



29-Jun-20

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. Subject to diversification requirement that no more than 10% of the total value of the portfolio may be from a single issuer. For the purposes of this requirement, legal entities in the same group or those with close links as determined by the Bank, will be treated as a single issuer.		30.0	30.0	32.0	33.0	35.0	37.0	40.0	42.0

A minimum of 6pp is added to haircuts to allow for currency volatility for non-sterling denominated securities in SMF operations and for non-US dollar denominated securities in the US dollar repo facility. The Bank retains the right to increase these at its discretion.

An additional 2pp is added to yen, Australian dollar and New Zealand dollar denominated securities to allow for higher volatility in the exchange rates.

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

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 all LIBOR Linked Collateral from 1 April 2021. This haircut add-on will be increased to 40 percentage points from 1 September 2021 and 100 percentage points from 31 December 2021.

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.

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.

The Bank may make further specific add-ons to haircuts for particular eligible collateral at its discretion.

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.

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

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