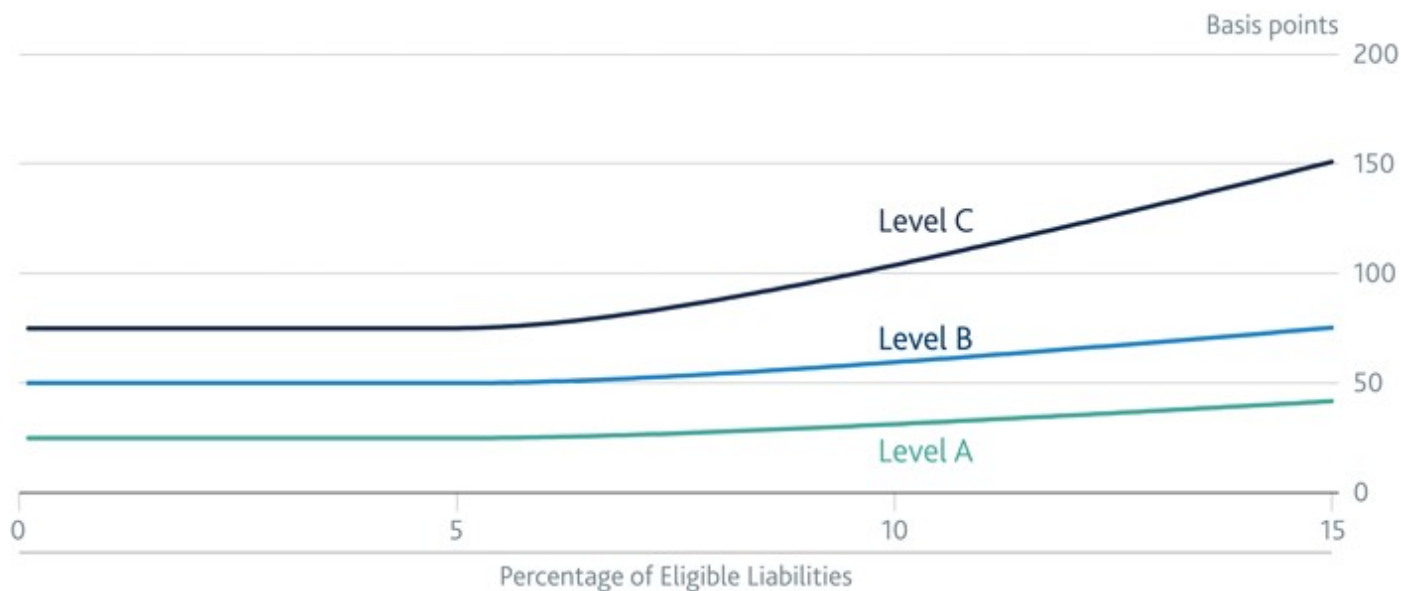
### 2. Termination



## Key information about the DWF

- **Eligible collateral:** consists of all SMF level A, B and C collateral sets (including loan pools). Participants are encouraged to maintain sufficient eligible collateral to enable quick and smooth drawing in the DWF as the need arises. It may take some time to pre-position some assets, for example loan collateral, own name securities and complex assets. These should be positioned well in advance of any drawing.
- **Drawing types:** We will lend gilts, or in some circumstances cash (for example, where a firm’s access to repo market is limited). Where participants receive gilts, participants may choose to lend them in the market to raise cash, or use them as collateral in the ILTR.
- **Term:** Initial drawings are for an up to 30-day term. But for longer temporary liquidity needs, participants can apply to roll DWF drawings. Drawings may also be repaid at any point. CCPs have access to use the DWF for cash drawings for up to a five-day term.
- **Pricing:** DWF fees vary from market rates in routine circumstances, but are designed to offer SMF participants more affordable liquidity during less normal conditions. They are designed to:
  - Reflect the type of collateral used
  - Avoid providing a subsidy for illiquid collateral relative to the market and the size of the drawing
  - Incentivise repayment when borrowings are no longer needed.

### Chart: Pricing of eligible collateral as a proportion of eligible liabilities



### Publication arrangements

We publish (with a time lag) the average daily value of lending over a calendar quarter, aggregated across counterparties. This is published on the first Tuesday following the final working day of the calendar quarter, five quarters ahead. We do not publish data regarding specific transactions or counterparties.

### Indexed Long-Term Repo (ILTR)

The ILTR is our regular market-wide sterling operation and forms part of our broader liquidity insurance framework. ILTRs allow market participants to borrow central bank reserves (cash) for a six-month period in exchange for other, less liquid assets (collateral). We will only accept collateral of sufficient quality and quantity to protect ourselves fully from counterparty credit risk.

Through this facility, we use a competitive auction to offer to lend central bank reserves, in the form of sterling cash. Participants can bid for reserves against the full range of eligible collateral.

We have designed the auction to be flexible, to respond to evolving market conditions, by providing more liquidity to the market as demand increases. The ILTR's response to varying demand is determined before the start of any auction, and we periodically review the appropriateness of this calibration.

The signal of higher demand for cash is the price participants are willing to pay in our auction:

- as bid spreads rise, suggesting more stressed market conditions, the total size of the auction will increase.
- if bid spreads against less liquid collateral rise (eg Level C), the auction will increase the proportion of liquidity allocated to less liquid collateral.

The auction applies a single clearing spread to each collateral set, which means:

- if the auction clears at a spread below a participant's bid, the participant will **pay that lower spread**.
- if the auction clears at a spread above a participant's bid, it suggests that the participant was not willing to pay that higher spread for funds, **so the participant will not be allocated**.
- for those bids that match the clearing spread, the participant will pay that spread, but **may be subject to scaling if demand is strong** and be partially allocated.

Participants should **bid the maximum price they would be willing to pay for funds** against each collateral set, to be more likely for the bid to be allocated in full.

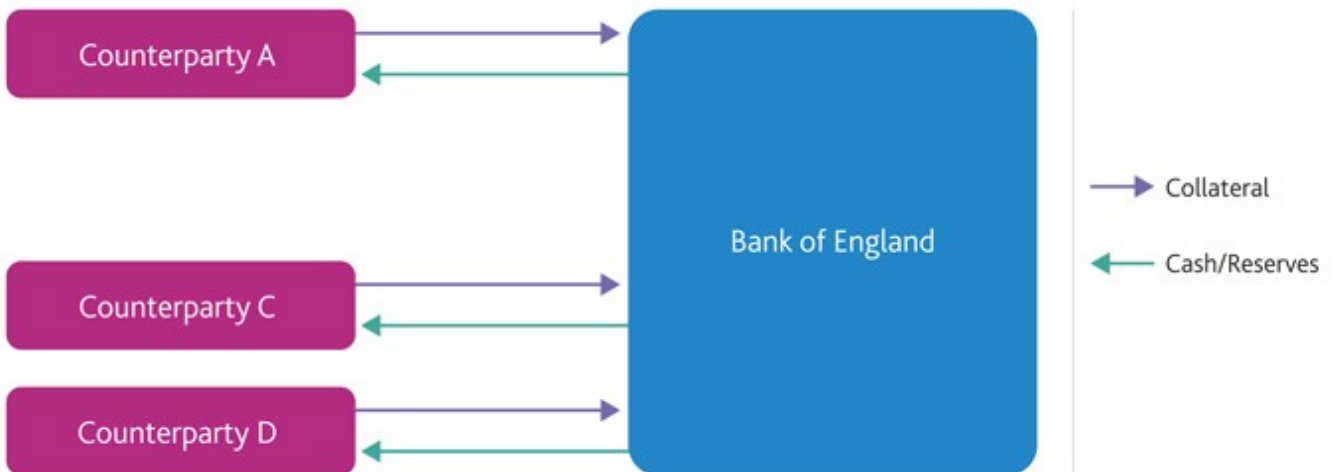
## How ILTR works

### 1. ILTR Auction



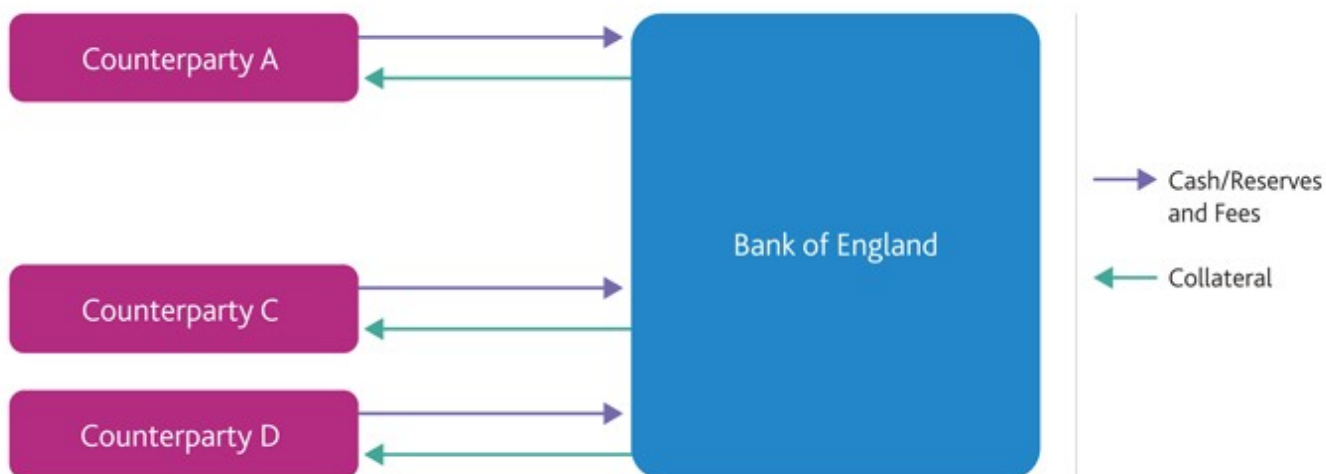
1. On the day of auction, counterparty firms will bid for reserves, against a range of collateral, at the maximum spread to Bank Rate they are willing to pay. Not all firms will be successful in their bids (eg counterparty B).

### 2. Settlement at T+2



2. Firms will receive cash in return for collateral.

### 3. Maturity T+6m



3. Six months from the auction date, firms will repay the cash plus fees, and will receive the collateral back. If the fee rate is negative (for instance if Bank Rate is negative), then we would pay a fee to the counterparty.

### Key information about the ILTR

- **Eligible collateral:** Participants can bid against all SMF level A, B and C collateral sets (including loan pools). Participants are strongly encouraged to deliver any Levels A and B collateral to us that they intend to use in advance of an ILTR operation. Level C securities must be delivered to us in advance of the operation, and all loan collateral must be pre-positioned.
- **Drawing types:** The Bank lends central bank reserves.
- **Frequency:** We hold regular ILTR auctions to enable participants to undertake prudent liquidity planning. The frequency can be adjusted to provide flexibility, and these currently take place weekly.
- **Term:** The ILTR offers central bank reserves for a six-month term, so participants can manage their liquidity risk effectively.

### Pricing and participation:

- The rate is indexed to Bank Rate. This enables participants to take part without having to take a view on the future path of Bank Rate, and it allows us to reduce our exposure to market risk.
- Participants bid by submitting a nominal amount and a spread to Bank Rate, expressed in basis points (eg 15bps), against a specific collateral set. The minimum spread against each collateral set is predetermined; Level A collateral is +0bps, Level B collateral is +5bps and Level C collateral is +15bps.
- The auction's pricing mechanism uses a 'uniform price' format. This means every successful bidder pays the 'clearing spread' for borrowing against a specific collateral set.
- Participants should **bid the maximum price they would be willing to pay for funds**, against each collateral set, for the greatest probability of having their bid allocated in full.

ILTR operations are market-wide operations conducted using our electronic auctioning system, [Btender](#). We may at our discretion also accept bids from participants by telephone; participants without access to Btender should submit their bids by telephone to the Sterling Desk. If Btender is unavailable for any reason, an announcement will be made on our wire services pages.

### Publication arrangements

We publish the total aggregate use of the ILTR on our [website](#) soon after the close of each auction. We do not publish data regarding specific transactions or counterparties.





## Contingent Term Repo Facility (CTRF)

The Contingent Term Repo Facility (CTRF) allows us to provide liquidity against the full range of eligible collateral at any time, term, and price we choose. We can activate it in response to any actual or prospective market-wide event. This enables us to respond to a market stress in a flexible way. We take prevailing market conditions into account when we set the terms. The CTRF is not in routine use, but is available to be used when market conditions or other factors mean a tool is needed in addition to our other facilities. The CTRF is deliberately designed with flexibility in mind, so as and when we judge it appropriate to activate a CTRF, we calibrate its pricing and terms to suit the needs of the market at that time. Most recently, we announced the activation of the CTRF in March 2020, to help manage the market disruption caused by the outbreak of the Covid-19 flu pandemic. The size of this operation is unlimited, priced at a fixed rate of Bank Rate plus 15bps, for a term of three months. Further information can be found on this [Market Notice](#).

### Publication arrangements

We decide what information to publish about the facility's usage when we activate it. This is normally in line with other facilities, eg we include total aggregate use of the facility following the close of the operation. For the CTRF operations commencing from March 2020, the results are published on the Bank's wire services pages 30 minutes after the close of the auction, or as soon as practicable thereafter.

## Term Funding

### The Term Funding Scheme with additional incentives for SMEs (TFSME)

In March 2020, during heightened market uncertainty caused by the Covid-19 virus, the MPC introduced the Term Funding Scheme with additional incentives for SMEs (TFSME). The TFSME is designed to:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;
- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

We published a [Market Notice](#) providing more details on the operation of the TFSME. In December 2020 we published a further Market Notice announcing an extension to the end date of the scheme. Further information, including documentation on operating procedures and terms and conditions, can be found on the Bank of England website.

### Drawdowns, terms and fees

Drawdowns may be undertaken on each business day during the Drawdown Period, opening no later than 27 April 2020, and which will run until 30 April 2021. The term of each transaction will be for four years from the date of drawdown. Participants may terminate any transaction, in part or in full, before its maturity date. The interest rate on TFSME transactions is equal to Bank Rate plus a Scheme fee (TFSME Fee).

### Borrowing Allowance

Participants (within a given TFSME group of related firms) may draw down an amount up to their "Borrowing Allowance". This is calculated from an "Initial Allowance" based on the amount of lending they have done, plus an "Additional Allowance". The Additional Allowance is composed of two parts:

- one times Non-SME Net Lending over the Reference Period to UK resident: households (excluding UBs), Large



- Corporates, and NBCPs that are not part of the TFSME Group; and
- five times Net Lending to SMEs over the Reference Period

Participants in the Term Funding Scheme (TFS) launched by the Bank in 2016 will be permitted to repay TFS drawings and redraw in the TFSME, subject to having sufficient Borrowing Allowance in the TFSME.

## Published information

We will publish the size of each Participants' outstanding drawings, and each TFSME Group's Base Stock and Net Lending data, quarterly with a lag. Details of aggregate TFSME drawings will also be published weekly on our website.

## The Term Funding Scheme (TFS) (closed to new drawings)

In August 2016, the MPC introduced a Term Funding Scheme (TFS). Its primary objective was to reinforce the pass through of the cut in Bank Rate at that time to the interest rates faced by households and companies in the wider market. This allowed the reduction from 0.5% to 0.25% to have broadly the same impact as cuts made when rates were further from zero.

The design of the scheme reflected this primary objective, and it was calibrated so that the reduction in Bank Rate could have a broadly neutral impact on lenders' margins in aggregate.

The TFS provided four-year funding to eligible firms, in the form of central bank reserves, at rates close to Bank Rate, and against the full range of eligible collateral. This helped it meet its objectives in broadly two ways. First, by giving access to a significant amount of funding at rates at or close to Bank Rate, the TFS directly lowered average funding costs, allowing that reduction to be passed on to borrowers. Second, indirect funding costs were reduced, as the TFS reduced the amount of debt that lenders would need to issue in the market.

The TFS is now closed to new drawings. Loans were offered over a period which ran from September 2016 to February 2018, and all drawings mature by February 2022.

The price and amount of funding available was linked to the quantity of participants' net real economy lending over a reference period. The TFS was originally launched with a government indemnity. But in January 2019, after we received a capital injection from the Government, all loans and the collateral backing them were transferred from the Asset Purchase Facility (APF) to our own balance sheet.

## The Funding for Lending Scheme (FLS) (closed to new drawings)

In conjunction with HM Treasury, we launched the Funding for Lending Scheme (FLS) in July 2012, during the euro area debt crisis. The crisis had caused a sharp increase in bank funding costs, impairing the flow of credit around the UK banking system.

Our objective with the FLS was to encourage lending to households and companies. The scheme did this by providing funding to banks and building societies for an extended period, at below market rates, with both the price and quantity of funding provided linked to their performance in lending to the UK real economy.

We subsequently revised the design and extended the availability of the FLS in April 2013. We did this to increase the incentives for banks to lend to small and medium-sized enterprises. We announced further extensions in December 2014 and November 2015.

The FLS is now closed to new borrowers. Loans were offered from August 2012 to January 2018. The final FLS loans mature in January 2022.


## Asset purchases





We purchase assets through the Asset Purchase Facility (APF) as part of [quantitative easing](#) (QE). This aims to lower the effective interest rates or 'yields' on those assets, helping us meet our inflation target.

The ultimate owners of these assets are primarily non-banks, but banks and broker-dealers act as intermediaries in the purchase process.

We carry out asset purchase operations in a transparent and non-discretionary manner. When we purchase gilts, the competitive auction element of the operations uses our [Btender](#) system, and is open to firms that are [Gilt-Edged Market Makers](#)  (GEMMs).

## Purchasing gilts

Gilt purchases work in the following way:

- We use a discriminatory price format for our auctions, where every successful participant receives the price they offered to sell at.
- We rank the offers according to the attractiveness of the spread for us relative to the market yield of each gilt at the end of the auction. We keep doing this until we have reached the amount we wish to buy.
- We place no restriction on the number of offers submitted, and no restriction on what proportion in each auction can be allocated to specific counterparties or gilts.
- We determine the eligibility of each individual gilt for each operation by its maturity.

We periodically [reinvest](#) the cash flows from gilt redemptions into other gilts.

## Purchasing corporate bonds

We also purchase and maintain a portfolio of corporate bonds as part of QE. Purchasing corporate bonds delivers monetary stimulus by lowering their yields, thereby reducing the cost of borrowing for issuing companies. It also triggers portfolio rebalancing into riskier assets by sellers of these assets.

We purchase a balanced portfolio of corporate bonds across eligible issuers and sectors. We purchase a representative portion of the market, so we do not influence the allocation of credit to particular companies or sectors of the economy.

To maximise the effectiveness and efficiency of the economic stimulus, we limit our purchases to investment-grade bonds issued by companies that make a material contribution to economic activity in the UK. These companies may be incorporated in the UK or in other jurisdictions, but they will have a genuine business in the UK. For example, they will contribute to employment or revenue generation in the UK, or will service a large number of customers in the UK.

Corporate bonds issued by firms we regulate – such as banks, building societies, and insurance companies – are not eligible. We publish the full bond [eligibility criteria](#).

We will only purchase corporate bonds from firms that are market makers in such securities and are counterparties in our Open Market Operations. We do this in the following way:

- We purchase corporate bonds through reverse auctions, in which participants submit offers at which they would be prepared to sell specific assets.
- We rank the offers in terms of their attractiveness, and fill them accordingly until our supply preferences are met.
- In contrast to gilt auctions, we determine the price paid for each security using a uniform pricing mechanism. Under uniform pricing, all successful offers for a bond are allocated at a single clearing price, which is equal to the highest accepted price for that bond. We use this pricing approach due to the less liquid, more diverse nature of corporate bond versus gilts markets.

As with gilts, we also [reinvest](#) the cash flows associated with a reduction in the stock of corporate bonds periodically back into eligible corporate bonds.



In the event of future asset sales, we would reverse this process by debiting the accounts of intermediaries, who in turn receive cash from their counterparties, to reduce the stimulus to nominal demand.

## Short-term non-sterling liquidity facilities

The Bank of England, the Bank of Canada, the European Central Bank, the Federal Reserve, the Bank of Japan and the Swiss National Bank have an established network of standing bilateral swap lines. These allow liquidity to be provided in each jurisdiction in any of the five currencies foreign to that jurisdiction, if the two central banks in a particular bilateral swap arrangement judge that market conditions warrant such action in one of their currencies.

To support our financial stability objective, we use these swap lines, supplemented with other arrangements if required, to offer short-term repo transactions with participating firms in selected other currencies, against the full range of collateral. The frequency of these operations is at our discretion, in agreement with the relevant central bank; they currently take place weekly for US dollars and euros.

### Key information about short-term non-sterling liquidity facilities

- **Eligible collateral:** Participants can bid against all SMF level A, B and C collateral sets (including loan pools). Participants are strongly encouraged to deliver any Levels A and B collateral to us that they intend to use in advance of an operation. Level C securities must be delivered to us in advance of the operation, and all loan collateral must be pre-positioned.
- **Drawing types:** Non-sterling currencies - US dollars and euros.
- **Frequency:** Operations for the 84 day term take place on a weekly basis. Operations for the 7 day term currently take place on a daily basis (Monday to Friday).
- **Term:** The US dollar repo and LiFE operations offer non-sterling liquidity for a one week term. The US dollar repo currently offers an 84 day term in addition to the one week term.

### Participation:

- Non-sterling currency operations are open to:
  - a) Any Operational Standing Facilities Participant (except CCPs and ICSDs); and
  - b) Any OMO Participant whose Group contains an Operational Standing Facilities Participant.
- Both USD Repo Operations and LiFE are subject to the SMF documentation as supplemented and amended by the Supplementary Terms for USD Repo Operations [↗](#) and the Supplementary Terms for the Liquidity Facility in Euros [↗](#) respectively.

Non-sterling currency operations are market-wide operations conducted using our electronic auctioning system, Btender. We may at our discretion also accept bids from participants by telephone to our sterling money market desk. Participants without access to Btender should submit their bids by telephone to the Sterling Desk. If Btender is unavailable for any reason, an announcement would be made on our wire services pages.

### Publication arrangements

We publish the total aggregate use of our non-sterling currency operations on our website soon after the close of each auction. We do this for each currency, currently US dollar and euro. We do not publish data regarding specific transactions or counterparties.

Are you an eligible financial firm? Find out more about USD Repo Operations and LiFE.



1. Except for central counterparties (CCPs), which are not permitted to use Level C assets as collateral.
2. Except for central counterparties (CCPs) and International Central Securities Depositories (ICSDs), which are required to maintain a pre-agreed average target balance for each maintenance period.
3. Further information is available upon request on eligibility criteria for reserves account only access to the SMF.

## Key definitions


1. **Asset Purchase Facility (APF)**: Formally known as the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). This is the subsidiary of the Bank used to undertake quantitative easing (QE). It is used to purchase financial assets such as gilts and corporate bonds, to boost economic activity and help meet the inflation target.
2. **Bank Rate**: The interest rate the Bank pays on reserves accounts, as determined by the Bank's Monetary Policy Committee (MPC). It is the main mechanism for implementing monetary policy.
3. **Bank Recovery and Resolution Directive (BRRD)**: A set of rules, powers and arrangements for central banks to help firms to overcome financial distress, and to deal with failed banks in an orderly way.
4. **Bilateral facilities**: Operations where the Bank transacts with a single eligible financial firm.
5. **Broker-dealer**: A firm that enters into financial transactions for itself or on behalf of its clients. Broker-dealers are eligible financial firms if they are prudentially regulated as [designated investment firms](#) by the Prudential Regulation Authority (PRA) (or equivalent regulator) and are also large enough to be deemed critical to the stability of the financial system.
6. **Btender**: The Bank of England's [auction system](#), used in market-wide operations such as Indexed Long Term Repo (ILTR) and repo operations in non-sterling currencies.
7. **Central bank money**: Also known as '[base money](#)', this is the combined total of deposits held in reserves accounts at the central bank and notes in circulation.
8. **Central Counterparty (CCP)**: A type of financial market infrastructure (FMI) which provides clearing services, ie it stands as buyer to every seller and seller to every buyer, thereby mitigating counterparty risk within a given market. CCPs are regulated under Section 18 of the [Financial Services and Markets Act](#).
9. **Contingent Term Repo Facility (CTRF)**: A market-wide liquidity facility activated at the Bank's discretion, in response to a market stress or disruption. The CTRF provides liquidity in the form of reserves via an auction, for a term set by the Bank at the time of launch.
10. **Discount Window Facility (DWF)**: A bilateral liquidity facility, activated on demand by a participating firm. The DWF provides liquidity, usually in the form of gilts, for a rollable 30-day term.
11. **Eligibility criteria**: Conditions which firms must meet to obtain access to the Bank's facilities, namely that they are: i) critically important to the financial system, and which in conducting liquidity, payment or lending services incur overnight liquidity risk; and, ii) are suitably regulated on this basis.
12. **Eligible collateral**: This is an asset that a borrower provides to their lender to secure a loan. If the borrower fails to repay the loan, the lender can keep or sell the collateral. The Bank reviews and approves collateral given to it in operations to ensure it is of sufficient quality.
13. **Eligible financial firm**: A firm which meets the Bank's eligibility criteria, namely a bank, building society, broker-dealers, or central counterparties (CCPs).
14. **Facility**: A standing arrangement to undertake a series of transactions or operations.
15. **Financial Market Infrastructure (FMI)**: A firm which provides a critical service by connecting financial market participants with each other. They do this by, for example, transferring payments, recording and transferring ownership of securities, or, in the case of CCPs, clearing transactions between counterparties.
16. **Financial Policy Committee (FPC)**: A committee of the Bank responsible for identifying, monitoring and taking action to remove or reduce systemic risks, to protect and enhance the resilience of the UK financial system.
17. **Financial stability**: The ability of a financial system to provide essential services to households and businesses, in both good times and bad.
18. **Floor system**: The monetary policy approach of remunerating all reserves at Bank Rate, to ensure short term wholesale money market interest rates remain stable at close to this level.
19. **Funding for Lending Scheme (FLS)**: A scheme launched in 2012 in conjunction with HM Treasury, to encourage banks and building societies to lend to households and businesses. The FLS closed to new drawings in January 2018.



20. **Gilt-Edged Market Maker (GEMM):** A firm approved by the Debt Management Office to take part in their auctions of UK government debt.
21. **High Quality Liquid Assets (HQLA):** Assets which can be converted into cash easily and immediately in private markets, to meet a firm's liquidity needs over a 30 calendar day stress scenario.
22. **Indexed Long Term Repo (ILTR):** The Bank's routine market-wide liquidity facility. The ILTR uses a competitive auction to lend reserves against a range of collateral, for a six month term.
23. **Inflation target:** The level of inflation that the UK Government sets the Bank of England (currently 2%), to ensure price or monetary stability. Ensuring that the prices of goods and services remains stable allows households and businesses to better plan for the future.
24. **Intraday liquidity:** Funds which firms have available during the business day, to allow payments to settle promptly.
25. **Liquidity Facility in Euros (LiFE):** A non-sterling repo facility of the Bank, which participants can use to borrow euros against a range of collateral, for a seven day term.
26. **Liquidity risk:** The risk that a firm's net outflows of cash become greater than their net inflows, and they are unable to meet their financial obligations as these fall due.
27. **Maintenance period:** The time between two consecutive MPC announcement dates. It begins on the day of the announcement, and finishes at the close of business on the day before the next announcement.
28. **Market-wide facilities:** Operations where the Bank transacts with multiple eligible financial firms at the same time.
29. **Monetary Policy Committee (MPC):** A committee of the Bank responsible for maintaining price stability within the UK, and, subject to that, supporting the economic policy of the Government, including its objectives for growth and employment.
30. **Monetary stability:** Ensuring that prices remain stable and inflation – the rate at which prices rise over time – is low and steady.
31. **Operational Standing Facilities (OSFs):** The Bank's very short term deposit and lending facilities, designed to help participants manage temporary frictional problems in the payments systems and overnight money markets.
32. **Operation:** An individual transaction such as an asset purchase or sale, or lending arrangement.
33. **Open Market Operations (OMOs):** The group of auction facilities offered by the Bank to supply or drain the amount of reserves in the system.
34. **Primary market:** The market for financial instruments between the issuer of those instruments, and the investor.
35. **Prudential regulation:** The rules which require firms to hold a sufficient quantity and quality of assets, or capital, in a sufficiently liquid form, to meet their obligations as they fall due. These rules also include requirements to ensure adequate firms have adequate risk management and controls in place to manage their capital.
36. **Prudential Regulation Authority (PRA):** The part of the Bank responsible for prudentially regulating and supervising certain financial services firms, namely banks, building societies, credit unions, insurers, and broker-dealers.
37. **Quantitative Easing (QE):** A tool used by central banks to inject money directly into the economy, with the aim of boosting spending and investment.
38. **Red Book:** The name of the Bank's former guide to its sterling operations.
39. **Reserves account:** An on demand deposit account provided by the Bank of England to eligible financial firms, paying interest at Bank Rate.
40. **Reserves averaging:** The monetary policy approach of influencing the supply of money, by requiring participants to set a target for their own usage of reserves over a maintenance period.
41. **Secondary markets:** The market for financial instruments between investors.
42. **Settlement account:** An account used by settlement banks to make payments in the Bank's Real-Time Gross Settlement (RTGS) system.
43. **Settlement bank:** A bank which is connected directly to the Bank's Real-Time Gross Settlement (RTGS) infrastructure, the Bank's accounting and settlement system.
44. **Special Liquidity Scheme (SLS):** A temporary scheme of the Bank introduced in 2008 to improve the liquidity position of the banking system. It did this by allowing participants to swap their high-quality assets for UK Treasury Bills for up to three years. The last SLS transaction expired in 2012.
45. **Sterling Desk contact:** telephone: +44 (0) 20 3461 5000 or email [✉ Markets-SMDDealers@bankofengland.co.uk](mailto:Markets-SMDDealers@bankofengland.co.uk).
46. **Sterling Monetary Framework (SMF):** The Bank's framework for operating in sterling money markets - the unsecured deposits and funding market, the securities lending market, and the repo market, for maturities of one year or less.



47. **Term Funding Scheme (TFS):** A scheme launched in 2016 as a monetary policy tool. It allowed participating banks to borrow funds in the form of reserves at close to Bank Rate, with the intention that this would be passed through to lending rates in the real economy. The TFS closed to new drawings in February 2018.

48. **Threshold Conditions:** the [basic regulatory requirements](#)  firms must meet to be authorised and permitted to undertake regulated (financial) activity. This includes remaining solvent, and holding sufficient and suitable assets to use as collateral.

49. **UK Money Markets Code (UKMMC):** A voluntary set of standards setting out best practice in UK financial markets.

50. **US Dollar Repo:** A non-sterling repo facility of the Bank, which participants can use to borrow US dollars against a range of collateral, for a seven day term.

