



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Resource Library

6-28-2021


Bank of England Markets: Eligible Collateral

Bank of England/Central Bank of the United Kingdom

<https://elischolar.library.yale.edu/ypfs-documents/11431>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.

Eligible collateral

 A list of the eligible collateral for liquidity insurance schemes and the legal documentation you'll need



BANK OF ENGLAND

Eligible collateral for liquidity insurance schemes

We lend through our market operations against collateral delivered by firms. This collateral has to be good enough so we can sell or keep it, if a counterparty fails to repay us.

For information on how to deliver securities in our market operations, please see our [Collateral settlement and management](#) page.

Collateral needed for each operation or facility

Collateral	Level A	Level B	Level C
Intraday Liquidity	Y	N	N
Operational Standing Facilities	Y	N	N
Liquidity Facility in Euros (LiFE)	Y	Y	Y
US Dollar Repo	Y	Y	Y
Indexed Long-Term Repo OMOs	Y	Y	Y
Discount Window Facility	Y	Y	Y
Contingent Term Repo Facility	Y	Y	Y
TFSME Lending Facility	Y	Y	Y
Funding for Lending Scheme	Y	Y	Y
Term Funding Scheme	Y	Y	Y

[Summary table of collateral \(PDF 0.1MB\)](#)

[Level A collateral \(PDF 0.1MB\)](#)

Level B collateral (PDF 0.4MB)

Level C collateral securities (PDF 0.2MB)

Level C loan collateral (PDF 0.6MB)

Loan collateral: guidance for participants in the Sterling Monetary Framework (PDF 0.1MB)

Collateral Loan: Prepositioning Guide (PDF 2.5MB)

Level A collateral eligible securities (XLSX 0.1MB)

Level B collateral eligible securities (CSV 0.1MB)

Level C collateral eligible securities (CSV 0.1MB)

LIBOR linked securities (CSV 0.1MB)

Information transparency on asset-backed securities - Market Notice October 2019

Equities as Collateral

The Bank does not normally accept equities as collateral under the SMF but has put in place the technical measures to allow it to do so at its discretion, should the need arise. In order to deliver equities in the event that the Bank takes the decision to include them as eligible collateral in an operation, counterparties would need to have made arrangements with the Bank in advance and have opened a tri-party equity account with an eligible provider. The Bank's eligible providers are currently BNY Mellon and Euroclear Bank SA/NV. Participants wanting more information, or to set up a tri-party account, should contact the Bank on applications@bankofengland.co.uk.

Collateral referencing LIBOR

Update 24 March 2021

The Bank's revised policy for collateral referencing LIBOR for use in the SMF is detailed in this Market Notice, published on 24 March 2021.

Market Notice: The Bank's risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework

This Market Notice updates the Bank's previous Market Notices dated 07 May 2020 and 26 February 2020, to set out the conditions in which it will consider putting weight on robust fall-back language when applying its policy for collateral referencing LIBOR for use in the SMF.

Fallbacks and future rate switch mechanisms

The Bank set out in February 2020 that it would adopt a haircut glide path for all LIBOR linked collateral maturing after end-2021 (see below). The Bank nevertheless committed to keep under review the potential to distinguish between LIBOR Linked Collateral with robust fallback language and that without. After reviewing market developments and subject to conducting further due diligence, the Bank will consider waiving the application of scheduled LIBOR linked haircut additions to LIBOR Linked Collateral where it is satisfied (in its sole discretion) that such Collateral benefits from a robust fallback or a future rate switch mechanism that meets the conditions set out in the Market Notice published on 24 March 2021.

If SMF participants consider that their LIBOR Linked Collateral contains robust fallback or future rate switch language and therefore want the Bank to consider waiving the application of scheduled LIBOR linked haircut add-ons to their LIBOR Linked Collateral, they will be required to complete additional due diligence on the fallback or future rate switch mechanism that they have introduced. Participants can contact the Bank for details of the required due diligence process, which will be available shortly. In line with the SMF's general terms and conditions, any costs, including legal costs, incurred by the Bank in relation to such due diligence process will be charged back to the SMF participant.

Upfront replacement of LIBOR with an alternative rate

A more direct way to transition collateral away from LIBOR is to make contractual amendments that have the effect of immediately replacing LIBOR with an alternative rate (rather than at some point in the future). For LIBOR Linked Loan Portfolios and Collateral Securities backed by loans where one or more loans in the portfolio is a LIBOR Linked Loan, the Bank will require participants to complete a similar due diligence process to that mentioned above in relation to fallbacks and future rate switch mechanisms, if they would like these to be considered for a waiver. This is in order for the Bank to satisfy itself (in its sole discretion) that those contractual amendments are legally binding, enforceable and irrevocable and will ensure that LIBOR will be replaced with an alternative rate.

Collateral referencing USD Libor

On 5 March 2021, the [FCA confirmed](#) that all LIBOR settings will either cease to be provided by any administrator or will no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

In the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings, LIBOR Linked Collateral maturing after 31 December 2021 will remain subject to a haircut glide path that will be phased in from (and including) 1 April 2021 and result in haircuts being 100% on 31 December 2021, at which point all LIBOR Linked Collateral will cease to be eligible for use in the SMF (with the exception of collateral that has been provided to the Bank prior to 1 January 2022 and meets the conditions specified in the Market Notice published on 24 March 2021).

However, in light of the FCA's announcement on 5 March 2021, the Bank is reviewing its policy for Collateral referencing the remaining US dollar LIBOR settings and will announce the outcome of its review in due course. In the meantime, no LIBOR linked haircut add-ons will be applied to Collateral unless such Collateral also references one or more of the other LIBOR rates.

Newly-issued LIBOR-linked collateral, in all currencies

In the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings, from (and including) 1 April 2021, newly issued LIBOR Linked Collateral will be ineligible for use in the SMF, in line with the announcement made by the Bank in its Market Notice dated 07 May 2020.

On 30 November 2020, the [US agencies issued a statement](#) to encourage banks to transition away from US dollar LIBOR as reference rate as soon as practicable and in any event by 31 December 2021. The US agencies also stated that new LIBOR contracts should have robust fallback language that includes a clearly defined alternative reference rate.

In line with that statement, the Bank will not accept any Collateral referencing the remaining US dollar LIBOR settings

that is issued on or after 1 January 2022. Furthermore, Collateral referencing the remaining US dollar LIBOR settings that is issued on or after 1 April 2021 and before 1 January 2022 will not be eligible unless the Bank is satisfied (in its sole discretion) that such Collateral benefits from a robust fallback or a future rate switch mechanism that meets the conditions set out in the Market Notice published on 24 March 2021.

Communication by SMF participants of their transition plans for LIBOR Linked Collateral

Participants are encouraged to communicate and engage proactively with the Bank on their plans for managing any LIBOR Linked Collateral. This also includes where participants plan to simply withdraw any LIBOR Linked Collateral.

Previous updates and documents

Update on the impact of Covid-19 on the interim milestones for the Bank's LIBOR linked collateral haircut and eligibility policy

The central assumption remains that firms cannot rely on Libor being published after the end of 2021. Recognising the challenges caused by the current operating environment and after considering the implications of the temporary disruption caused by Covid -19, as well as the changes published to the interim milestones announced by the Working Group on Sterling Risk Free Rate Transition on 29th April, the Bank has decided to revise the interim milestones for its LIBOR linked collateral and haircut policy.

The haircut glide path for all LIBOR linked collateral maturing after end-2021 will now be phased in from 1 April 2021 (revised from 1 October 2020). Further, from 1 April 2021 (revised from 1 October 2020), newly issued LIBOR linked collateral will be ineligible for use in the SMF.

The policy objective remains to encourage forward planning by both the Bank and SMF members to ensure that borrowing capacity is maintained and that public money is appropriately protected against the risks of a disorderly LIBOR transition. As the central assumption remains that firms cannot rely on LIBOR being published after the end of 2021, the end point of the haircut glide path is unchanged and will result in haircuts of 100% by end of 2021, at which point all LIBOR linked collateral will cease to be eligible for use in the SMF.

The Bank's revised policy for collateral referencing LIBOR for use in the Sterling Monetary Framework is detailed in this Market Notice, published on 7 May 2020.

Market notice: Update on the impact of Covid-19 on the interim milestones for the Bank's LIBOR linked collateral haircut and eligibility policy

UPDATE: On 29 April, the Working Group on Sterling Risk Free Rate Transition (RFRWG) has published changes to the interim milestones it published in January 2020 to support the transition from Libor due to the temporary disruption linked to Covid-19. The central assumption remains that firms cannot rely on LIBOR being published after the end of 2021.

The Bank recognises the need for borrowers and lenders to focus on core activities during this period of temporary disruption and expects to provide the market with an update on its Libor linked collateral haircut and eligibility policy shortly.

The Bank's policy with regards to collateral referencing LIBOR for use in the Sterling Monetary Framework is detailed in this Market Notice, published on 26 February 2020.

Market Notice: The Bank's risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework

The policy objective is to encourage forward planning by both the Bank and SMF members to ensure that borrowing capacity is maintained and that public money is appropriately protected against the risks of a disorderly LIBOR transition. The policy adopts a haircut glide path for all LIBOR linked collateral maturing after end-2021, that will be phased in from 1 October 2020 and result in haircuts being 100% by end 2021, at which point all LIBOR linked collateral will cease to be eligible for use in the SMF. Further, from 1 October 2020, newly issued LIBOR linked collateral will be ineligible for use in the SMF. The Bank considers that this approach should act as an additional incentive both to cease new LIBOR issuance in cash markets and to amend legacy LIBOR linked collateral.

The FPC has made clear that continued reliance of global financial markets on LIBOR poses a risk to financial stability that can only be reduced only through a transition to alternative risk-free rates by end-2021. These risks can only be fully mitigated by removing any links to LIBOR ahead of that date, but the Bank also views broad adoption of robust fallback language as an important risk mitigant. Finalisation and adoption of market standards for robust fallbacks remains in progress, including through the exercise undertaken by ISDA with respect to derivative markets. The Bank will monitor these market developments and will keep under review the potential to distinguish between LIBOR Linked Collateral with robust fallback language and that without, as market practice develops.

In June 2019, the Bank of England published a discussion paper that sought feedback on the Bank's Framework. The paper outlined a number of risk management approaches under consideration by the Bank to ensure that it remains well placed to provide liquidity insurance in support of financial stability.

The Bank of England's risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework

The Bank received 20 responses to the Discussion Paper. Responses were received from banks and building societies, of a range of size and business model, all of which are members of the SMF, although the discussion was open to the entire market. Key themes from these responses are discussed below:

Summary of Responses: The Bank's risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework (PDF)

Haircuts applied to collateral

Summary table of haircuts for Bank lending operations (PDF 0.1MB)

Summary table of margin ratios for Bank draining operations (PDF 0.1MB)

Documentation and data templates for eligible collateral

(Securitisations and Raw Loans)

Residential Mortgages

Transaction Overview Template - Covered Bonds (DOC 0.4MB)
Transaction Overview Template - RMBS Standalone (DOC 0.5MB)
Transaction Overview Template - RMBS Master Trust (DOC 0.4MB)
Residential Mortgages loan level data template (XLSX 0.1MB)
Due Diligence Questionnaire - Residential Mortgages (DOCX 0.2MB)
Data Audit Requirements - Residential Mortgages (PDF 0.3MB)
Data Audit Result Template - Residential Mortgages (XLSX 0.1MB)

ABS and Covered Bonds

ABS and Covered Bond Eligibility Request Template (ABSCERT) (XLSX 0.8MB)
Detailed transparency requirements for asset backed securities and covered bonds - Market Notice 11 October 2019

Asset finance

Loan Level Data Template - Asset Finance Loans (XLSX 0.1MB)
Due diligence questionnaire - Asset Finance Loans (DOCX 0.1MB)
Due diligence questionnaire – CBILS Term Loans (DOCX 0.1MB)
Due diligence questionnaire – CLBILS Term Loans (DOCX 0.1MB)
Data audit requirements - Asset Finance Loans (PDF 0.1MB)
Vintage Curve reporting template (XLSX 0.1MB)

Auto loans

Transaction Overview Template - Auto Loan ABS (DOCX 0.2MB)
Loan level Data Template - Auto Loans (XLSX 0.4MB)
Due diligence questionnaire - Auto Loans (DOCX 0.1MB)
Data audit requirements - Auto Loans (PDF 0.1MB)
Vintage Curve reporting template (XLSX 0.1MB)

Commercial real estate mortgages

Transaction Overview Template - CMBS Standalone (DOC 0.5MB)
Loan Level Data Template - Commercial Mortgages (XLSX 0.1MB)

Consumer loans

Transaction Overview Template - Consumer Loan ABS (DOCX 0.2MB)
Loan level Data Template - Consumer Loans (XLSX 0.1MB)

Due Diligence questionnaire - Consumer Loans (DOCX 0.1MB)

Data Audit Requirements - Consumer Loans (PDF 0.1MB)

Vintage Curve reporting template (XLSX 0.1MB)

Corporate loans

Loan Level Data Template - Corporate Loans (XLSX 0.1MB)

Due diligence questionnaire - Corporate Loans (DOCX 0.1MB)

Due diligence questionnaire – CBILS Term Loans (DOCX 0.1MB)

Due diligence questionnaire – CLBILS Term Loans (DOCX 0.1MB)

Data audit requirements - Corporate Loans (PDF 0.1MB)

SME (small and medium enterprise) loans

Transaction Overview Template - SME CLO Standalone (DOC 0.4MB)

Loan Level Data Template - SME Loans (XLSX 0.1MB)

Due diligence questionnaire - SME Loans (DOCX 0.1MB)

Due diligence questionnaire – Bounce Back Loans (DOCX 0.1MB)

Data audit requirements - SME Loans (PDF 0.1MB)

Social housing

Loan level Data Template - Social Housing Loans (XLSX 0.1MB)

Due diligence questionnaire - Social Housing Loans (DOCX 0.1MB)

Data audit requirements - Social Housing Loans (PDF 0.1MB)

PFI (private finance initiative) loans

Loan level Data Template - PFI Loans (XLSX 0.1MB)

Due diligence questionnaire - PFI Loans (DOCX 0.1MB)

Data audit requirements - PFI Loans (PDF 0.1MB)

Legal documentation

Participants are required to complete legal documentation when prepositioning loan collateral. The below folder includes loan annex, power of attorney and declaration of trust documentation alongside the legal due diligence templates for each asset class.

Legal documentation (ZIP)

Participants who want the Bank to consider waiving the application of LIBOR linked haircut add-ons to their LIBOR Linked Collateral will be required to complete due diligence on the fallback or future rate switch mechanism applied,

and/or upfront replacement of LIBOR with an alternative rate. The below folder includes proforma due diligence questionnaires to be completed for LIBOR Linked Loan Portfolios and/or LIBOR linked Collateral Securities, as well as Q&A documents on the related due diligence processes for each.

Legal documentation proforma due diligence questionnaires (ZIP)