



Market Notice

6 December 2011

Sterling Monetary Framework: Extended Collateral Term Repo Facility

1. This Market Notice describes the operation of the Bank's Extended Collateral Term Repo (ECTR) Facility. The ECTR Facility is a contingency liquidity facility that can be used to provide additional sterling liquidity to the banking system when required against collateral pre-positioned for use in the Bank's Discount Window Facility (DWF). ECTR operations will be announced at the discretion of the Bank to respond to actual or prospective market-wide shortages of short-term sterling liquidity.
2. The timing of any ECTR auctions will be pre-announced by the Bank. The size of the auctions will be announced on the business day preceding the auction, at 4.00pm. The term of borrowing under each auction will be 30 days.
3. The Bank will keep the operation of the Facility under review, including in the light of market conditions.
4. This Facility forms part of the Sterling Monetary Framework (SMF). Other than as amended by this Market Notice, the Terms and Conditions and Operating Procedures for participation in the Bank's SMF (as supplemented by the Supplementary Terms for the ECTR Facility¹) will apply to transactions under this Facility.

Eligible institutions

5. Those institutions eligible to participate in the auctions are banks and building societies that are signed up to the Bank's Discount Window Facility (DWF).

Bidding process

6. Auctions will take place at 10.30am. The closing time for bids will be 11.00am.
7. Bids should be submitted via telephone to the Bank's sterling money market desk via direct lines or on 020 7601 5000.
8. A maximum of 10 bids will be accepted from a single Participant. The maximum total size of bids from Participants in a single banking group may not be greater than 40% of the size of funds on offer in that auction. The Bank reserves the right to reject bids in its sole discretion.

¹ Available on the Bank's website at http://www.bankofengland.co.uk/markets/money/documentation/ectr_supplemental_terms.pdf

9. The minimum bid size will normally be £5 million, with increments of £1 million.
10. The Bank will index the rate charged on transactions 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 125 basis points.
11. Participants who submit multiple bids must also provide the weighted average spread of those bids to 3 decimal places.

Allocation process

12. ECTR auctions will adopt a variable rate, uniform-price format, in which every successful bidder pays the lowest accepted spread (the “clearing spread”).
13. Bids will be ranked in descending order of the spread bid. Bids at the highest spread will be accepted first, followed by bids at successively lower spreads until the auction is fully allocated or bids received 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.
14. The Bank will telephone each bidding Participant after the auction to confirm their allocation (and will deliver an allocation ticket to the Participant specifying the same as soon as practicable after the call).

Announcements

15. The result of each auction will be published on the Bank’s wire services pages 30 minutes after the close of the auction, or as soon as practicable thereafter.² The Bank will publish the total value of funds allotted and the clearing spread to Bank Rate in the result announcement.

Indexing of interest rate

16. The interest charged on cash provided under each transaction will be calculated daily (on the basis of a 365 day year), 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 in the auction. The total interest payable over the life of the transaction will be the sum of these daily interest accruals and the interest shall be payable in arrears on the maturity of each transaction.

Eligible collateral

17. Eligible collateral will consist of narrow collateral and wider collateral (each as described in the SMF Operating Procedures), DWF Collateral Securities and DWF Loan Collateral (each as described in the DWF

² 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/ectr/results.htm.

Operating Procedures).³ The Bank reserves the right to reject any security or loans offered for any reason at any time.

18. If the Bank has accepted a DWF Loan Portfolio as collateral for DWF Transactions, that DWF Loan Portfolio may in principle be used to act as collateral for ECTR Transactions and for DWF Transactions.

19. Collateral must be pre-positioned in the DWF prior to bidding in an auction. Bids in excess of the total Adjusted Market Value of collateral pre-positioned by a Participant in the DWF at close of business on the day before the auction may be rejected.

20. In respect of DWF Loan Collateral already collateralising outstanding transactions under this Facility and/or under the DWF, the capacity to enter into additional transactions will be based on the available remaining Adjusted Market Value of that collateral as determined by the Bank.

21. SMF Haircuts apply to collateral for ECTR Transactions.

22. ECTR Facility transactions will be re-margined separately from other SMF transactions. DWF Loan Collateral will be allocated for margin purposes between ECTR Transactions and DWF Transactions that share such DWF Loan Collateral as if such collateral were held on a pro rata basis or such other basis as the Bank considers appropriate. Margin collateral may consist of any collateral that is eligible collateral under the SMF. The deadline for settlement of margin securities is 1.30pm.

23. Collateral concentration limits will not apply to collateral delivered in the ECTR Facility. However, portfolios of senior corporate bonds and commercial paper will be subject to a diversification requirement that no more than 10% of the total value of the portfolio may be from a single issuer, as set out in the SMF Operating Procedures.

Settlement arrangements

24. Settlement of ECTR auctions will take place on a T+1 basis.

25. Securities and loan portfolios to be transferred from the DWF pre-positioned collateral pool (together with loan portfolios that already collateralise outstanding DWF and/or ECTR Transactions) for use as collateral against ECTR transactions must be confirmed by the Participant to the Bank by 8.00am on the day of settlement using the form of Transaction Confirmation supplied by the Bank, which must be delivered to LS.Team@BankofEngland.co.uk.

26. Collateral provided for the transaction must have an Adjusted Market Value (and in respect of DWF Loan Collateral already collateralising outstanding transactions under this Facility and/or the DWF taking into account only the available drawing capacity of that collateral as determined by the Bank) that is at least equal to the amount of funds allocated, plus anticipated interest. Where necessary, valuations should be converted into sterling using the exchange rates published on the RBS fixings pages available on Reuters or

³ www.bankofengland.co.uk/markets/money/documentation.htm

Bloomberg (on pages RBSFIX01 or RBSQ respectively) at 4.00pm on the previous day. The Bank reserves the right to use other prices at its discretion.

27. Where DWF Loan Collateral is used as collateral, the Participant must deliver a Loan Collateral Transfer Notice (signed by an authorised signatory of the Participant) in the form supplied by the Bank, before settling the transaction.

28. Where Scottish loans are used as collateral, the pre-agreed Scottish Declaration of Trust and Scottish Transfer also need to be executed and delivered to the Bank before settling the transaction.

29. For loans provided as collateral, the transfer by the Bank of the funds allocated will automatically activate the agreed transfer mechanism in accordance with the SMF Terms and Conditions.

30. On the maturity date of transactions, sterling funds should be delivered to the Bank by 11.30am London time. Subject to prior agreement with the Bank, Participants may combine payments to be made or returned on the same day into a single transaction of a net amount. Participants should send an email to the Bank (email address: LS.Team@BankofEngland.co.uk) with the appropriate completed confirmation template supplied by the Bank confirming the details of the maturing ECTR Transaction(s), by 2.00pm on the working day prior to the applicable maturity date.