Summary of Operational Notice Changes

Local Authority Bills

References to Local Authority Bills throughout the Operational Notice have been deleted.

Revised guidance on the criteria for being an OMO counterparty

The Bank applies the following criteria for being a counterparty in the Bank's open market operations –

(i) Technical capability to respond quickly and efficiently to the Bank's daily rounds of operations.

(ii) Maintaining an active market presence in at least one of the instruments eligible in the Bank's open market operations and having an active trading presence in the core sterling money markets.

(iii) Participating regularly and on a reasonable scale in the Bank's open market operations.

(iv) Providing the Bank with useful information on market conditions and developments in sterling money markets or more generally.

(v) Prudence and risk.

Counterparties will need to satisfy the Bank that the legal agreements underpinning its operations with them are, and remain, at all times fully valid and robust in all relevant jurisdictions. When not dealing with the primary entity within a group, the Bank reserves the right to require a guarantee from the primary entity.

Concentration Limits

With effect from 1 March 2005, there will be a limit on the amount, by market value, of securities from a single issuer (excluding HM Government and the Bank of England) that a participant can hold with the Bank at any one time.

- If, at any time, the total securities provided by a single OMO counterparty or CHAPS sterling settlement bank in OMOs and RTGS exceeds £1bn, the institution must ensure that the securities of any single issuer (other than HM Government and the Bank of England) comprise no more than 25% by market value of the total securities delivered to the Bank. For settlement banks that are also OMO counterparties, two tests will therefore apply – first, to outstanding OMO securities held overnight and second, to the sum of outstanding RTGS and OMO securities held intra-day.
- The limit will not be applied to securities provided by OMO participants against the 15.30 and 16.20 overnight operations.
- The limit may be varied by the Bank at its discretion.
- The Bank will conduct regular checks to monitor compliance with the limit. In the event of an OMO participant's holdings of a particular issuer's securities exceeding the limit, the Bank will require the participant to take immediate steps to rectify the situation; any continuation of a breach of the limit to the next business day will attract a collateral interest charge on the market value of the securities over the 25% limit, equivalent to that for being overdrawn at the Bank[1]. The charge will be calculated from the day on which the breach first occurs up to (but not including) the day on which it is rectified. (The treatment of breaches of the limit in RTGS by settlement banks is described in an RTGS operational circular dated 23 November 2004 and will be incorporated in the RTGS Reference Manual.)

[1] Overdrafts are charged at the Bank's repo rate + 3% on the first occasion and at an additional 1% for each further overdraft in a rolling three month period

US Treasuries

In exceptional circumstances, involving for example stressed conditions in or affecting markets, infrastructure or a counterparty, the Bank will be able to receive marketable US Treasury Securities as collateral in its operations, in addition to other securities on its current list of eligible collateral (see Section X). In such circumstances, the Bank will make clear to those affected or, as appropriate, to the market as a whole, when any such extension comes into effect.

X Use of US Treasury Securities as collateral in exceptional circumstances

(i) Depending on the circumstances, the Bank may announce any such extension of its eligible collateral list to include US Treasury Securities on its wire service pages (see Appendix II (a)). In the event of any such announcement being made, the Bank will announce the end of any such temporary extension of its collateral list on its wire service pages. Outstanding transactions would be allowed to mature.

(ii) US Treasury Securities means securities which are the direct obligations of the United States of America. US Treasury Securities offered for repo must be fully paid and must have a redemption date beyond the maturity date of the repo transaction for which they are used.

(iii) After the Bank has announced its intention to accept US Treasury Securities in its operations, participants wishing to repo such securities should instruct the Bank that they intended to deliver them against borrowing in sterling open market operations. Participants should provide LSS with the relevant ISINs and nominal amounts of the securities, using the form set out in Appendix X(a). Participants wishing to repo US Treasury Securities must also provide to the Bank duly completed United States Internal Revenue Service Forms W-8 or such other tax documentation required by the Bank to allow the Bank to make gross payments in respect of the US Treasury Securities delivered to it under any transaction.

(iv) US Treasury securities should be delivered free-of-payment across Fedwire to the Bank of England's account at the Federal Reserve Bank of New York (FRBNY) as soon as possible after Fedwire opens for business (08.30 EST).

(v) US Treasury securities will be valued by the Bank of England using prices observed by the Bank and available to participants upon request.

(vi) Subject to prior agreement with LSS, participants may effect delivery of US Treasury securities sold to the Bank by way of repo by making a series of fractional deliveries of such securities. The Bank will advance to the participant the adjusted market value of securities as they are delivered, or such lesser amount as may be agreed with the participant, provided that appropriate settlement confirmation has been received by the Bank.

(vii) Provided that sufficient securities have been received across Fedwire to the Bank of England's account at the FRBNY and confirmation acceptable to the Bank to this effect has been received, the Bank will pay the amount of funds allotted via CHAPS/RTGS.

(viii) When a repo transaction matures, participants will repurchase securities equivalent to those sold to the Bank in the first leg of the repo. On or after receiving payment, the Bank will instruct the FRBNY to deliver to the participant, free of payment, securities equivalent to those sold to the Bank, using the form set out in Appendix X(b).

(ix) The Bank will adjust the market value of equivalent securities which it is due to deliver on the repurchase leg of outstanding repos and also the market value of any equivalent margin securities on the basis set out in Section V, using the margin ratios applicable to eligible euro-denominated securities and HMG non-sterling marketable debt.

(x) Participants wishing to substitute collateral for US Treasury securities should notify LSS at the earliest opportunity; such requests will be treated on a best endeavours basis.

(xi) Amounts equivalent to dividends received by the Bank in respect of US Treasury Securities will be paid to the participant which sold the relevant securities to the Bank. Such payments will normally be made on the dividend payment date. When a security goes ex-dividend its value (as defined in Appendix III) will fall, but the amount of the dividend to be received by the Bank will then be taken into account in subsequent revaluations of securities held by the Bank for the purposes of margin maintenance as described above. This treatment will continue until the dividend date, when the Bank will pay the participant the amount of the dividend provided any call for margin by the Bank has been satisfied and no event of default has taken place.

Bank of England

23 November 2004