SPECIAL LIQUIDITY SCHEME: ADDENDUM TO THE MARKET NOTICE

1. This Addendum to the Special Liquidity Scheme (SLS) Market Notice published on 21 April 2008 provides further information in response to questions on a number of technical issues relating to the Scheme.

Eligible securities

2. As the Market Notice sets out in paragraph 12, participating institutions may deliver into the SLS only eligible securities held on balance sheet as at 31 December 2007 or securities formed from underlying loans, including sellers' claims on Master Trusts, held on balance sheet at that date ("the legacy asset principle"). Participating institutions may deliver securities held, or formed from assets held, on the balance sheet of the participating legal entity. Subsidiaries' assets satisfying the legacy asset principle are also eligible provided that the subsidiary is owned by the participating legal entity. Assets held in subsidiaries that are consolidated for accounting purposes but not owned by the participating legal entity are not eligible. For this purpose, a participating entity is treated as owning a subsidiary if it holds a majority of the voting rights in the subsidiary.

3. The Bank may consider including securities formed from underlying assets previously owned by the participating institution (or a subsidiary owned by the institution) that were warehoused in an off balance-sheet structure or vehicle as at 31 December 2007. Whether the Bank includes such assets would depend on, for example, the structure and legal maturity date of existing financing.

4. The Bank will not accept as collateral securities, including covered bonds, formed in whole or in part from underlying commercial loans. The Bank interprets commercial loans to include loans to Small and Medium Enterprises, including those secured on land or commercial property. Buy-to-let loans to private residential landlords are eligible.

5. The Bank will not accept as collateral securities, including covered bonds, formed in whole or in part from residential mortgages secured on properties not located in the UK or other EEA countries.

6. The Bank reserves the right to deem a security ineligible at any time, including securities previously deemed eligible.

Top-ups and amortisation limits for revolving structures

7. For participants delivering covered bonds and non-pass through RMBS collateral 'amortisation limits' are applied over the three year life of the SLS when the original legacy assets are topped-up or substituted for by assets originated after 31 December 2007 in order to determine the maximum value of such securities that can be delivered by each institution under the SLS. The structure of these amortisation limits is outlined in paragraph 12 of the Market Notice. In more detail, the amortisation limit in year 1 of the Scheme is the sum of the value of AAA covered bonds and non-pass-through RMBS held on balance sheet as at 31 December 2007, the value of sellers' shares in RMBS Master Trusts as at 31 December 2007 and the total value of unencumbered residential mortgage loans held on balance sheet, including any issuance capacity in covered bond programmes, as at 31 December 2007, minus any residential mortgage loans used to back pass-through issuance since 31 December 2007. In year 2 of the Scheme, participants may deliver AAA covered bond and non-pass-through RMBS collateral up to two-thirds of the Year 1 limit. In year 3 of the Scheme, participants may deliver AAA covered bond and non-pass-through RMBS collateral up to one-third of the Year 1 limit. The representations and warranties governing top-ups and substitutions must ensure that the characteristics of new loans entering into pools are consistent with the eligibility criteria of the SLS in all other respects.

8. Eligible pass-through RMBS are not subject to amortisation limits as they do not contain non-legacy assets. Other RMBS or covered bond programmes where the issuer has committed to the Bank not to top up or otherwise replenish the collateral pool with non-legacy assets will be treated as pass-though structures for the purposes of amortisation limits.

New covered bond issues and securitisations for SLS usage

9. Institutions considering new securitisations or new covered bond issues should establish a point of contact in the Sterling Markets Division of the Bank at an early stage in the process. In order to facilitate checks of whether collateral is eligible in the SLS, the Bank requires institutions to provide a response to a set of standard questions, available via the institution's relationship manager.

Early rolling of transactions

10. To help participants manage their drawings from the Scheme, the Bank will accommodate SLS participants which wish to roll swap transactions early by entering into replacement transactions before the original transaction's scheduled maturity date. If required, such rolls can take place once transactions have less than three months to maturity, and must take place on the final re-fix date of the swap. In those circumstances, the Bank will terminate the original transaction and replace it with a new 364-day transaction or a transaction to the maturity of the eligible collateral, whichever is shorter. The Bank requires 5 business days notice for requests to roll transactions early.

11. SLS participants should speak to their relationship manager for further details on this process.

Collective schemes

12. Some eligible institutions may have on their balance sheet legacy loans that could be used to create eligible securities, but are not in a position to create such securities before the close of the drawdown window. In these circumstances, the Bank is willing, in principle, to consider collective schemes that allow such institutions to obtain SLS eligible collateral that was not on their balance sheet as at 31 December 2007 in order to access the SLS. The Bank will review the eligibility of any such schemes on a case-by-case basis.

DMO Treasury-bill issuance facility

13. As described in the Market Notice, equivalent securities to T-bills lent under the Scheme must be delivered back to the Bank 10 calendar days prior to their maturity and will be exchanged for the prevailing 9-month T-bill. Equivalent T-bills for redelivery to the Bank may either be purchased in the market, or obtained from the DMO using its bilateral T-bill issuance facility. Details of the DMO's bilateral T-bill issuance facility can be found at:

www.dmo.gov.uk/index.aspx?page=tbills/tbills_Discretionary.

FSA guidance on treatment of transactions

14. The FSA has recently issued guidance on the regulatory treatment of SLS transactions, including that Treasury Bills obtained via the SLS can be considered as liquid assets until the maturity of the Scheme. Further details are available from FSA line supervisors.

Bank of England
14 August 2008