

## **THE BANK OF ENGLAND'S OPERATIONS IN THE STERLING MONEY MARKETS: LONG-TERM REPO OPERATIONS**

### **MARKET NOTICE ISSUED BY THE BANK OF ENGLAND**

#### **Timing, maturities and amounts**

Starting in January 2006, the Bank of England will offer long-term repos in monthly tenders. This will build up a stock of longer-term lending ahead of the launch of the reserve-averaging scheme in 2006, and therefore will assist in the management of the supply of reserves to the banking system.

The Bank is currently aiming for a stock of around £15 billion by the time reserve-averaging is launched. The precise amount will depend on when reserve-averaging is launched, and on the results of the first tenders, which the Bank will review with counterparties.

In each monthly tender, the Bank is planning initially to offer lending at maturities of 3, 6, 9 and 12 months. Maturities will normally be for 91 days, 182 days, 273 days and 364 days. The Bank will generally aim to ensure that the repos mature on the same day as settlement of the relevant subsequent monthly operations. This means that, occasionally, the maturities will be seven days longer than those outlined above. But where this would be the case for 12-month repos, the Bank will limit the maturity to 364 days and allow the repo to mature ahead of the future monthly operation. As far as possible, the Bank will align the maturity date with the last trading days of Short Sterling futures contracts on [euronext.liffe](http://euronext.liffe) (International Money Market (IMM) settlement dates).

Long-term repo OMOs will normally take place on a Tuesday for next-day settlement on the third Wednesday of each month. Proposed tender dates, settlement dates and maturity dates for 2006 are set out in Appendix 1; the Bank reserves the right to amend the schedule. Details of each monthly tender, including the precise amounts to be offered at each maturity, will be announced on the previous Tuesday in the week before the operation. The Bank currently expects the first long-term repo OMO in January to be for around £3 billion, skewed towards shorter maturities.

#### **Bidding arrangements**

Long-term repo OMOs will be undertaken at fixed market rates determined in variable-rate tenders. There will be no minimum bid rate. The tenders will be undertaken on a discriminatory price (bid-price) basis. Successful bidders will therefore pay the rate(s) that they bid. Funds will be allocated to bidders in descending order of the rate offered until the amount on offer has been allocated in full. If there are multiple bids at the lowest accepted rate, any remaining funds will be allocated pro rata.

Direct bidding in the long-term repo OMOs will be open to the Bank's OMO counterparties only.

Bidding will start at 10am and will finish at 10.30am. A maximum of 10 bids per maturity will be allowed by each counterparty, with a maximum of 5 bids per maturity being placed in the final 10 minutes. All bids will be irrevocable.

Bids should specify a rate and an amount. Rates must be specified to three decimal places, with amounts in multiples of £1 million and a minimum bid of £5 million.

As in its short-term OMOs, the Bank will impose a limit on counterparty participation such that no single counterparty will be able to bid for more than 40% of the aggregate funds being supplied in a long-term repo OMO; ie the limit will apply to the total amount bid across all maturities but not to the amount bid at each maturity separately.

The Bank will aim to announce the results of the tender within 30 minutes of the close of bidding.

### **Settlement and collateral arrangements**

Long-term repo OMOs will be for next-day settlement. Eligible collateral will be the same as for short-term repo operations (see [www.bankofengland.co.uk/markets/money/eligiblesecurities.htm](http://www.bankofengland.co.uk/markets/money/eligiblesecurities.htm) for more details). Securities used as collateral must have a longer maturity than that of the repo.

Margin and substitution arrangements will be the same as for short-term repo OMOs. Following the launch of the reserve-averaging scheme, substitutions will not be permitted on Thursdays in order to limit the operational workload on the day of the planned weekly short-term OMO under the reformed system.

Collateral provided against long-term repos will be included in the aggregate exposure to which the Bank applies a 25% limit on the proportion of collateral from a single issuer that counterparties and settlement banks can provide in its open market operations and intraday in RTGS (other than HM Government and Bank of England securities and excluding exposures of less than £1 billion).

### **Documentation**

Ahead of the launch of the reserve-averaging system, long-term repo operations will be conducted under the current legal agreement for the Bank's short-term repo operations. Subsequently, operations will be covered by the terms and conditions for the reformed system.

An amended Operational Notice, effective from 3 January 2006, and incorporating detailed procedures for the Bank's long-term repo operations, has been published today, [www.bankofengland.co.uk/markets/money/mmopnot.htm](http://www.bankofengland.co.uk/markets/money/mmopnot.htm).

An amended version of the documentation for the fully reformed system, including the Operating Procedures for long-term repos will be issued in due course.

Bank of England  
14<sup>th</sup> December 2005

**Annex 1: Dates for long-term repo operations in 2006**

Month	Tender date	Settlement date	Maturity dates			
			3-months	6-months	9-months	12-months
		(T+1)				
January	17 <sup>th</sup>	18 <sup>th</sup>	19/04/2006 91 days	19/07/2006 182 days	18/10/2006 273 days	17/01/2007 364 days
February	14 <sup>th</sup>	15 <sup>th</sup>	17/05/2006 91 days	16/08/2006 182 days	15/11/2006 273 days	14/02/2007 364 days
March *	14 <sup>th</sup>	15 <sup>th</sup>	21/06/2006 98 days	20/09/2006 189 days	20/12/2006 280 days	14/03/2007 364 days
April *	18 <sup>th</sup>	19 <sup>th</sup>	19/07/2006 91 days	18/10/2006 182 days	17/01/2007 273 days	18/04/2007 364 days
May *	16 <sup>th</sup>	17 <sup>th</sup>	16/08/2006 91 days	15/11/2006 182 days	21/02/2007 280 days	16/05/2007 364 days
June *	20 <sup>th</sup>	21 <sup>st</sup>	20/09/2006 91 days	20/12/2006 182 days	21/03/2007 273 days	20/06/2007 364 days
July	18 <sup>th</sup>	19 <sup>th</sup>	18/10/2006 91 days	17/01/2007 182 days	18/04/2007 273 days	18/07/2007 364 days
August	15 <sup>th</sup>	16 <sup>th</sup>	15/11/2006 91 days	21/02/2007 189 days	16/05/2007 273 days	15/08/2007 364 days
September	19 <sup>th</sup>	20 <sup>th</sup>	20/12/2006 91 days	21/03/2007 182 days	20/06/2007 273 days	19/09/2007 364 days
October	17 <sup>th</sup>	18 <sup>th</sup>	17/01/2007 91 days	18/04/2007 182 days	18/07/2007 273 days	17/10/2007 364 days
November	14 <sup>th</sup>	15 <sup>th</sup>	21/02/2007 98 days	16/05/2007 182 days	15/08/2007 273 days	14/11/2007 364 days
December	19 <sup>th</sup>	20 <sup>th</sup>	21/03/2007 91 days	20/06/2007 182 days	19/09/2007 273 days	19/12/2007 364 days

\* The tender and settlement dates of one or more of these operations (and the maturity dates for any repos maturing in those months) may need to change depending on the choice of launch date for the reserve-averaging regime.