

BANK OF ENGLAND MARKET NOTICE: US DOLLAR REPO OPERATIONS; EXTENDED COLLATERAL STERLING LONG-TERM REPO OPERATIONS

1 This Market Notice covers two operations: US dollar repo operations; and extended collateral sterling three-month repo operations.

US DOLLAR REPO OPERATIONS

2 The Bank's US dollar repo operation on 26 September will be in two parts. The first part will be for an overnight maturity. The second part will be for a one-week maturity, settling same-day and maturing on Friday 3 October. \$10 billion will be offered at the overnight maturity; and \$30 billion at the one-week maturity.

3 In each operation, participants may not bid for more than 20% of the total funds on offer. The maximum number of bids that an individual bidder may submit in each operation is 10.

4 The timing of the overnight dollar repo operation is unchanged: it will take place from 08.15; and the closing time for bids will be 08.45.

5 The one-week repo operation will take place from 08.45. The closing time for bids in this operation is 09.15.

6 The results of both operations will be announced together at 09.45 or as soon as possible thereafter.

7 Other than as amended by this Market Notice, the terms of the Bank's Market Notice of 22 September 2008 and the Supplementary Terms for US Dollar Repo Operations continue to apply to the dollar repo operations.

LONG-TERM EXTENDED COLLATERAL REPO OPERATIONS

8 For a period, the Bank will conduct weekly sterling repo operations against extended collateral for a three-month maturity.

9 Other than as amended by this Market Notice, the terms of the Bank's Documentation for the Sterling Monetary Framework will apply to these extended collateral three-month repo operations.

10 The first weekly operation will be held on Monday 29 September for settlement on Tuesday 30 September and for maturity on 15 January 2009. The size of the funds offered in this extended collateral long-term repo will be £40 billion.

11 The sizes of subsequent operations will be announced in light of the first operation; and of market conditions.

12 A second operation will be held on Tuesday 7 October for settlement on a T+1 basis and maturity on 22 January 2009. In the third week the Bank will hold its monthly long-term repo operation on 14 October as scheduled.

13 The Bank will keep under review whether weekly extended collateral long term repos should continue thereafter.

14 Eligible collateral and settlement arrangements for the extended collateral three month repo operations will be as set out below. The haircuts will apply to all outstanding long-term repos against extended collateral as from 30 September.

15 Bids should be submitted across the Bank's electronic system for open market operations, Btender, between 10.00 and 10.30am.

16 Bids will be subject to a minimum bid rate. The minimum bid rate will be 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. The minimum bid rate will be announced on the Bank's wire services pages. If the Bank observes bids submitted below the minimum bid rate, the Bank will require the relevant counterparty to amend or cancel those bids. If bids below the minimum bid rate are extant at the end of the operation, such bids will be cancelled by the Bank.

17 The Bank will announce the results of the operation at 10.55am or as soon as possible thereafter.

18 The maximum total size of a counterparty's bids may not be greater than 20% of the size of funds on offer.

19 The maximum number of bids will be 10.

20 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. With reference to section 4.3.5(ii) of the Operating Procedures, no plausibility parameter will be set by the Bank in Btender.

21 Consistent with the Bank's objective of keeping overnight market interest rates in line with Bank Rate, the Bank intends to offset the additional reserves taken up in the long-term repo operations in its other operations, if necessary by draining reserves.

Eligible collateral

22 Eligible collateral securities will consist, in addition to the securities routinely eligible in the Bank's short-term OMOs and standing facilities as published on the Bank's website, 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.
- 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.
- AAA-rated tranches of UK, US and EEA asset-backed securities (ABS) backed by credit cards; and AAA-rated tranches of UK and EEA prime residential mortgage-backed securities (RMBS). Un-listed ABS and RMBS will not be eligible. The assets underlying ABS and RMBS must be cash, not synthetic. Own-name ABS and RMBS will be accepted.
- UK and EEA covered bonds rated AAA. The underlying assets may be either public sector debt or prime residential mortgages. Own-name covered bonds will be accepted.

23 Securities may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona, Swiss francs and, in the case of Japanese Government Bonds only, yen.

24 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.

25 Securities must be capable of being delivered to the Bank via the delivery mechanisms specified below.

26 Margin ratios for the wider collateral pool are set out in the annex to this Market Notice, and have been set to be in line with the haircuts for the Bank's Special Liquidity Scheme.

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

28 Three-month repos against the broader list of collateral will be re-margined separately from other OMOs. Margin securities may consist of the wider pool of collateral securities listed above; or securities routinely eligible in the Bank's OMOs.

Settlement arrangements

29 The Bank will not advance funds until it has confirmed the eligibility of the collateral offered. Participants may deliver securities routinely eligible in the Bank's short-term OMOs initially and substitute other eligible collateral subsequently.

30 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.

31 Securities to be delivered as collateral must be confirmed to the Bank by 2pm on the day of the operation using the confirmation 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.

32 The deadline for delivery of securities in the wider collateral pool is 4pm. Where those securities are being delivered in substitution for securities already held by the Bank and those other securities are required at an earlier point in the day, delivery of securities to the Bank should be effected well in advance of that earlier time.

33 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) CREST; the European Correspondent Central Banking Model; and, for instruments issued directly into the International Central Securities Depositories, Euroclear or Clearstream;
- (ii) To the Bank of England's account at the Federal Reserve Bank of New York, the Bank of Canada or the Bank of Japan;
- (iii) Via international links maintained by Euroclear.
- (iv) Such other delivery mechanism as the Bank shall specify.

34 Individual instruments will be accepted through the highest possible tiered mechanism listed above and subject to operational limitations.

35 The Bank reserves the right to reject any security offered for any reason.

Collateral concentration limits

36 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.

37 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.

- ABS and RMBS from a particular issuer or originator should be aggregated with ABS or RMBS of other issuers or originators within the same group, and with covered bonds from an issuer within the same group, and treated as a single issuer.

Bank of England

26 September 2008

Annex: Margin ratios for wider collateral pool

	Sovereign paper	Government guaranteed agencies	US GSEs	RMBS, covered bonds and credit card ABS
<i>Credit rating (on Moody's scale)</i>	Aa3/AA- or higher	AAA	AAA	AAA not own-name
Floating rate/Fixed interest rate under 3 years to maturity	1.01	1.03	1.03	1.14
Fixed interest rate 3-5 years to maturity	1.02	1.04	1.04	1.16
Fixed interest rate, 5-10 year maturity	1.03	1.09	1.09	1.20
Fixed interest rate, 10-30 year maturity	1.06	1.16	1.16	1.28
Fixed interest rate, more than 30 year maturity	1.07	Available on request		

Additional notes

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

Consistent with the Special Liquidity Scheme, there will be add-ons to margin ratios for own-name eligible covered bonds, RMBS and credit card ABS; and for securities for which no market price is observable.

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

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