This Market Notice describes the operation of the Bank’s new indexed long-term repo Open Market Operations (OMOs) and changes to the US dollar repo operations.

As part of its existing Red Book framework, the Bank has provided liquidity to the banking system via regular long-term repo operations since January 2006. In December 2007, and again in September 2008, the Bank increased the size and frequency of its three-month operations and expanded the range of eligible collateral. A consultation document published in October 2008\(^1\) outlined the Bank’s intention to incorporate long-term repo operations, against a broader range of collateral, as a permanent part of the Sterling Monetary Framework. A further position paper was published on 23 March 2010\(^2\) that set out the Bank’s intentions and responded to a number of issues left open in the consultation document.

The primary objective of the indexed long-term repo operations is to provide liquidity insurance without distorting banks’ incentives for prudent liquidity management, whilst minimising the risk being taken onto the Bank’s own balance sheet.

The indexed long-term repos will operate in the form set out in this Market Notice for a period of six months whilst participants gain familiarity with the operations, after which the Bank will confirm the permanent operational framework. The first operation will take place on 15 June 2010. The indexed long-term repos will replace the three month, extended-collateral, long-term repos and the three, six, nine and twelve month long term repos previously operated by the Bank.

Other than as amended by this Market Notice, the Terms and Conditions and Operating Procedures for participation in the Bank’s Sterling Monetary Framework (SMF) will apply to these indexed long-term repos.

**Operational framework**

In the indexed long-term repos, participants will be able to borrow against two different ‘sets’ of collateral. A ‘set’ corresponds to the type of collateral which is eligible to be delivered against a particular repo. One set corresponds with securities eligible in the Bank’s short-term repo operations (‘narrow collateral’) and the second set contains a broader class of

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1 [www.bankofengland.co.uk/markets/money/publications/condococt08.pdf](http://www.bankofengland.co.uk/markets/money/publications/condococt08.pdf)
2 [www.bankofengland.co.uk/markets/positionpaper100323.pdf](http://www.bankofengland.co.uk/markets/positionpaper100323.pdf)
high-quality debt securities that, in the Bank’s judgement, trade in liquid markets (‘wider collateral’). For further information on collateral please see the “Eligible collateral” section below.

7 The auction design permits the allocation of a greater proportion of funds against the wider collateral set as evidence of stress increases, although the Bank would expect to lend some funds routinely against both collateral sets. The proportion of bids allocated to each collateral set is based on the pattern of bids received and the Bank’s preferences for allocating funds between collateral sets. If bids against wider collateral are high relative to bids against narrow collateral, the Bank will allot a greater proportion of bids against wider collateral.

8 The Bank expects to offer funds via an indexed long-term repo operation once each calendar month, usually on a Tuesday mid-month, according to the timetable of indexed long-term repo operations published on the Bank’s website. The Bank plans to conduct initially two operations with a three-month maturity and one operation with a six-month maturity in each calendar quarter.

9 Each operation will normally offer a pre-announced fixed quantity at a single maturity. The Bank will adjust the size of long-term repo operations in light of financial conditions, including revealed demand in previous long-term repo operations. The Bank will normally confirm the size, settlement and maturity dates of each operation one week before the auction.

**Eligible institutions**

10 Institutions that are both OMO Participants and report Eligible Liabilities to the Bank will be eligible to participate in the Bank’s indexed long-term repo operations.

**Bidding process**

11 Bids should be submitted across the Bank’s electronic system for Open Market Operations, Btender, between 10.00 and 10.30am.

12 Participants may submit ‘single bids’ against either collateral set, and/or ‘paired bids’. A paired bid consists of a single nominal amount and two spreads at which the participant is willing to borrow against the delivery of narrow and wider collateral respectively.

13 The Bank places no restriction on the number of bids submitted, but the maximum total size of a participant’s bids may not be greater than 30% of the size of funds on offer in that
indexed long-term repo. The minimum bid size will normally be £5 million, with increments of £1 million.

14 The Bank will index the rate charged on repos to Bank Rate. Participants will therefore bid by submitting a nominal amount and a spread to Bank Rate expressed in whole basis points. Bids will be subject to a minimum bid spread of zero (i.e. negative spreads will not be permitted).

15 If Btender is unavailable for any reason, the Bank may 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.

Allocation process

16 The auction’s pricing mechanism will adopt a so-called uniform-price format, in which every successful bidder pays the lowest accepted spread (the “clearing spread”) for borrowing against a specific collateral set. Given this, no plausibility limit on participant’s bids will be set by the Bank in Btender for these operations.

17 For each collateral set, bids are ranked in descending order of the spread bid. Bids at the highest spread are accepted first, followed by bids at successively lower spreads until the chosen proportion of the auction is allocated or bids received against that collateral set are exhausted. Bids which are made at the clearing spread may be scaled down on a pro rata basis and rounded down to the nearest allocation increment of £0.1 million.

18 If both parts of a paired bid are above their respective clearing spreads, and therefore eligible to be accepted, the participant will be allotted against the bid which offers them better value (i.e. the bid with the highest spread relative to the clearing spread for that collateral set). If both parts of a paired bid are at equal spreads to their respective clearing spreads, the participant may be allotted against either or both collateral set(s) and their allocation of funds may be scaled down.

Results

19 The Bank will announce the results of the operation on the Bank’s wire services pages at 10.40am on the day of the operation or as soon as possible thereafter. The results will detail

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3 On the day of the announcement, results will be copied to www.bankofengland.co.uk/markets/money/announcements.htm. Subsequently they will be stored on www.bankofengland.co.uk/markets/money/ltomo/results.htm.
the amount bid, the amount allocated, the stop-out spread (the difference between the clearing
spreads for the two collateral sets) and the cover ratio for the whole operation and then the
amount bid, amount allocated and the clearing spread to Bank Rate for each collateral set.

20 Within Btender participants will be able to see the above data, together with the detail
of the outcome of their bids, including the allocation for paired bids.

Indexing of repos

21 The interest charged on each repo will be calculated on a daily basis, using the
applicable interest rate that day. The interest rate will be the sum of Bank Rate at close of
business that day plus the clearing spread for the respective collateral set in the auction. The
total interest payable over the life of the repo will be the sum of these daily interest accruals.

Eligible collateral

22 The Bank forms its own independent view of the risks in the collateral it takes in its
operations and reserves the right to reject any security offered or provided as collateral, for any
reason, at any time. Should collateral be downgraded below the minimum credit ratings set out
below, the Bank would normally seek to understand the circumstances of the downgrade
before determining whether that merited any change to the security’s eligibility.

23 There will be two collateral sets against which participants will be able to bid.

24 Eligible collateral securities for the first (narrow collateral) set will consist of the
securities routinely eligible in the Bank’s short-term repos and Operational Standing Facilities
as published on the Bank’s website4.

25 Eligible collateral securities for the second (wider collateral) set will consist of highly
rated securities which, in the opinion of the Bank, are trading in liquid markets. In time,
collateral will need to meet the Bank’s requirements regarding information transparency5.
Transitional arrangements will be put in place for securities which do not immediately meet
these transparency requirements.

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4 www.bankofengland.co.uk/markets/money/standardomocollateral.htm

5 These are currently the subject of a market consultation:
   www.bankofengland.co.uk/markets/money/publications/condocmar10.pdf. The Bank expects announce the
   results of this consultation later in 2010.
The composition of the wider collateral set will initially consist of certain securities in the following categories:

- Bonds issued by G10 sovereigns rated Aa3/AA- or higher, subject to any settlement constraints.

- Bonds issued by G10 government agencies explicitly guaranteed by national governments, rated AAA.

- Conventional debt security issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Corporation and the Federal Home Loan Banks system, rated AAA.

- The most senior AAA-rated tranches of UK and Dutch Prime RMBS. Un-listed RMBS will not be eligible.

- UK, German, French and Spanish regulated covered bonds rated AAA and with an issue size of greater than £1bn or €1bn depending on the currency of issue. The underlying assets may be UK or EEA social housing loans, public sector debt, or prime residential mortgages.

- The most senior AAA-rated tranches of UK, US and EEA asset-backed securities (ABS) backed by credit cards issued to prime borrowers. Un-listed ABS will not be eligible.

- The most senior AAA-rated tranche of UK, US and EEA prime asset-backed securities (ABS) backed by auto loans and certain equipment leases. Un-listed ABS will not be eligible.

- The most senior AAA-rated tranche of US prime asset-backed securities (ABS) backed by student and consumer loans. Un-listed ABS will not be eligible.

- Bank and Building Society debt guaranteed under HM Government’s Credit Guarantee Scheme for bank debt announced on 8 October 2008\(^6\).

- Senior bank debt that is guaranteed under certain non-UK sovereign bank debt guarantee schemes. Various schemes have now been reviewed and are considered eligible. The eligibility of sovereign-guaranteed bank debt schemes is reviewed at the Bank’s discretion, in the light of requests from participants. The debt must be due to mature prior to the expiry date of the relevant guarantee.

\(^6\) [http://hm-treasury.gov.uk/press_100_08.htm](http://hm-treasury.gov.uk/press_100_08.htm)
- Portfolios of senior corporate bonds rated at least A3/A- and commercial paper rated at least A2/P2/F2, issued by non-financial companies in the UK, US and the EEA. This is subject to a diversification requirement that no more than 10% of the total value of the portfolio may be from a single issuer. For the purposes of this requirement, legal entities in the same group or those with close links as determined by the Bank will be treated as a single issuer.

27 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.

- Covered bonds and asset-backed securities issued by, or containing assets originated by, the institution, or entities in the same group as the institution, that is entering into the repo ("own-name securities") will not be accepted.

28 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, yen.

29 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, although as mentioned above, the Bank’s own judgements take precedence over these external ratings.

30 Securities must be capable of being delivered to the Bank via the delivery mechanisms specified in the “Settlement arrangements” section below.

31 The Bank will keep under review the list of securities eligible as collateral in these operations.

32 In certain cases where the Bank has had to do extensive due diligence to determine whether a particular asset is eligible for inclusion in the indexed long-term repo operations, these costs may be charged back to the relevant participant.

Haircuts

33 Haircuts for narrow collateral are as set out in Annex 5 of the SMF Operating Procedures; haircuts for wider collateral are set out in the Annex to this Market Notice.
As noted above, the Bank will be introducing additional eligibility requirements for asset backed collateral in due course. A transition period will be permitted for securities that do not meet the Bank’s transparency requirements, during which progressively increasing haircuts will be applied. This will be set out in a future Market Notice following consideration of the Bank’s detailed requirements.

**Concentration limits**

Collateral concentration limits as set out in Section 7.6 of the SMF Operating Procedures, as amended by the Market Notice published 30 April 2010[^7] will apply to collateral delivered under the indexed long-term repos. 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 Credit Guarantee Scheme will be considered as HM Government exposure and so will not be subject to concentration limits. Bank debt issued under non-UK national bank debt guarantee schemes should be aggregated with securities directly issued, or guaranteed, by the relevant national government.
- Issues in each wider asset class 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**

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: [eligible.securities@bankofengland.co.uk](mailto:eligible.securities@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**

Participants 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

[^7]: [www.bankofengland.co.uk/markets/marketnotice100430.pdf](http://www.bankofengland.co.uk/markets/marketnotice100430.pdf)
eligibility. Participants are also encouraged to pre-position collateral with the Bank ahead of the operation.

**Settlement arrangements**

38 Indexed long-term repos will generally settle on a T+2 basis. The Bank will normally confirm the settlement date of the operation one week before the auction date.

39 The Bank will not advance funds until it has confirmed the eligibility of the collateral received. Participants who bid and are allotted against the wider collateral set may deliver securities routinely eligible in the Bank’s short-term repos initially and substitute other eligible collateral subsequently. Participants may not substitute securities held by the Bank as collateral in the Bank’s OMOs on the settlement day of other OMOs, except with the Bank’s consent.

40 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 order to ensure timely payments of funds to participants, the deadline for delivery of securities in the wider collateral set is 3pm on the day of settlement.

41 Where new securities are being delivered in substitution for securities already held by the Bank and return of the latter securities is required early in the day, delivery of those new securities to the Bank should be effected well in advance. The Bank reserves the right not to effect a substitution if securities are not delivered on time.

42 Collateral securities routinely eligible in the Bank’s short-term repos should be delivered as specified in the SMF Operating Procedures. Securities in the wider collateral set 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 certain international links maintained by Euroclear;
(vi) via certain international links maintained by Clearstream, for the time being;
(vii) via such other delivery mechanism as the Bank shall specify.

**Margin arrangements**

43 Indexed long-term repos bid against wider collateral will be re-margined separately from other OMOs. Margin securities for long-term repos bid against wider collateral may consist of the wider collateral listed above or securities routinely eligible in the Bank’s short-term repos. The deadline for settlement of margin securities is 1.30pm.

**Arrangements for Long-Term Repos entered into before 15 June 2010**

44 Long-term repos bid against narrow collateral of all maturities entered into before 15 June 2010 will continue to be re-margined alongside other OMOs, in accordance with the SMF Operating Procedures.

45 Three-month long-term repos bid against the Wider Collateral Pool entered into before 15 June 2010 will continue to be re-margined separately from all other OMOs. Eligible collateral for these transactions is unchanged from the 29 March 2010 Market Notice.

**Collateral in US Dollar Repo Operations from 16 June 2010**

46 From 16 June 2010, collateral eligible in US Dollar Repo transactions will consist of securities routinely eligible in the Bank’s short-term repos and Operational Standing Facilities as published on the Bank’s website and the wider collateral set as set out in this Market Notice in paragraphs 25 to 32.

Bank of England
26 May 2010

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8 [www.bankofengland.co.uk/markets/marketnotice100326eltrcon.pdf](http://www.bankofengland.co.uk/markets/marketnotice100326eltrcon.pdf)
9 [www.bankofengland.co.uk/markets/money/standardomocollateral.htm](http://www.bankofengland.co.uk/markets/money/standardomocollateral.htm)
Annex: Haircuts for Wider Collateral Set

<table>
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<th>Credit rating</th>
<th>G10 sovereign paper</th>
<th>Bank and building society debt securities guaranteed under specified government guarantee schemes</th>
<th>Government guaranteed agencies and US GSEs or ABS or covered bonds backed by ECA loans</th>
<th>RMBS, covered bonds backed by residential mortgages or social housing loans</th>
<th>ABS backed by credit cards or other consumer debt</th>
<th>Corporate bonds and commercial paper issued by non-financial companies</th>
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<td>Aaa/AAA</td>
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Additional notes

- Note on calculation: adjusted collateral value (post-haircut) = collateral value x (100 – haircut) %.

- For haircuts on collateral routinely accepted in the Bank’s short-term Open Market Operations, see the Sterling Monetary Framework Operating Procedures.

- A haircut add-on of 6 percentage points is applied to securities which are non-sterling denominated to allow for currency volatility.

- An additional haircut add-on of 2 percentage points is applied to yen-denominated securities to allow for higher volatility in the sterling/yen exchange rate.

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

- A haircut add-on may be applied for portfolios of corporate bonds that are not well diversified, where the largest single bond concentration by market value exceeds 2% of the total market value of corporate bonds delivered.

- The Bank may apply further specific add-ons to the haircuts for particular eligible collateral at its discretion.

- Haircut add-ons will be kept under review.

- The Bank reserves the right to apply additional haircuts to any individual security at any time, including on collateral delivered in outstanding transactions. Any additional haircuts for collateral that has been downgraded by external rating agencies, but has remained eligible, would be applied, on a sliding scale, reflecting the Bank's assessment of risk.

- Credit ratings must have been provided by two or more of Fitch, Moody’s, and Standard and Poor’s.