Bank of England activates the Contingent Term Repo Facility

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Original post here.

On March 24, 2020, the Bank of England activated a liquidity "insurance" facility that it created after the 2007-09 Global Financial Crisis to be available in a crisis such as the current one.

The Contingent Term Repo Facility (CTRF) aims to "help alleviate frictions observed in money markets in recent weeks, both globally and domestically, as a result of the economic shock caused by the outbreak of Covid-19." Financial institutions will be able borrow cash from the central bank reserves for a 3-month term in exchange for less liquid assets. CTRF operations will run for the next two weeks and the Bank of England will announce further operations as needed.

The CTRF was established in 2014 and replaced the then existing facility that aimed to mitigate risks to financial stability arising from a market-wide shortage of short-term sterling liquidity. The CTRF forms part of the Sterling Monetary Framework and serves as a temporary enhancement for firms that need "cheap, plentiful cash at term." The Sterling Monetary Framework provided a "liquidity upgrade" in that it allows firms to swap less liquid collateral for the most liquid assets in the economy.

The contingent nature of the CTRF allows the Bank of England to provide liquidity against the full range of eligible collateral at any time, term and price it chooses, in response to actual or prospective exceptional market-wide stress. Institutions eligible for the Bank's Discount Window Facility (DWF) are eligible to participate in the CTRF.

Under the terms and conditions, the program size is unlimited. The minimum bid is £5 million and allocations have a fixed price (Bank Rate plus 15bps) with full allotment. Eligible collateral consists of the full range of SMF collateral – Levels A, B and C. Level A collateral comprises assets expected to remain liquid, such as high-quality sovereign debt. Level B consists of assets that would normally be liquid, such as sovereign debt, supranational and private sector debt and the highest-quality asset-backed securities. Level C consists of typically less liquid assets, such as securitizations, securities delivered by the same entity that originated the underlying assets, and portfolios of loans, including mortgages.

The Bank of England can lend in major currencies through its standing bilateral swap lines with the Federal Reserve, Bank of Canada, European Central Bank, Bank of Japan, and Swiss National Bank.