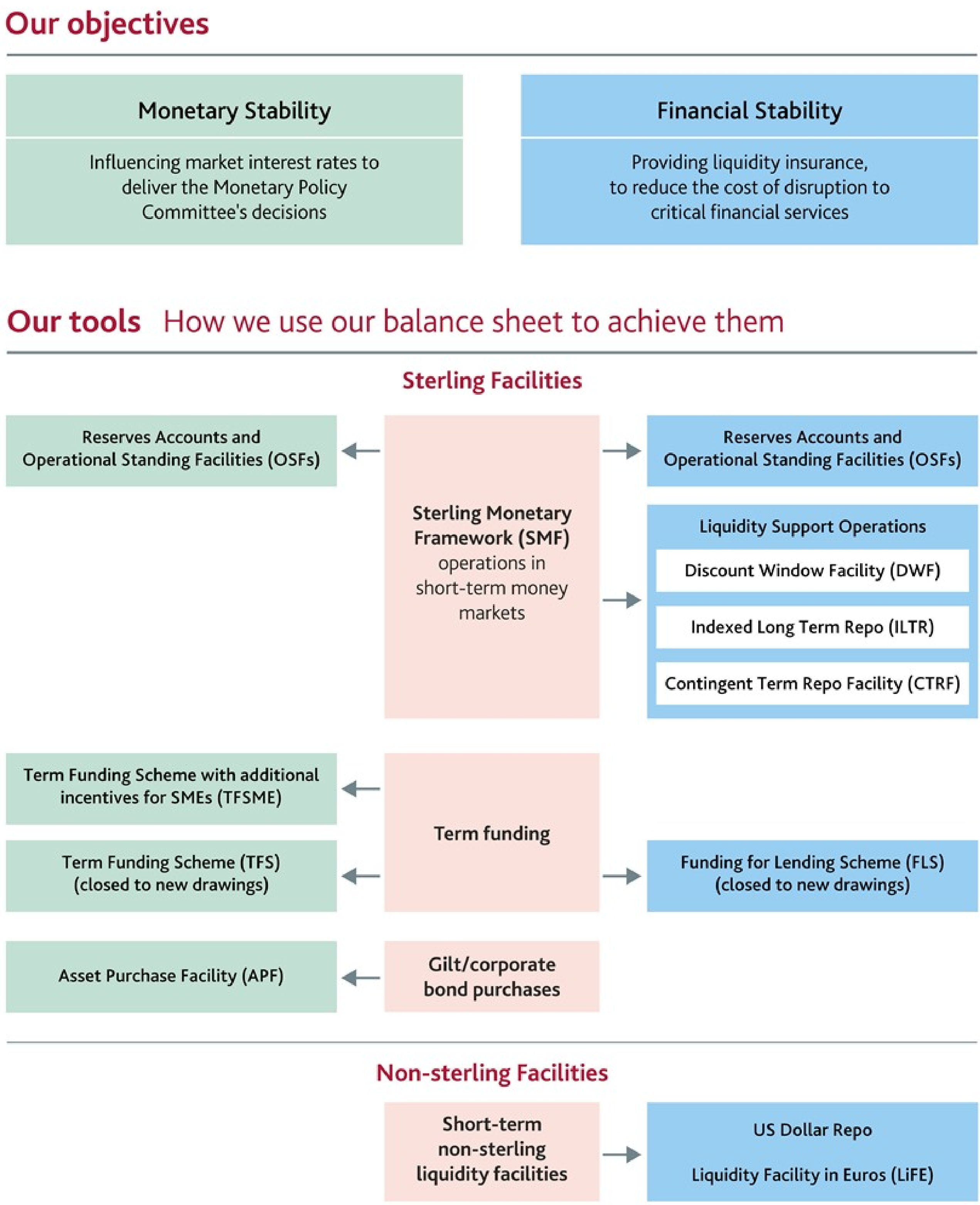
Bank of England Market Operations Guide: Our objectives

How we use the assets and liabilities on our balance sheet to achieve our mission

Content



A summary of the Bank's market operations

To deliver the Bank's statutory responsibilities for monetary and financial stability we use our balance sheet to provide a range of facilities and operations, available on public, market-wide terms to eligible financial firms. These activities all involve the creation or management of central bank money.

Our sterling facilities start with Sterling Monetary Framework (SMF) operations in short-term sterling money markets. These include unsecured deposits and funding instruments, repo (repurchase) operations, and securities lending.

To support our objectives, we can also provide longer term sterling liquidity, in the form of term funding. We can create sterling to undertake asset purchases of high quality liquid assets. And, through our network of bilateral swap lines with other central banks, we can offer liquidity in certain non-sterling currencies.

Overview

Our mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. Parliament gives us statutory responsibility for this work.

This is part one of our Market Operations Guide. It explains how we use the assets and liabilities on our balance sheet to achieve our mission.

Part two of our guide gives more details of our individual operations, including who can apply to use them.

Using our balance sheet to support our mission

We are the UK's central bank. Our balance sheet is special for one key reason – the nature of our liabilities. Central bank money, whether in the form of banknotes or central bank 'reserves' (deposits held with us by financial institutions), provides the ultimate means of settlement for all sterling payments in the economy.

This gives our balance sheet a central role in supporting monetary and financial stability.

Maintaining monetary stability

Our monetary policy objective is to maintain price stability in the UK. Subject to that, we support the Government's economic policy, including its objectives on growth and employment.

We set monetary policy to achieve the Government's target of keeping inflation at 2%. Our Monetary Policy Committee (MPC) decides what policy action we should take to reach that target.

To maintain monetary stability, we need to influence monetary conditions. This includes, for example, the level of prices of goods and services, and the availability of credit. The MPC currently does this in two main ways. First, it sets Bank Rate (and takes steps to ensure it is passed through to households and businesses). Second, it uses asset purchases, also known as 'quantitative easing' (QE).

We apply Bank Rate to reserves balances held with us by eligible financial firms. The MPC sets Bank Rate eight times a year, and its level remains fixed between each MPC announcement.

Since 2009, the MPC has also used asset purchases or QE to help meet the inflation target. We create central bank money and use it to buy UK government debt ('gilts') and eligible corporate bonds from private investors in secondary markets. Those assets are held in the Asset Purchase Facility (APF).

We buy assets like government and corporate bonds with the aim of lowering the effective interest rates or 'yields' on those assets. This incentivises a re-balancing of investors' funds into other types of riskier assets. That then in turn pushes down on the interest rates offered on loans, since rates on government bonds tend to affect other interest rates in the economy.

By buying these assets, we aim to make it cheaper for households and businesses to borrow money, which encourages spending. In addition, QE can stimulate the economy by boosting a wide range of financial asset prices.

Maintaining financial stability

Our economy is only healthy if people have confidence in the institutions, markets and infrastructure which make up the UK's financial system.

We work to maintain financial stability by protecting and enhancing the resilience of the system as a whole. And we supervise banks and insurers, to ensure that individual firms are run in a safe and sound way.

The Financial Policy Committee

Our Financial Policy Committee (FPC) oversees our work on financial stability. It identifies, monitors and takes action to remove or reduce systemic risks to the UK financial system. It also has a secondary objective to support the economic policy of the Government.

The Prudential Regulation Authority

Our Prudential Regulation Authority (PRA) is responsible for the prudential regulation of individual financial firms.[1] These rules require financial firms to hold sufficient financial resources, and have adequate risk controls in place. Close supervision of firms ensures that we have a comprehensive overview of their activities, so that we can step in if necessary.

Resolution

The Bank is the UK's Resolution Authority and is responsible for the Resolution Liquidity Framework (RLF). This is a flexible tool which can be used in addition to the published facilities detailed in this guide. The RLF can be used to lend to banks, building societies or certain investment firms, where the entity or its holding company is in a Bank-led resolution.

Liquidity support

In addition to our policy, supervisory and resolution activities, we stand ready to use our balance sheet to provide liquidity support.

In normal times, firms typically rely on private markets to ensure that liquidity is distributed appropriately across the system, finding its way to those that need it. But those markets may not always be sufficient or work smoothly, particularly during periods of market volatility or dysfunction. And the cost of self-insuring against liquidity risks which are very low probability but high impact ('tail' risks) can be prohibitively high.

Our presence means firms know that, as long as they meet threshold conditions and have the right type and amount of collateral, they will have access to predictable and reliable sources of liquidity, at a predictable price, both on a day to day basis and when they experience or anticipate an interruption to private markets.

By offering these market-wide facilities, we aim to reduce the cost of disruption to critical financial services, including the liquidity and payment services that some participants provide to the broader economy.

How we implement monetary policy

The Bank's balance sheet is used to implement the Monetary Policy Committee's (MPC) decisions in order to meet the inflation target. Once the MPC makes a decision, the Bank's Markets Directorate implements that policy. This section explains how we do that.

Bank Rate

The main way in which monetary policy is implemented is by applying interest, at Bank Rate, to deposits placed with us overnight by eligible firms in reserves accounts.

In turn, the level of Bank Rate is the key reference rate for all other sterling interest rates. Bank Rate (and expectations about the future level of Bank Rate) influences the interest rates that financial institutions pay to borrow from one another in wholesale money markets. And this in turn affects the rates paid more widely on commercial bank loans to, and deposits from, households and businesses.

Changes in longer-term interest rates can affect the price of bonds and other financial assets. And changes in domestic monetary conditions can also influence the exchange rate.

Taken together, all of these impacts on financial markets and associated changes in expectations affect spending decisions and inflationary pressures in the economy.

Purchasing assets – quantitative easing (QE)

Since 2009, the MPC has also used asset purchases to help meet the inflation target.

Central bank purchases of assets like government and corporate bonds are intended to lower the effective interest rates or 'yields' on those assets. This pushes down on the interest rates offered on loans because rates on government bonds tend to influence other interest rates in the economy.

So, one of the ways in which QE works is by making it cheaper for households and businesses to borrow money, encouraging spending.

Our purchases also incentivise investors that previously held the bonds we purchased to move their funds into other assets. This increase in demand for a broader range of financial assets will tend to boost prices (and hence lower the yields) of those assets, which encourages spending.

The role of term funding

In March 2020, the Bank's policy committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by the Covid-19 virus. Part of this package involved the launch of the Term Funding Scheme with additional incentives for Small- and Medium-sized Enterprises, or SMEs (TFSME).

When interest rates are low, it can be difficult for some banks and building societies to reduce deposit rates much further. This in turn can limit their ability to cut their lending rates. The TFSME is designed to manage this, by helping the pass through of reductions in Bank Rate to the real economy. In doing this, it:

- provides participants with a cost-effective source of funding, to support additional lending to the real economy;
- encourages these participants to provide credit to businesses and households to bridge through a period of economic disruption; and
- focuses on lending to SMEs, which can be affected the most when the supply of credit dries up.

The TFSME offers four-year funding with interest rates at, or very close to, Bank Rate, and the drawdown period ends in April 2021.

The TFSME is similar in calibration to the August 2016 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 economy. Like the TFSME, this allowed the reduction in already low interest rates to have broadly the same impact as cuts made when rates were further from zero.

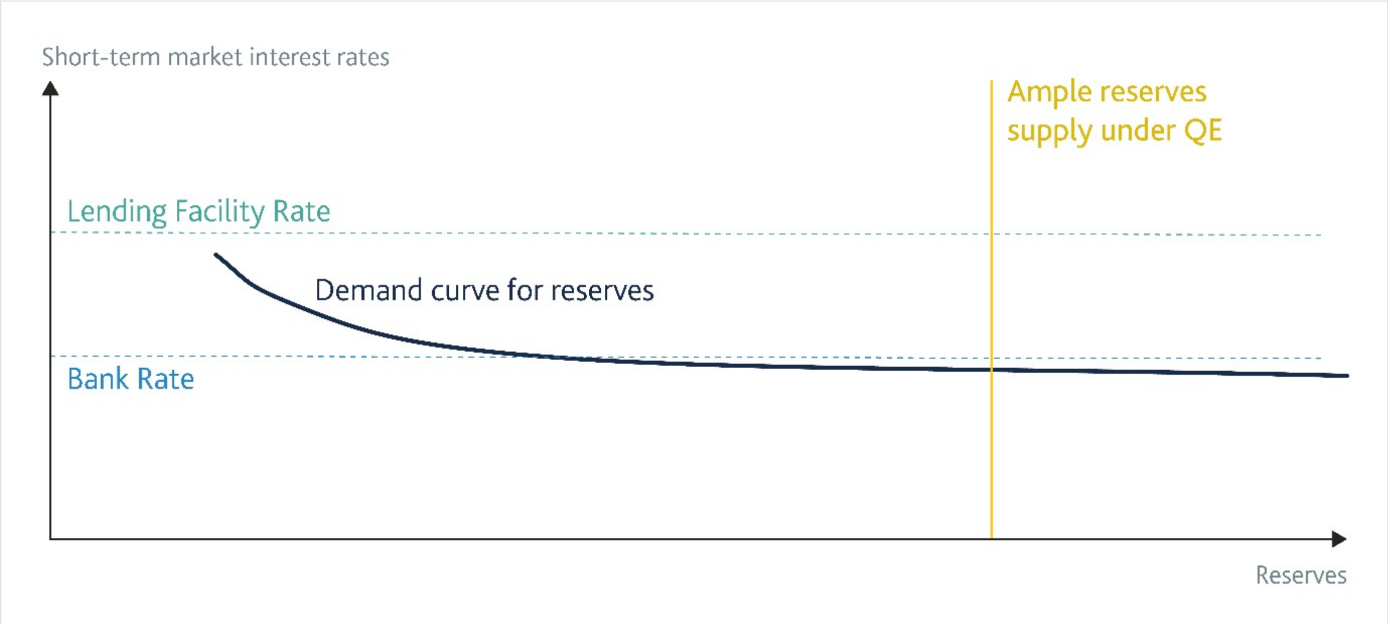
The TFS closed to new lending in February 2018, having made £127 billion of loans. Read more about it in our Quarterly Bulletin article.

Further details on the monetary policy framework

Our Monetary Policy Committee (MPC) decided to start asset purchases (Quantitative Easing) in March 2009. Since then, the aggregate level of central bank reserves has been largely determined by the quantity of asset purchases, rather than the amount of reserves eligible financial firms would choose to deposit at the Bank to manage their day-to-day liquidity needs.

In the current environment of abundant reserves, to ensure that short term wholesale money market interest rates remain stable around the level of Bank Rate, the MPC's policy decision is implemented using a so-called 'floor system'. This involves the Bank setting the rate of interest on reserves at Bank Rate (with one minor exception[2]).

Chart: The floor system under the current framework



This system keeps wholesale market interest rates close to Bank Rate. That happens because if rates fall significantly below Bank Rate, firms can theoretically borrow reserves cheaply in the market and earn Bank Rate by depositing them with us. In practice, because of the relative costs of borrowing in wholesale money markets, wholesale market rates have tended to settle a little below Bank Rate.

This system has proved successful in ensuring overnight rates in wholesale markets remain stable and close to Bank Rate. Overnight wholesale interest rates were closer to Bank Rate on average in the years following the introduction of the floor system than at any point in the preceding twenty years.

As described in part two of this guide, the Operational Standing Facility (OSF) exists to allow eligible firms to borrow overnight against high quality collateral at a spread of 25 basis points above Bank Rate. This facility is intended to limit the volatility in market interest rates by providing an alternative source of borrowing in case overnight market rates are significantly higher than Bank Rate. But, in practice, the OSF has rarely been used in the current environment of abundant reserves.

A further advantage of the floor system is that it can keep overnight interest rates close to Bank Rate despite large changes in the supply of, or demand for, reserves. This means it is robust to MPC decisions to increase or decrease the quantity of asset purchases.

The regime in place prior to the MPC launching its policy of QE, known as 'reserves averaging', was also successful at controlling interest rates when the stock of reserves was relatively stable. But it did not cope as well when demand for reserves spiked, so we injected large quantities of reserves for liquidity insurance purposes during the crisis.

The Bank's future balance sheet

Just as asset purchases increased the quantity of central bank reserves following the financial crisis, there may be a point at which the MPC decides to reduce the stock of asset purchases (so-called 'Quantitative Tightening' (QT)). This decision would lower the aggregate quantity of reserves in the system.

In the early stages of QT, while reserves are still plentiful, the MPC's policy goals would likely best be met by maintaining the current floor system. But at some point, the supply of reserves could fall below the level that reserve account holders demand. This scarcity would likely begin to make short-term market rates more volatile, pushing them above Bank Rate. At this point, if the Bank did not make additional reserves available, the existing framework would not be effective at controlling interest rates.

In a Discussion Paper published in August 2018, we said that at the appropriate time we would propose to switch from using the current floor system to a framework in which we allowed reserves holders to determine how many reserves they need. Under this approach, we would stand ready to lend reserves, at Bank Rate, in unlimited amounts against high quality collateral, through periodic Open Market Operations (OMOs). For more details, see this speech.

Underpinning financial stability

Central bank reserves are the most liquid assets in the UK economy. They play a critical role in financial stability by facilitating payments and as part of a bank's supply of sterling liquidity.

In normal times, private markets typically ensure that liquidity is distributed appropriately across the system, finding its way from those with a surplus to those that need it.

But those markets may not always be effective or work smoothly, particularly during periods of heightened uncertainty or market dysfunction.

Regulators require banks and other financial intermediaries to hold a 'buffer' of liquid assets to self-insure against any unexpected outflows. But the cost of self-insuring against 'tail' risks which are very low probability but high impact can be prohibitively high.

So, we stand ready to use our balance sheet to complement the self-insurance firms maintain under our liquidity regime.

We do this by offering a range of liquidity insurance facilities. These allow firms who meet our supervisory standards, and who have the right collateral, to access reliable supplies of liquidity at a predictable cost.

Firms can choose to use these liquidity insurance facilities on a day-to-day basis. But the pricing of those facilities means they are likely to be of particular benefit when an interruption to private markets occurs.

What is liquidity risk?

Liquidity risk is the risk that a company cannot meet its financial obligations as they fall due. All companies face this risk in some form and scale.

Banks and some other types of financial intermediary – by virtue of their business models – are exposed to a higher degree of liquidity risk than most types of company. Liquidity risk crystallising in a bank can also have wider impacts on customers and other institutions who find their own funds tied up. If liquidity risk crystallises in a number of financial intermediaries at the same time, this could endanger the stability of the financial system as a whole.

Liquidity risk can arise in the financial system a number of ways:

- Commercial banks and building societies engage in 'maturity transformation' by accepting short term deposits (eg liabilities in the form of money held in current accounts) and making loans at longer maturities (eg assets in the form of mortgages). This allows households and businesses to finance purchases and investment. But it also increases liquidity risk for the bank if there is unexpected demand for short term liabilities – for instance in the form of a bank 'run'.
- Broker-dealers intermediate in capital markets and provide risk management products that help others to make more efficient use of their resources. Broker dealers are not exposed to the same 'run' as retail banks, but can find

themselves facing volatile liquidity conditions in the repo (repurchase) markets from which they obtain funding.

- Central counterparties (CCPs) sit between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer. By doing so, they can reduce credit and liquidity risk by netting off and simplifying multilateral financial exposures. CCPs seek to mitigate credit risk by collecting collateral, ('margin'), from all counterparties ('clearing members'). However, if a clearing member defaults, particularly when markets are volatile, there is a risk the CCP will face challenges in liquidating collateral quickly enough to meet its payment obligations. Equally, during such conditions (even absent a default), a CCP can collect greater than anticipated margin amounts that it will wish to deposit securely.
- International Central Securities Depositories (ICSDs) provide cross-border custodial and settlement services, covering the movement of cash and securities in multiple currencies between different institutions. To aid settlement, ICSDs provide intraday credit to some institutions, and therefore face liquidity risk if one of these firms then fails to meet its obligations. ICSDs hold collateral against these exposures, but there is a risk, particularly when markets are volatile, that they will face challenges in liquidating that collateral quickly enough to meet their payment obligations. Like CCPs, ICSDs also hold balances overnight which they may wish to deposit securely.

We expect firms to self-insure against liquidity risk

The first line of defence against liquidity risk is the buffers of assets that banks and other financial firms hold to absorb shocks or unexpected outflows.

We have set out (through the Prudential Regulation Authority (PRA)), the size and quality of buffers that regulated firms should build up to deliver a prudent level of self-insurance against a range of stressed outflows. Further information on our liquidity rules can be found on the Capital Requirements Directive page.

Changes to liquidity regulation introduced following the financial crisis mean UK banks are now much better placed to withstand liquidity risks. They hold large buffers of cash and liquid assets, calibrated against the Liquidity Coverage Ratio (LCR) but also taking into account longer term factors and idiosyncratic risks. In total, liquidity buffers are now worth a substantive proportion of the UK banks' balance sheets.

At the same time, reliance on the riskiest forms of funding has also fallen sharply. The shortest duration wholesale funding, which was revealed to be a significant vulnerability when it dried up during the crisis, has fallen significantly as a proportion of total funding for UK banks.

But we also provide liquidity insurance

UK banks and other financial intermediaries are required by regulators to maintain strong liquidity. But it would not be realistic or efficient to expect them to self-insure against every conceivable shock or stress.

For that reason, we stand ready to use our balance sheet to complement the buffers firms maintain on their own balance sheets.

We do this by offering liquidity insurance facilities that allow eligible firms to borrow cash (in the form of reserves) or to swap illiquid assets for more liquid ones (a collateral 'upgrade').

We operate a range of published facilities that do this, on both bilateral and market-wide terms. These take place at various frequencies:

- **At routine intervals.** Firms have the opportunity to bid for reserves (borrow cash) in regular collateralised lending transactions called repo operations, run to a set schedule. For sterling, this is done via the regular Indexed Long-Term Repo (ILTR) facility. We also lend through repo operations in selected non-sterling currencies.
- **On demand by firms.** In our bilateral Discount Window Facility (DWF) we offer to swap less liquid collateral for more liquid assets. In some cases, these assets may take the form of central bank reserves. In others, they may take the form of securities, which can then be used as higher quality collateral to borrow cash in the wider market.
- **At our discretion, as warranted by economic and market conditions.** Depending on conditions in private

markets, we can provide additional liquidity, by varying the terms of our regular routine operations, or by launching a Contingent Term Repo Facility (CTRF).

- **We also make longer term funding available when required**. We do this currently through the Term Funding Scheme with additional incentives for SMEs (TFSME). We previously made term funding available through our Term Funding Scheme (TFS), Funding for Lending Scheme (FLS), and the Special Liquidity Scheme (SLS).

We do not expect firms to rely on us for a large part of their liquidity on a day-to-day basis. But our facilities are also not intended to be only a last resort. We have priced them so that in normal times they are, on the whole, unlikely to be cheaper than private markets.

We offer liquidity insurance options on an 'open for business' basis, to eligible financial firms which meet our prudential requirements. This means that firms know they will have access to a reliable source of liquidity at a predictable price during periods of actual or expected market stress.

And we convene markets to help ensure they function efficiently

We take an active interest in the effectiveness of financial markets. Markets are more likely to be efficient and effective if they are competitive. So we only allow firms access to our services if they act in a way that supports competitive and fair sterling markets.

An effective way to demonstrate commitment to this is to sign the UK Money Markets Code. We endorse it and commit to its standards and principles. We strongly encourage all participants in our financial market operations to do the same (including firms which are members of the Sterling Monetary Framework (SMF)). Read more about our work on fair and effective markets.

Liquidity insurance: 'open for business'

The idea that the Bank should step in when private markets stutter is not new, originating from at least the time of Walter Bagehot [3], who recognised how a clear framework for central bank involvement in markets could help to reduce the frequency and severity of financial crises.

Our current suite of shorter-term liquidity insurance facilities – encapsulated in our Sterling Monetary Framework (SMF) – is a more recent development, and is one element of a wider response to the last global financial crisis.

Since 2009 regulators in the UK and globally have introduced a complementary package of reforms. These were intended to fix the fault lines that caused the last crisis, and help end the problem of 'too big to fail'.

These reforms are underpinned by stronger capital and liquidity standards and more proactive micro-prudential supervision; supplemented by macro-prudential tools to account for systemic risks; and supported by resolution regimes that protect financial stability – and public money – from the failure of an insolvent firm.

In the context of those reforms, and on the back of recommendations made by Bill Winters in his review of our system, we made significant changes to our approach to liquidity insurance. As a result, we now offer money and collateral over longer terms, against a wider range of assets as collateral, and at lower cost.

From a market perspective, eligible financial firms have more choice now than they did previously in being able to draw on support according to their needs and preferences:

- They can borrow against a wider range of collateral, including less liquid assets such as raw loans;
- They can borrow over a longer term, when we deem it appropriate; and
- They can borrow in certain non-sterling currencies.

The changes made since the Financial Crisis mean that the financial sector's ability to continue supporting the economy in bad times as well as good is reinforced at three levels:

- First, by the large buffers of assets firms hold in case private markets cannot provide the liquidity they need (these have increased both at individual firm level and in aggregate);
- Then, by the Bank's insurance facilities, provided firms are solvent and can meet prudent collateral requirements;
- And finally by resolution, so a firm is able to fail in an orderly way should a shock mean it cannot continue to operate.

To fully realise these financial stability benefits, firms must be willing to manage their liquidity actively and prudently. This guide is intended to support that by explaining the Bank's facilities. But it also serves to reinforce a very important point: our facilities are there to be used by firms. We are open for business.

In summary, 'open for business' means that participant firms which meet regulatory threshold conditions for authorisation, and which have the appropriate type and amount of collateral, have the flexibility to use our facilities as and when they deem appropriate.

When and how to use market sources of funding, existing liquidity buffers, or the ILTR or DWF is a decision for firms to make, based on their expert knowledge of their own liquidity needs and the availability and cost of options.

Provided firms meet threshold conditions and have adequate collateral, they do not have to justify their decision to use these facilities to the Bank or to the PRA. There is no specific or limited list of cases in which firms may use our facilities. And, there is no fixed order in which we expect firms to use one form of liquidity over another.

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1. Banks, building societies, major investment firms, credit unions, and insurers; not all of these will be eligible financial firms. While these firms are supervised by the PRA, the Bank is responsible for the direct supervision of market infrastructures such as Central Counterparties (CCPs) and Central Securities Depositories (CSDs).
2. The reserves of CCPs and ICSDs which are in excess of their pre-agreed target balance are remunerated at 25 basis points below Bank Rate.
3. Walter Bagehot (1826-1877) was a British businessman, writer and former editor of The Economist magazine. In his notable work, Lombard Street, he detailed how during financial crises, the central bank should lend early and freely, to solvent firms, against good collateral, and at high rates.

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.
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.

BANK OF ENGLAND