



Market Notice

16 January 2014

Indexed Long-Term Repo operations and Contingent Term Repo Facility

1 The Bank of England announced a number of changes to its approach to providing liquidity insurance to the banking system on 24 October 2013.¹ This Market Notice provides further details about two of those changes – the launch of new Indexed Long-Term Repo (ILTR) operations and the Contingent Term Repo Facility (CTRF). All transactions are subject to the Bank’s Sterling Monetary Framework Terms and Conditions. The Bank will publish updated legal documentation to incorporate these changes, including the Sterling Monetary Framework Terms and Conditions and Operating Procedures, ahead of the first operation.

Indexed Long-Term Repo operations

2 The regular market-wide ILTR operations are aimed at banks with a predictable need for liquid assets. The Bank will normally offer funds with a six month maturity via an ILTR operation once each calendar month. The first operation is scheduled for 11 February 2014.

3 Participants will be able to borrow against three collateral sets, Levels A, B and C. Level A collateral comprises certain high-quality highly liquid sovereign securities. Level B collateral comprises high-quality liquid collateral, including other sovereign, supranational, mortgage and corporate bonds. Level C comprises less liquid securitisations, own-name securities and portfolios of loans. Further details on the collateral sets are on the Bank’s website at <http://www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx>.

4 Participants are strongly encouraged to pre-position sufficient collateral with the Bank ahead of the operation and must pre-position any Level C collateral they intend to use in the operation. Eligible loan portfolios may be used to collateralise transactions in the ILTR and CTRF, as well as the Discount Window Facility and Funding for Lending Scheme, provided the total value of all transactions collateralised by the loan portfolio does not exceed the Adjusted Value of the portfolio, as calculated by the Bank.

Bidding process

5 Bids should be submitted across the Bank’s electronic system for Open Market Operations, Btender, typically between 10.00 and 10.30am. The Bank currently places no restriction on the number of bids submitted, the aggregate value of bids or the total amount allocated to a single participant. Participants may choose to submit multiple bids against one or more of the three collateral sets, Levels A, B and C. The

¹ <http://www.bankofengland.co.uk/publications/Pages/news/2013/124.aspx>

minimum bid amount is currently set at £5 million and the minimum bid increment is currently set at £1 million.

6 The Bank will index the rate charged on ILTR operations to Bank Rate. Participants will therefore bid by submitting a nominal amount and a spread to Bank Rate expressed in whole basis points against a specific collateral set. Bids will be subject to a minimum bid spread, which is initially set at 0bp for Level A, 5bp for Level B and 15bp for Level C collateral.

7 If Btender is unavailable for any reason, the Bank will postpone or cancel the operation. An announcement would be made on the Bank's wire services pages.

Allocation process

8 The auction's pricing mechanism uses a so called 'uniform price' format, in which every successful bidder pays the 'clearing spread' for borrowing against a specific collateral set. The clearing spread for each collateral set is determined in the auction based on the pattern of bids received and the Bank's preferences for supplying funds across collateral sets and in aggregate. For each collateral set, bids are ranked in descending order of their bid spread. Bids at the highest spread are accepted first, followed by bids at successively lower spreads until the Bank's pre-determined supply preferences have been met. Bids above the clearing spread will be fully allocated and bids at the clearing spread may be scaled back, i.e. allocated 0%-100% of the bid amount. As all successful bidders pay the relevant clearing spread, participants should have little incentive to alter their bids on the basis of assumptions about other participants' likely behaviour.

9 The auction is designed to be flexible. Two automatic responses are built into each ILTR operation. First, a greater proportion of funds is lent against a particular collateral set as the clearing spread for that collateral set increases relative to the other collateral sets. Second, a greater total quantity of funds is made available as the pattern of bids observed in the auction suggests a greater demand for liquidity insurance.

10 The Bank will offer some funds against each collateral set in each ILTR operation at the minimum bid spreads to Bank Rate and will offer more funds as the clearing spreads rise. The minimum amount offered in each ILTR auction will initially be set at £5bn, with the total amount available rising to many multiples of this minimum amount. The Bank will keep all ILTR parameters under review.

Results

11 The Bank will normally announce the results of the operation on the Bank's wire services pages at 10.40am on the day of the operation or as soon as possible thereafter.² The results will detail the amount bid and the amount allocated for the operation in aggregate and also the amount bid, the amount allocated and the clearing spread to Bank Rate for each collateral set individually.

12 Participants will be able to see the above data, together with the detail of the outcome of their bids, in Btender.

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/ltomo/results.htm.

Contingent Term Repo Facility

13 All collateral accepted in the Extended Collateral Term Repo (ECTR) facility is now accepted in the ILTR. As a result, the ECTR has been re-named as the Contingent Term Repo Facility (CTRF). Following an extended period of no demand, in light of market conditions, CTRF auctions are not required at present although the CTRF will remain a permanent part of the liquidity insurance facilities offered by the Bank.

14 The contingent nature of the CTRF allows the Bank to provide liquidity against the full range of eligible collateral at any time, term and price it chooses, in response to actual or prospective exceptional market-wide stress. Its terms will be set by the Bank, and announced via a Market Notice, each time it is deployed, in light of prevailing market conditions.

Bank of England
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