

## **LONG-TERM REPO OPERATIONS: MARKET NOTICE**

1 This Market Notice sets out the terms that will apply to the Bank's scheduled long-term repo open market operations (OMOs) on 18 December and 15 January. It is in three sections. The first describes the additional collateral securities eligible at the 3-month maturity; the second the arrangements for the submission of bids at the 3-month maturity; and the third settlement and associated arrangements for 3-month repos. Other than as amended by this Notice, the terms of the Bank's Operating Procedures for the Sterling Monetary Framework will apply.

2 Consistent with the Bank's objectives of keeping overnight market interest rates in line with Bank Rate, the Bank intends to offset the additional reserves taken up in the long-term repo operations in December and January in its other operations, including by reducing the size of the weekly short-term repo OMOs and, if judged necessary, via the issuance of Bank of England sterling bills.

### **SECTION 1: ADDITIONAL ELIGIBLE COLLATERAL**

3 In the case of three-month repos, eligible collateral securities will consist, in addition to the securities routinely eligible in the Bank's OMOs and standing facilities as published on the Bank's website, of the following:

- Bonds issued by G10 sovereigns rated Aa3/AA- or higher (in addition to those currently eligible), subject to any settlement constraints.
- Bonds issued by G10 government agencies explicitly guaranteed by national governments, rated AAA.
- Conventional debt security issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Corporation and the Federal Home Loan Banking system, rated AAA.
- AAA-rated tranches of UK, US and EEA asset-backed securities (ABS) backed by credit cards; and AAA-rated tranches of UK and EEA prime residential mortgage-backed securities (RMBS). Un-listed ABS and RMBS will not be eligible. The assets underlying ABS and RMBS must be cash, not synthetic.

- UK and EEA covered bonds rated AAA. The underlying assets may be either public sector debt or mortgages. Own-name covered bonds will be accepted.

4 Securities may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona, Swiss francs and, in the case of Japanese Government Bonds only, yen.

5 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.

6 Securities will be valued by the Bank either using observed market prices or on calculated prices based on other observed market prices. The Bank's valuation is binding.

7 Margin ratios are defined in the Annex to this Notice.

8 Securities must be capable of being delivered to the Bank via the delivery mechanisms specified below.

## SECTION 2: SUBMISSION OF BIDS AT THE 3-MONTH MATURITY

9 Bids should be submitted across the Bank's electronic system for open market operations, Btender, between 10.00 and 10.30am.

10 The Bank will contact counterparties via their direct phone lines before the announcement of the results of the operation to require them to specify whether each bid at the 3-months maturity is against the delivery of collateral routinely eligible in the Bank's OMOs; or against delivery of collateral securities from the broader list set out above for the three-month repos. If a counterparty does not promptly provide this information, the Bank will cancel the relevant bid.

11 The Bank will announce the results of the operation at 10.55am or as soon as possible thereafter. The usual post-operation announcement for a long-term repo OMO will be published.

12 The maximum total size of a counterparty's bids, across all maturities offered in the long-term repo OMO, may not be greater than 10% of the total size, across all maturities, of the long-term repo OMO.

13 If Btender is unavailable for any reason, the Bank will conduct the operation via telephone, either at the same starting time or at a later starting time. An announcement would be made on the Bank's wire services pages. With reference to section 4.3.5(ii) of the Operating Procedures, no plausibility parameter will be set by the Bank in Btender at the 3-month maturity.

14 The maximum number of bids at the 3-month maturity will be 10.

### SECTION 3: SETTLEMENT ARRANGEMENTS FOR 3-MONTH REPOS

15 Settlement of funds allocated at the three-month maturity will be on a T+3 basis. With the Bank's agreement, settlement of funds allocated against securities routinely eligible in the Bank's OMOs may take place T+1 or T+2; and funds allocated at the 6, 9 and 12 month maturities will settle on a T+1 basis as usual (in each case, notwithstanding the settlement date that will appear in Btender).

16 Collateral securities routinely eligible in the Bank's OMOs should be delivered as specified in the Operating Procedures. Other securities eligible in 3-month repos must be deliverable through the following mechanisms:

- (i) CREST; the European Correspondent Central Banking Model; and, for instruments issued directly into the International Central Securities Depositories, Euroclear or Clearstream;
- (ii) To the Bank of England's account at the Federal Reserve Bank of New York, the Bank of Canada or the Bank of Japan;
- (iii) Via international links maintained by Euroclear.
- (iv) Such other delivery mechanism as the Bank shall specify.

17 Individual instruments will be accepted through the highest possible tiered mechanism listed above and subject to operational limitations.

18 The Bank reserves the right to reject any security offered for any reason.

19 Successful bidders must notify the Bank of the specific securities they propose to deliver as collateral at the three-month maturity by 2pm on the day of the operation.

Collateral must be of the type specified at the time of bidding; except that securities routinely eligible in the Bank's OMOs may be delivered in place of securities in the broader list above.

20 In order to facilitate smooth settlement of transactions, counterparties are encouraged to confirm with the Bank the eligibility of securities they propose to deliver as collateral; and/or pre-position collateral, ahead of the operation.

#### Collateral concentration limits

21 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.

22 For these purposes:

- Bonds issued by G10 government agencies explicitly guaranteed by national governments should be aggregated with bonds issued directly by the relevant government and treated as a single issuer.
- ABS and RMBS from a particular issuer or originator should be aggregated with ABS or RMBS of other issuers or originators within the same group, and with covered bonds from an issuer within the same group, and treated as a single issuer.

#### Margin arrangements for 3-month repos

23 Three-month repos against the broader list of collateral will be re-margined separately from other OMOs. Margin securities may consist of the broader list of collateral securities listed above; or securities routinely eligible in the Bank's OMOs.

Bank of England

14 December 2007

Margin ratios for wider collateral pool

	Sovereign paper	Government guaranteed agencies	US GSEs	Covered bonds		Credit card ABS	UK & EEA RMBS
<i>Credit rating</i>	Aa3/AA- or higher	AAA	AAA	AAA	AAA own-name	AAA	AAA
Floating rate/Fixed interest rate under 3 years to maturity	1.01	1.03	1.03	1.04	1.08	1.04	1.04
Fixed interest rate 3-5 years to maturity	1.015	1.04	1.04	1.06	1.12	1.06	1.06
Fixed interest rate, 5-10 year maturity	1.03	1.08	1.08	1.12	1.24	1.12	1.12
Fixed interest rate, 10-30 year maturity	1.055	1.16	1.16	1.22	1.44	1.22	1.22

Additional notes

*An additional 0.03 is added to margin ratios to allow for currency risk when securities are non-sterling.*

*Note on calculation: adjusted collateral value (post-haircut) = collateral value / margin ratio.*