

22 December 2022

## Sterling Monetary Framework

### Summary of haircuts for securities eligible for the Bank's lending operations

		Rate and Maturity							
		Floating	Fixed						
			<1 yr	1-3 yrs	3-5 yrs	5-10 yrs	10-20 yrs	20-30 yrs	>30 yrs
Level A: Sovereign and central bank debt (including associated strips) of the UK issued in either sterling, euro, US dollar or Canadian dollar.	Coupon	0.5	0.5	1.5	2.0	3.0	5.5	7.0	8.5
	Zero coupon	0.5	0.5	1.5	2.0	3.5	6.5	9.5	15.0
Level A: Sovereign and central bank debt (including associated strips) of Canada, France, Germany, the Netherlands and the United States issued in either the domestic currency or in sterling, euro, US dollar or Canadian dollar.	Coupon	0.5	0.5	1.5	2.0	3.5	7.0	8.5	10.0
	Zero coupon	0.5	0.5	1.5	2.0	3.5	7.5	10.5	15.0
Level B: Sovereign and central bank debt (including associated strips) of Australia, Austria, Belgium, Denmark, Finland, Ireland, Italy, Japan, Luxembourg, New Zealand, Norway, Portugal, Spain, Sweden and Switzerland, issued in either the domestic currency or in sterling, euro or US dollar.	Coupon	0.5	0.5	1.5	2.0	3.5	7.0	8.5	10.0
	Zero coupon	0.5	0.5	1.5	2.0	3.5	7.5	10.5	15.0
Sterling, euro, US and Canadian dollar denominated securities issued by major international institutions.	Coupon	0.5	0.5	2.0	2.5	3.5	6.5	8.5	10.0
	Zero coupon	0.5	0.5	2.0	2.5	4.0	8.0	11.5	18.0
Bonds issued by G10 government agencies explicitly guaranteed by national governments, of the highest credit quality (broadly equivalent to AAA).		3.0	3.0	5.0	6.0	8.0	10.0	13.0	15.0
Debt issued by HM Government and denominated in a currency other than sterling, euro, US dollars or Canadian dollars, and directly held in Euroclear or Clearstream.		3.0	3.0	5.0	6.0	8.0	10.0	13.0	15.0
Sterling Sukuk issued by HM Government, directly held in Euroclear or Clearstream.		3.0	3.0	5.0	6.0	8.0	10.0	13.0	15.0
Debt issued under the National Loans Guarantee Scheme announced on 20 March 2012.		3.0	3.0	5.0	6.0	n/a	n/a	n/a	n/a
Conventional debt issued by Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Corporation (Fannie Mae) and the Federal Home Loan Banks System, of the highest credit quality (broadly equivalent to AAA).		3.0	3.0	5.0	6.0	8.0	10.0	13.0	15.0
UK and EEA residential mortgage-backed securities (RMBS).		12.0	12.0	14.0	15.0	17.0	19.0	22.0	24.0
Covered bonds. The underlying assets may be either UK or EEA public sector debt, social housing loans or residential mortgages.		12.0	12.0	14.0	15.0	17.0	19.0	22.0	24.0
UK, US and EEA asset-backed securities (ABS) backed by credit cards.		15.0	15.0	17.0	18.0	20.0	22.0	25.0	27.0
UK, US and EEA asset-backed securities (ABS) backed by auto loans and certain equipment leases.		15.0	15.0	17.0	18.0	20.0	22.0	25.0	27.0
US asset-backed securities (ABS) backed by student loans and consumer loans.		15.0	15.0	17.0	18.0	20.0	22.0	25.0	27.0
UK and EEA asset-backed securities (ABS) backed by student loans and consumer loans.		15.0	15.0	17.0	18.0	20.0	22.0	25.0	27.0
UK, US and EEA commercial mortgage-backed securities (CMBS). Securities containing construction loans will not be eligible. The pool must be diversified.		25.0	25.0	27.0	28.0	30.0	32.0	35.0	37.0
UK, US and EEA covered bonds where the underlying assets include SME loans or commercial mortgages.		25.0	25.0	27.0	28.0	30.0	32.0	35.0	37.0
UK, EEA or US covered bonds or ABS backed by certain Export Credit Agency guarantee loans. These will be subject to individual review.		3.0	3.0	5.0	6.0	8.0	10.0	13.0	15.0
UK, US and EEA securitised portfolios of senior secured or on-balance sheet, corporate loans or SME loans. Leveraged loans are not permitted.		20.0	20.0	22.0	23.0	25.0	27.0	30.0	32.0
UK, US and EEA securitised portfolios of corporate bonds. Portfolios containing high-yield bonds are not permitted.		20.0	20.0	22.0	23.0	25.0	27.0	30.0	32.0
Some types of UK, US and EEA asset-backed commercial paper (ABCP) of credit quality broadly equivalent to a short term rating of A-1+/P1/F1+. Only the most senior paper will be accepted and the eligibility of individual programmes must be agreed with the Bank. Underlying assets must be of a type that are eligible for the operation.		In the range of 12 percentage points to 30 percentage points depending on the underlying asset classes and the diversification of the pool.							
Senior bank debt that is guaranteed under certain non-UK sovereign bank debt guarantee schemes. The eligibility of sovereign-guaranteed bank schemes is reviewed at the Bank's discretion in light of requests from counterparties. The debt must be due to mature prior to the expiry date of the relevant guarantee.		3.0	3.0	5.0	6.0	n/a	n/a	n/a	n/a
Portfolios of conventional, listed, senior corporate bonds, with a minimum amount in issue of £100mn, and of credit quality broadly equivalent to A3/A- or above and commercial paper of credit quality broadly equivalent to a short term rating of A2/P2/F2, issued by non-financial companies in the UK, US and the EEA.		30.0	30.0	32.0	33.0	35.0	37.0	40.0	42.0

5pp is added to eligible collateral for which no market price is observable.

A haircut add-on of 5 percentage points is applied to own-name eligible covered bonds, RMBS, CMBS, ABS and portfolios of corporate bonds where appropriate.

A haircut add-on of 10 percentage points will be applied to eligible US dollar LIBOR Linked Collateral from (and including) 1 October 2022. This haircut add-on will be increased to 40 percentage points from (and including) 1 March 2023 and a 100 per cent haircut will apply from (and including) 30 June 2023. For more information, please see: <https://www.bankofengland.co.uk/markets/market-notice/2022/may/the-banks-risk-management-approach-market-notice-19-may-2022>.

A haircut add-on may be applied for portfolios of corporate bonds that are not well diversified, where the largest single bond concentration by market value exceeds 2% of the total market value of corporate bonds delivered.

For drawings in the Discount Window Facility against gilts, a haircut is applied to the drawing amount to protect against changes in the market value of the gilts lent. This haircut is equal to the haircut on coupon-paying UK sovereign debt of 10-20y maturity.

The Bank reserves the right to apply additional haircuts to any individual security at any time, including on collateral delivered in an outstanding transaction.

Haircut add-ons will be kept under review. The Bank considers the role of rating agencies, the evolution of the securitisation regulatory environment and the principles attached to such frameworks as part of the review process. Consideration of the eligibility of securities at other central banks is also made. The Bank remains independent in its assessment and only accepts collateral that it can value and risk manage effectively in the bounds of its risk appetite.

Note on calculation: adjusted collateral value (post-haircut) = collateral value \* (100 - haircut)/100

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### FX haircuts for the Bank's lending operations

A minimum of 6pp is added to haircuts to allow for currency volatility when the currency of collateral is different to that of the lending.

- An additional 2pp is added to yen, Australian dollar and New Zealand dollar denominated collateral to allow for higher exchange rate volatility.

- An additional 2pp is added to Chinese Renminbi denominated collateral to allow for the additional risk in fixed exchange rate regimes.

An increased add-on is applied to haircuts when the scale of the currency mismatch for non-US dollar denominated collateral delivered in the US Dollar Repo Facility and for non-euro denominated collateral delivered in the Liquidity Facility in Euros exceeds £10bn equivalent. The applicable add-ons are set out below.

### FX haircut add-ons for lending in the US Dollar Repo Facility and the Liquidity Facility in Euros, when the currency mismatch exceeds £10bn equivalent

Total FX add-on applied

Currency of collateral	Currency of lending	
	USD	EUR
GBP	10.5	9.5
USD	N/A	8.5
EUR	9	N/A
CAD	10.5	7.5
CHF	10.5	6.5
DKK	9	6
NOK	13	10.5
SEK	11	7
AUD	15.5	10
JPY	8	9.5
NZD	12.5	9