

BANK OF ENGLAND MARKET NOTICE: STERLING MONETARY FRAMEWORK; EXTENDED-COLLATERAL LONG-TERM REPO OPERATIONS; DISCOUNT WINDOW FACILITY; US DOLLAR REPO OPERATIONS; SPECIAL LIQUIDITY SCHEME: SUMMARY OF CHANGES

1 The Bank is today announcing some changes to the haircuts it applies to the securities it accepts as collateral in the operations listed above. The changes will take effect from 5 October 2009.

2 The main changes are increases to the haircuts (or margin ratios, as appropriate) applied to longer maturity fixed-rate securities, and accordingly to the haircuts applied in some CREST Delivery-by-Value (DBV) categories, where securities are delivered via the DBV mechanism; and to the additional haircut to account for foreign exchange volatility where collateral is non-sterling denominated. Some haircuts (and margin ratios) have also been reduced in size. In each case the change in haircut reflects the application of an updated data-set for the historic volatility of relevant market prices.

3 In order to incorporate these changes, the Bank is today publishing updated consolidated Market Notices for the extended-collateral long-term repo open market operations (OMOs)¹; US dollar repo operations²; the Discount Window Facility (DWF)³; the Special Liquidity Scheme (SLS)⁴; and is also publishing updated Sterling Monetary Framework (SMF) Operating Procedures.

4 The haircuts applied to securities taken as collateral by the Bank against intra-day lending in the Real Time Gross Settlement System have also been amended to be consistent with those to be applied in the Bank's repo OMOs. The haircuts applied in intra-day Self-Collateralising Repo (SCR) transactions to facilitate CREST settlement, will be similarly amended in the near future.

Immediate and future changes to haircut categories and quotation conventions

5 As well as changes to the level of haircuts, the Bank is introducing a greater number of haircut categories in its operations for bonds with different maturities. In

¹ <http://www.bankofengland.co.uk/markets/marketnotice090925ltr.pdf>

² <http://www.bankofengland.co.uk/markets/marketnotice090925usd.pdf>

³ <http://www.bankofengland.co.uk/markets/marketnotice090925dwf.pdf>

⁴ <http://www.bankofengland.co.uk/markets/marketnotice090925sls.pdf>

OMOs, the two haircut categories for bonds with a maturity of between 3 and 7, and greater than 7 years are being replaced by haircut categories for bonds with a maturity of 3 to 5 years, 5 to 10 years, 10 to 20 years, 20 to 30 years and greater than 30 years. The larger number of haircut categories will allow haircuts to vary in relation to the price risk on collateral delivered, and so will be more efficient for the Bank's counterparts. The new haircut categories are also being introduced into the Bank's other operations so that maturity categories are harmonised across the Bank's operations.

6 The Bank continues to quote and apply haircuts in percentage format for the SLS and in margin ratio format for OMOs, US dollar repo operations and the DWF. In 2010 the Bank plans to transition the quotation format for all haircuts from margin ratios to percentage format to harmonise and simplify its collateral operations.

7 As always, margin ratios and haircuts will be kept under review by the Bank. The Bank reserves the right to alter them at any time, including on outstanding transactions.

Bank of England
25 September 2009