

THE FPC AND THE BANK'S LIQUIDITY INSURANCE OPERATIONS

This paper sets out a framework for engagement between the Bank's Executive and the Financial Policy Committee (FPC) with regard to the Bank's Sterling Monetary Framework, in particular with regard to those operations providing liquidity insurance to the financial system. The framework was agreed by the Bank's Executive and the statutory FPC on 21 June 2017, and updated in June 2018.

The FPC's primary role is to contribute to the Bank's Financial Stability Objective: that is, to protect and enhance the stability of the UK financial system, through the identification of, monitoring of, and taking action to remove or reduce, systemic risk. Because the design and operation of the Bank's liquidity insurance facilities may affect the stability of the financial system, the FPC will approve the scope and principles which determine the design of those facilities and may from time to time wish to take account of, or give its views on other aspects of their design.

The FPC recognises that the responsibility for the detailed design and delivery of the facilities is vested in the Bank's Executive, which is accountable to the Bank's Court for the use of the Bank's balance sheet.

To foster regular two-way engagement between the FPC and the Executive, the following procedures have been agreed:

- **Approval:** the FPC will approve the scope and principles which determine the design of the Bank's liquidity insurance facilities and their resultant ability to reduce systemic risk.
- **Information exchange:** the FPC will be provided with regular information on the system-wide operation of the Bank's liquidity insurance facilities ahead of each quarterly round, and the Bank's Executive stands ready to supplement that information as required in the light of developments.
- **Periodic review:** the FPC will be given the opportunity to comment on the design and operation of the Bank's liquidity insurance facilities periodically and in the event of material developments, and will be asked to confirm that they remain, in the Committee's view, fit for purpose from a macro-prudential perspective.
- **Consultation:** on questions which do not come to the FPC for approval, the FPC will nevertheless be consulted (i) if the Executive is planning a material change to its liquidity insurance facilities; (ii) if evidence emerges that the framework is not working as envisaged; (iii) if the Executive requires the FPC's assistance to enable its liquidity insurance facilities to operate effectively; or (iv) in response to a specific FPC request. On occasion such consultation might need to occur at short notice if the change is prompted by urgent market developments.

Under the Bank of England Act 1998 (as amended), the FPC may make recommendations to the Bank relating to the provision by the Bank of financial assistance to financial institutions generally. But it may not make recommendations relating to a particular institution. Any operations conducted outside the Bank's published frameworks under the terms of the Memorandum of Understanding between HM Treasury (on the one hand) and the Bank and PRA (on the other) required by the Financial Services Act 2012, also fall outside the scope of this framework. Consistent with that, the Bank Executive is not obliged to consult the Committee on liquidity insurance operations relating to a particular institution. The Governors will nevertheless ensure the Committee is informed about any matters relating to operations involving individual institutions relevant to the functions of the FPC, bearing in mind the circumstances at the time.