

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

1 The Bank will continue to hold extended collateral three-month long-term repo open market operations (OMOs) weekly up to and including the scheduled long-term repo operation on 18 November. The operations will be held on Tuesdays from 10.00. The Bank will keep under review whether weekly extended collateral long term repos should continue thereafter.

2 The size of the funds offered at the Bank's extended collateral long-term repo operation on Tuesday 7 October will be £40 billion. The size of subsequent operations will be decided in light of the degree to which current market conditions persist. The Bank will announce the size of those operations on the Friday before the date of the operation.

### Eligible collateral

3 In addition to the wider pool of eligible collateral securities set out in the Bank's Market Notice of 26 September 2008, the Bank will accept the following securities as collateral in these operations:

- 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 commercial mortgage-backed securities (CMBS). Securities containing construction loans will not be eligible. The collateral pool must be high quality and diversified.
- 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 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 eligible for delivery in the Bank's extended long-term repo operations as set out above and in the Bank's Market Notice of 26 September 2008.

4 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 securities will be accepted.

5 Securities may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona, or Swiss francs.

6 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.

7 Securities must be capable of being delivered to the Bank via the delivery mechanisms specified in the Bank's Market Notice of 26 September 2008, with the addition of international links maintained by Clearstream.

8 Margin ratios for the wider collateral pool are set out in the annex to this Market Notice. The margin ratios applied to credit card ABS have been amended. The new margin ratios will apply to all outstanding long-term repos against extended collateral as from 8 October.

9 Lists of collateral securities to be checked for eligibility by the Bank, accompanied by an assurance of compliance with the criteria specified above, should be submitted to the Bank at the following address:

[LTReligibilitycheck@bankofengland.co.uk](mailto:LTReligibilitycheck@bankofengland.co.uk)

10 Counterparties are encouraged to pre-position collateral with the Bank.

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.

13 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, 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. This amendment to the Market Notice of 26 September 2008 will apply as from Wednesday 8 October.

#### Bidding arrangements

14 The Bank will contact counterparties via their direct phone lines 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.

15 The Bank will continue to 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 and in the Bank's Market Notice of 26 September 2008, the minimum bid rate will be 50 basis points higher than the equivalent-maturity OIS rate.

16 Other than as amended above, the terms of the Bank's Market Notice of 26 September 2008 (insofar as it related to long-term repo operations) will apply to these operations.

Bank of England  
3 October 2008

Annex: Margin ratios for wider collateral pool

	Sovereign paper	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 (on Moody's scale)</i>	Aa3/AA- or higher	AAA	AAA not own-name	AAA not own-name	AAA not own-name	AAA not own-name
Floating rate/Fixed interest rate under 3 years to maturity	1.01	1.03	1.14	1.18	1.25	1.33
Fixed interest rate 3-5 years to maturity	1.02	1.04	1.16	1.20	1.28	1.37
Fixed interest rate, 5-10 year maturity	1.03	1.09	1.20	1.25	1.33	1.43
Fixed interest rate, 10-30 year maturity	1.06	1.16	1.28	1.33	1.43	1.54
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.*

*There will be add-ons to margin ratios for own-name eligible covered bonds, RMBS and ABS; and for securities for which no market price is observable.*

*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 be in the range of 1.14-1.33 depending on the underlying asset classes and the diversification of the pool.*

*The Bank may make further specific add-ons to the margin ratio for particular RMBS, covered bonds, ABS and ABCP at its discretion.*

*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.*