



## Extract from the Red Book<sup>1</sup>: The Bank's current operations in the sterling money markets

### Discount Window Facility

68 The Discount Window Facility (DWF) is a bilateral on-demand facility. It is aimed at banks experiencing a firm-specific or market-wide shock. It allows participants to borrow highly liquid assets in return for less liquid collateral in potentially large size and for a variable term.

69 The DWF allows participants to borrow gilts against the full range of eligible collateral, comprising Levels A, B and C. Participants can then raise cash by lending the gilts in the market or by using them as collateral in the ILTR for example. So the DWF allows participants to perform a liquidity upgrade of their collateral. Chart 4 presents a stylised illustration of how the DWF works.

#### Chart 4 Discount Window Facility

##### 1. Drawing



##### 2. Termination



70 The Bank may agree to lend sterling cash rather than gilts. That might prove necessary if, for example, government bond repo markets fail to function properly.

71 DWF drawings have a maturity of 30 days, repayable at any point. For longer temporary liquidity needs, participants can apply to roll DWF drawings in order to achieve an effectively longer term of drawing. For example, the Bank recognises that the management actions implemented by the DWF participant may take longer than 30 days to have their full effect.

72 The DWF fees charged are set at a premium to the market in routine circumstances but should offer banks affordable liquidity in less normal conditions. The fee reflects the type of collateral used, to avoid providing a subsidy for illiquid collateral relative to the market, and the size of the drawing, to incentivise repayment when borrowings are no longer needed.

73 The cost of the first tranche of borrowing in the DWF, up to 5% of a bank's Eligible Liabilities (ELs), against the three collateral sets is shown in Table B. The average cost of borrowing between 5% and 15% of ELs rises smoothly with the amount drawn, as shown in Chart 5. The Bank will discuss very large drawings, above 15% of ELs, with counterparties on a bilateral basis. For drawings of gilts, the fee is applied to the total market value of gilts outstanding under the DWF on each day. For any

<sup>1</sup> <http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/redbook.aspx>



drawings of sterling cash permitted by the Bank, the interest rate is Bank Rate plus the fee.

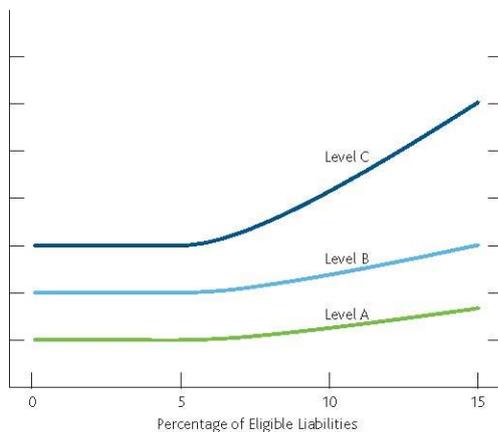
**Table B Fee for borrowing gilts up to 5% of Eligible Liabilities in the DWF**

**Basis points**

	Against collateral in...		
	Level A	Level B	Level C
Fee	25	50	75

74 The Bank recognises that banks using the DWF may be concerned about the risk of premature disclosure of usage, which may worsen the financial stability impact of the original liquidity shock. The design of the DWF seeks to minimise the risk of this occurring from the Bank’s publications, by ensuring that DWF usage is only ever disclosed averaged across counterparties and over a calendar quarter, and is released with a lag. The average aggregate daily value of gilts (or cash) lent during each calendar quarter will be published on the first Tuesday following the final working day of the calendar quarter five quarters ahead. This ensures that any drawing should have ended before data on it are published.

**Chart 5 Average cost of borrowing in the DWF**



75 Eligible collateral should be pre-positioned at least a day before a drawing. Participants are strongly encouraged to keep sufficient eligible collateral pre-positioned at the Bank at all times to ensure they are able to draw in the DWF quickly and smoothly should the need arise. In particular, banks seeking to pre-position loan collateral or own-name securitisations should do so well in advance, as it may take some time to pre-position more complex assets.

76 Participants considering use of the DWF are strongly encouraged to discuss this with the Bank at an early stage. Following delivery of eligible collateral to the Bank, authorised drawing requests should be initiated by telephone to the Bank’s Sterling Markets Division as early as possible.