BANK OF ENGLAND

News release

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Launch of new Indexed Long-Term Repo operations

The Bank of England is today launching new regular market-wide Indexed Long-Term Repo (ILTR) operations. This is the next step in the Bank's new approach to providing liquidity insurance designed to increase the availability and flexibility of liquidity insurance, as announced by the Governor in October.

The Bank's current ILTR operations will be replaced by new ILTR auctions that provide more liquidity at cheaper rates, longer maturities and against a wider range of collateral than previously available. An important innovation in the design of the ILTR auctions is that they are responsive to market conditions, with the amount of liquidity available rising automatically if there is greater demand, in contrast to fixed-size or full allotment auctions used previously.

The first ILTR operation under the revised format is scheduled for 11 February 2014. Demand for liquidity in the ILTR will depend on market conditions. Currently the sterling system has abundant liquidity in aggregate, reflecting in large part the impact of the 'quantitative easing' programme mandated by the Monetary Policy Committee. So initial usage may be limited. As the Governor said in his October speech, "we are building a liquidity framework for the markets of tomorrow".

Further details on the approach are provided in 'Market Notice: Indexed Long-Term Repo operations and Contingent Term Repo Facility' (available at http://www.bankofengland.co.uk/markets/Documents/marketnotice140116.pdf) and an updated edition of the Bank's 'Red Book', which provides a comprehensive description of the SMF (available at http://www.bankofengland.co.uk/markets/Documents/money/publications/redbook.pdf).

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Notes to Editors

1. The Governor's speech, given on 24 October 2013, is available at the following link: http://www.bankofengland.co.uk/publications/Pages/speeches/2013/690.aspx.

2. ILTR operations are available to banks and building societies that have signed up for them as part of the Sterling Monetary Framework. They are aimed at banks and building societies with a predictable need for liquid assets, as outlined in the Bank's 'Red Book'. In these auctions, the Bank lends sterling cash – central bank reserves – to banks and building societies in return for collateral. The interest rate paid by a bank depends on the type of collateral used; it costs more to borrow in ILTRs against less liquid collateral, as would be the case in a market transaction, so as not to disintermediate the market. But some funds will be offered against each collateral set at 'entry level' prices.