

BANK OF ENGLAND MARKET NOTICE: EXTENDED-COLLATERAL LONG-TERM REPO OPERATIONS

- 1 This Market Notice describes the operation of the Bank's extended-collateral three-month long-term repo Open Market Operations (OMOs), as announced from time to time on the Bank's wire services pages. This Market Notice, which replaces all previous Market Notices relevant to these operations, consolidates in a single document the currently effective provisions of previous Market Notices in relation to the Bank's extended-collateral three-month long-term repo OMOs. Other than as amended by this Market Notice, the Terms and Conditions and Operating Procedures for participation in the Bank's Sterling Monetary Framework will apply to these extended-collateral three-month long-term repo operations.
- 2 The Bank has previously announced that the size and maturity of extended-collateral long-term repo operations will be announced and held according to the schedule set out below and as referenced in the Bank's calendar of operations on its website.¹

Announcement of size & maturity date	Auction date
27 March 2009	31 March 2009
10 April 2009	14 April 2009

- 3 The size and frequency of operations will be decided in light of market conditions. The Bank will announce the size of those operations on the Friday before the date of the operation.
- 4 As described in the Bank's consultative paper of October 2008 on developments in the Bank's market operations², the Bank is minded to widen permanently the range of collateral eligible in its routine monthly long-term repo OMOs (and plans, after consultation, to modify their operational design). The terms of this Market Notice will therefore continue to apply, until further

¹ <http://www.bankofengland.co.uk/markets/money/documentation/ltr.htm>

² <http://www.bankofengland.co.uk/markets/money/publications/condococt08.pdf>

notice, to three-month repos held according to the existing timetable of monthly long-term repo operations, as referenced on its website.

Eligible institutions

- 5 Institutions that are OMO participants and which have met the Eligibility Criteria set out in the SMF Terms and Conditions are eligible to participate in the Bank's extended-collateral long-term repo operations.

Eligible collateral

- 6 Eligible collateral securities will consist, in addition to the securities routinely eligible in the Bank's short-term OMOs and Operational Standing Facilities as published on the Bank's website³, of the following ("the Wider Collateral Pool"):
- Bonds issued by G10 sovereigns rated Aa3/AA- or higher (in addition to those currently eligible), subject to any settlement constraints.
 - Bonds issued by G10 government agencies explicitly guaranteed by national governments, rated AAA.
 - Bank debt guaranteed under HM Government's Credit Guarantee Scheme for bank debt announced on 8 October 2008.⁴
 - Senior bank debt that is guaranteed under the bank debt guarantee schemes of Australia, Ireland and New Zealand. The debt must be due to mature prior to the expiry date of the relevant guarantee. Subject to the review of individual schemes, the Bank will consider accepting as collateral senior bank debt eligible under other national schemes.
 - Conventional debt security issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Corporation and the Federal Home Loan Banking system, rated AAA.

³ <http://www.bankofengland.co.uk/markets/money/eligiblesecurities.xls>

⁴ http://hm-treasury.gov.uk/press_100_08.htm

- The most senior AAA-rated tranches of UK, US and EEA asset-backed securities (ABS) backed by credit cards issued to prime borrowers; and the most senior AAA-rated tranches of UK and EEA prime residential mortgage-backed securities (RMBS). Un-listed ABS and RMBS will not be eligible.
- UK and EEA covered bonds rated AAA. The underlying assets may be either public sector debt or prime residential mortgages.
- UK, US and EEA AAA-rated covered bonds where the underlying assets include commercial mortgages.
- The most senior AAA-rated tranche of UK, US and EEA commercial mortgage-backed securities (CMBS). Securities containing construction loans will not be eligible. The collateral pool must be high quality and diversified.
- The most senior AAA-rated tranche of UK, US and EEA prime asset-backed securities (ABS) backed by student loans; consumer loans; auto loans; and certain equipment leases.
- The most senior AAA-rated tranche of UK, US and EEA securitised portfolios of senior secured or on-balance sheet, high-quality corporate loans. Leveraged loans are not permitted.
- The most senior AAA-rated tranche of UK, US and EEA securitised portfolios of corporate bonds rated A3/A- or higher. High-yield bonds are not permitted.
- Some types of UK, US and EEA asset-backed commercial paper (ABCP) with the highest short-term ratings (A-1+/P1/F1+). Only the most senior paper will be accepted. A liquidity line must be in place from a bank rated A1/A+ or higher. The eligibility of individual programmes must be agreed with the Bank. The Bank will assess programmes against criteria that must be satisfied by the underlying assets and against transparency requirements. The underlying assets must be of a type that is itself eligible for delivery in the Bank's extended-collateral long-term repo OMOs as set out above.

7 The following further requirements apply:

- In each case the underlying assets must be cash, not synthetic.
 - Securities whose rating is on the basis of a guarantee or insurance provided by a third party (“a wrap”) will not be eligible.
 - Own-name covered bonds and securities will be accepted, for the time being.
- 8 Securities may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona, Swiss francs or in the case of Japanese Government Bonds and bank debt issued under the UK government’s Credit Guarantee Scheme only, yen.
- 9 Credit ratings as set out above or their equivalent must have been provided by two or more of Fitch, Moody’s and Standard and Poor’s.
- 10 Securities must be capable of being delivered to the Bank via the delivery mechanisms specified below.
- 11 The Bank will keep under review the list of securities eligible as collateral in these operations.
- 12 The Bank reserves the right to reject any security offered or provided as collateral, for any reason, at any time.

Margin arrangements

- 13 Margin ratios for the Wider Collateral Pool are set out in the annex to this Market Notice. The margin ratios apply to all outstanding transactions in extended-collateral three-month long-term repo operations.
- 14 Three-month long-term repos bid against the Wider Collateral Pool will be re-margined separately from other OMOs. Margin securities may consist of the Wider Collateral Pool listed above; or securities routinely eligible in the Bank’s OMOs. The deadline for settlement of margin securities is 1.30pm.

Concentration limits

- 15 The usual collateral concentration limits set out in Section 7.6 of the Operating Procedures will apply to the additional categories of security listed above,

subject to the £1 billion threshold on the value of relevant collateral provided.

For these purposes:

- Bonds issued by G10 government agencies explicitly guaranteed by national governments should be aggregated with bonds issued directly by the relevant government and treated as a single issuer.
- Bank debt guaranteed under HM Government's bank debt guarantee scheme announced by the UK Government on 8 October 2008 will be considered as HM Government exposure and so not subject to concentration limits.
- Issues in each asset class (RMBS and covered bonds backed by residential mortgages; CMBS and covered bonds backed by commercial mortgages; ABS backed by corporate loans and bonds; ABS backed by credit cards and other consumer debt) from a particular issuer or originator should be aggregated with other such issues in that asset class from issuers within the same group and treated as a single issuer; but issues need not be aggregated across asset classes.

Collateral checking

- 16 Lists of collateral securities to be checked for eligibility by the Bank ahead of pre-positioning should be submitted to the Bank at the following address: LTReligibilitycheck@bankofengland.co.uk . They should be accompanied by a formal assurance of compliance with the criteria specified above. Participants have a responsibility to ensure that collateral securities comply with the Bank's eligibility criteria.

Pre-positioning

- 17 Counterparties must submit to the Bank as early as possible ahead of the operation a list of the specific securities they propose to deliver as collateral, so that the Bank can assess its eligibility. Counterparties are also encouraged to pre-position collateral with the Bank ahead of the operation.

Bidding arrangements

- 18 The Bank will announce the start of bidding on its wire service pages. Bids should be submitted across the Bank's electronic system for open market operations, Btender, between 10.00 and 10.30am.
- 19 The Bank will contact counterparties via their direct phone lines or otherwise to require them to specify whether each bid is against the delivery of collateral routinely eligible in the Bank's short-term repo OMOs; or against delivery of collateral securities from the Wider Collateral Pool. If a counterparty does not promptly provide this information, the Bank will assume that the bid is against the delivery of collateral securities from the Wider Collateral Pool.
- 20 The Bank will apply a minimum bid rate determined by the Bank, at its discretion, on the basis of the equivalent-maturity overnight index swap (OIS) rate prevailing shortly before the start of the operation. For bids against collateral routinely eligible in the Bank's short-term repo OMOs, the minimum bid rate will be the equivalent-maturity OIS rate. For bids against the Wider Collateral Pool as set out above, the minimum bid rate will be 50 basis points higher than the equivalent-maturity OIS rate. The minimum bid rates will be announced on the Bank's wire services pages. If the Bank observes bids submitted below the respective minimum bid rates, the Bank will require the relevant counterparty to amend or cancel those bids. If bids below the respective minimum bid rates are extant at the end of the operation, such bids will be cancelled by the Bank.
- 21 The Bank will announce the results of the operation at 10.55am on the day of the operation or as soon as possible thereafter.⁵
- 22 The maximum total size of a counterparty's bids may not be greater than 20% of the size of funds on offer in that long-term repo OMO.
- 23 The maximum number of bids per counterparty will be 10.

⁵ On the day of the announcement, results will be copied to <http://www.bankofengland.co.uk/markets/money/Round.html> . Subsequently they will be stored on <http://www.bankofengland.co.uk/markets/money/documentation/ltr.htm> .

- 24 If Btender is unavailable for any reason, the Bank will conduct the operation via telephone, either at the same starting time or at a later starting time. An announcement would be made on the Bank's wire services pages.
- 25 With reference to section 4.3.5(ii) of the Operating Procedures, no plausibility limit will be set by the Bank in Btender at the three-month maturity.

Settlement arrangements

- 26 Three-month maturity long-term repo OMOs will generally settle on a T+2 basis. The Bank will confirm the settlement date of the operation on the Friday before the date of the operation.
- 27 The Bank will not advance funds until it has confirmed the eligibility of the collateral offered. Counterparties who bid and are allotted against the Wider Collateral Pool may deliver securities routinely eligible in the Bank's short-term OMOs initially and substitute other eligible collateral subsequently. With reference to section 4.7.1 of the Operating Procedures, counterparties may not substitute securities held by the Bank as collateral in the Bank's OMOs on the settlement day of other OMOs, except at the Bank's discretion.
- 28 Securities to be delivered as collateral must be confirmed to the Bank by 2pm on the day before settlement using the confirmation template supplied by the Bank. In the case of RMBS, ABS and covered bonds, counterparties should specify in the confirmation template supplied by the Bank whether the securities are own-name.
- 29 In order to ensure timely payments of funds to counterparties, the deadline for delivery of securities in the Wider Collateral Pool is 3pm on the day of settlement.
- 30 Where new securities are being delivered in substitution for securities already held by the Bank and return of the latter securities is required at an earlier point in the day, delivery of those new securities to the Bank should be effected well in advance of that earlier time. The Bank reserves the right not to effect a substitution if securities are not delivered on time.

31 Collateral securities routinely eligible in the Bank's short-term OMOs should be delivered as specified in the Operating Procedures. Securities in the Wider Collateral Pool must be deliverable through the following mechanisms:

- (i) via CREST;
- (ii) via the European Correspondent Central Banking Model (CCBM);
- (iii) for instruments issued directly into the International Central Securities Depositories, via Euroclear or Clearstream;
- (iv) to the Bank of England's accounts at the Federal Reserve Bank of New York; Bank of New York Mellon (DTC only); the Bank of Canada; or, in the case of Japanese Government bonds only, the Bank of Japan;
- (v) via international links maintained by Euroclear;
- (vi) via international links maintained by Clearstream, for the time being;
- (vii) via such other delivery mechanism as the Bank shall specify.

Bank of England
19 March 2009

Annex: Margin ratios for Wider Collateral Pool

	Sovereign paper	Bank and building society debt securities guaranteed under specified government guarantee schemes	Government guaranteed agencies and US GSEs	RMBS, covered bonds backed by residential mortgages	ABS backed by credit cards and other consumer debt	ABS backed by corporate loans and bonds	CMBS, covered bonds backed by commercial mortgages
<i>Credit rating</i>	Aa3/AA- or higher		Aaa/AAA	Aaa/AAAnot own-name	Aaa/AAAnot own-name	Aaa/AAAnot own-name	Aaa/AAAnot own-name
Floating rate	1.01	1.03	1.03	1.14	1.18	1.25	1.33
Fixed interest rate under 3 years to maturity	1.01	1.03	1.03	1.14	1.18	1.25	1.33
Fixed interest rate 3-5 years to maturity	1.02	1.04	1.04	1.16	1.20	1.28	1.37
Fixed interest rate, 5-10 year maturity	1.03	n/a	1.09	1.20	1.25	1.33	1.43
Fixed interest rate, 10-30 year maturity	1.06	n/a	1.16	1.28	1.33	1.43	1.54
Fixed interest rate, more than 30 year maturity	1.07	Available from the Bank on request					

Margin ratios for asset-backed commercial paper (ABCP) will be determined by the Bank for each issue following the agreement of the specific ABCP programme and will, in general, be in the range of 1.14-1.33 depending on the underlying asset classes and the diversification of the pool.

An additional 0.03 is added to margin ratios to allow for currency risk when securities are non-sterling.

Additional notes

Note on calculation: adjusted collateral value (post-haircut) = collateral value / margin ratio.

A haircut add-on of 5pp will be applied to own-name eligible covered bonds, RMBS, CMBS, ABS and portfolios of corporate bonds and loans where appropriate.

A haircut add-on of 5pp will be applied to eligible collateral for which no market price is observable.

The Bank may make further specific add-ons to the margin ratio for particular eligible collateral at its discretion.

Margin ratios and haircut add-ons will be kept under review. The Bank reserves the right to alter them at any time, including on outstanding transactions.

Credit ratings must have been provided by two or more of Fitch, Moody's, and Standard and Poors.