

REVISIONS TO ELIGIBILITY CRITERIA FOR SOVEREIGN, CENTRAL BANK AND SUPRANATIONAL DEBT TAKEN AS COLLATERAL IN THE BANK OF ENGLAND'S OPERATIONS

1. This Market Notice sets out revisions to the eligibility criteria for sovereign, central bank and supranational debt taken as either narrow or wider collateral in the Bank's operations.
2. All sovereign, central bank and supranational debt currently eligible as collateral in the Bank's operations will remain eligible as either narrow or wider collateral. The narrow collateral set will be expanded to include US and Canadian government securities, which are currently eligible as wider collateral, but a number of other sovereigns, in addition to supranationals, will transition from the narrow to the wider collateral set. In making these changes, narrow collateral will in future include only those securities which in the Bank's view are likely to remain liquid in all but the most extreme circumstances, and are issued by sovereigns with sufficiently deep debt markets to facilitate broad access to the Bank's operations, consistent with the monetary policy purpose of narrow collateral. Other sovereign and supranational debt which is currently eligible as narrow collateral will remain eligible in the Bank's operations, but only as wider collateral, consistent with the purpose of wider collateral of providing liquidity insurance to the banking system. In addition, the wider collateral set will be expanded by the inclusion of a small number of sovereigns whose debt is not currently eligible as collateral in the Bank's operations.
3. The revisions reflect an important milestone in the Bank's long-term review of its collateral policy, which was initiated following the October 2008 consultative paper on the Bank's market operations, and which complements the reforms to the Sterling Monetary Framework in recent years. As such, the changes set out below represent a further stage in the development of the Bank's operations in the sterling money markets, which are summarised in the Red Book dated December 2010, available at:
<http://www.bankofengland.co.uk/markets/sterlingoperations/redbook.htm>.
4. The changes will take effect from 1 July 2011, at which point they will apply to all existing and new transactions. Until then, existing eligibility criteria will continue to apply. The Bank continues to reserve the right to apply additional haircuts at its discretion at any time, including on outstanding transactions.
5. Further information on different types of collateral is set out in the collateral section of the SMF Operating Procedures, which are available on the Bank's website via the following link:

<http://www.bankofengland.co.uk/markets/money/documentation.htm>. Other than as amended by this Market Notice, the Terms and Conditions and Operating Procedures for participation in the Bank's Sterling Monetary Framework and the documentation governing the provision of intra-day liquidity to CHAPS settlement banks will apply to all of the Bank's operations.

Narrow collateral

6. Narrow collateral is eligible in the Bank's short-term and long-term Open Market Operations, in the Operational Standing Lending Facility, for the provision of intra-day liquidity to CHAPS settlement banks, and in the Discount Window Facility (with the exception of HMG Treasury bills and gilts, which are not eligible collateral securities in the Discount Window Facility). Narrow collateral includes those securities issued in the deepest and most liquid markets which, in the Bank's view, are likely to remain liquid in all but the most extreme circumstances.

7. As of 1 July 2011 securities judged to satisfy the criteria for narrow collateral taken in the Bank's operations will comprise:

- Gilts (including gilt strips)
- Sterling Treasury bills
- Bank of England securities
- HM Government non-sterling marketable debt
- Sterling, euro, US dollar and Canadian dollar-denominated securities (including associated strips) issued by the governments and central banks of Canada, France, Germany, the Netherlands and the United States¹

8. A full list of ISINs eligible as narrow collateral will continue to be published on the Bank's website at: <http://www.bankofengland.co.uk/markets/money/narrowomocollateral.htm>.

Wider collateral

9. Wider collateral is eligible in the Bank's long-term Open Market Operations and in the Discount Window Facility. (A still wider set of collateral is also eligible exclusively for use in

¹ Securities with non-standard features may be excluded for operational reasons.

the Discount Window Facility). The range of securities eligible as wider collateral comprises high quality securities that would normally be expected to trade in liquid markets, and which satisfy the Bank's criteria for the suitability of assets as wider collateral. These criteria relate to the Bank's ability to effectively value and risk manage the assets as collateral. In determining the eligibility of a security as wider collateral the Bank will need to be satisfied that (i) the debt is sufficiently liquid such that it could be realised in the event of counterparty default; and that (ii) market price behaviour and liquidity are sufficiently predictable that the Bank is able to risk manage collateral by imposing appropriate haircuts.

10. With effect from 1 July 2011, the list of sovereigns and central banks judged to meet these criteria, and whose debt (including associated strips) will therefore be eligible as wider collateral, where denominated in either the domestic currency or in sterling, euro or US dollars, will comprise: Australia, Austria, Belgium, Cyprus, Denmark, Finland, Ireland, Italy, Japan, Luxembourg, New Zealand, Norway, Portugal, Slovenia, Spain, Sweden, and Switzerland.

11. In addition, from 1 July 2011, sterling, euro or US dollar-denominated securities issued by major international institutions that are judged to meet the Bank's liquidity criteria for wider collateral will be eligible as such. A list of these institutions can be found on the Bank's website: <http://www.bankofengland.co.uk/markets/money/elinstitutions.htm>.

12. These revisions do not affect the range of privately-issued securities which are eligible as wider collateral. Full details of the range of securities eligible as wider collateral are available on the Bank's website: <http://www.bankofengland.co.uk/markets/money/wideromocollateral.htm>.

13. Changes to eligibility can be made at the Bank's discretion at any time. Questions on the eligibility of individual securities should be sent to: eligible.securities@bankofengland.co.uk.

Haircuts

14. Following implementation of the revised criteria on 1 July 2011, the Bank will continue to reserve the right to impose additional haircuts on individual securities and counterparties. Additional haircuts will be set on individual securities provided by a counterparty where the Bank judges in its sole discretion that base haircuts do not provide sufficient protection against the risks to the value of those securities in the event of the default of the counterparty providing them. In view of the range of securities eligible as wider collateral (including private sector securities), additional haircuts are kept under constant review. Questions on sovereign, central bank and

supranational collateral haircuts can be sent to: eligible.securities@bankofengland.co.uk. Details of base haircuts can be found in Appendix IV of the Bank's SMF Operating Procedures, available at: <http://www.bankofengland.co.uk/markets/money/documentation.htm>.

Concentration limits

15. Upon implementation of the revised eligibility criteria on 1 July 2011, concentration limits will cease to apply to narrow collateral. The Bank will however retain the discretion to apply additional haircuts to narrow collateral where it judges in its sole discretion that concentration creates a risk to the realisable value of a portfolio of securities in the event of the default of the counterparty providing them.

16. Concentration limits on wider collateral will continue to apply. Following implementation of the above changes, OMO Participants must ensure that the adjusted market value of securities of any single issuer which it delivers to the Bank as wider collateral in OMOs is less than the applicable concentration limit at all times. From 1 July 2011 this limit shall be the greater of £250 million or 25% of the total adjusted market value of the securities an OMO Participant delivers to the Bank as collateral in OMOs.

Bank of England

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