Bank of England

The Bank of England's Sterling Monetary Framework – Operating Procedures

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June 2026

1 Introduction

1.1 These Sterling Monetary Framework (SMF) Operating Procedures govern participation in the SMF and explain the operational procedures involved.

1.2 All capitalised terms have the meaning defined in the Glossary in clause H of the Terms and Conditions.

1.3 These SMF Operating Procedures should be read together with the other parts of the legal SMF Documentation – comprising the Terms and Conditions for participation in the Bank of England's Sterling Monetary Framework, the Eligibility Criteria, the Admission Letter, the Commencement Letter, any Market Notice, the Annexes, the Declaration of Trust, the Scottish Declaration of Trust and Scottish Transfer and Trust Asset Designation – which form part of the Documentation by which all transactions referred to in these SMF Operating Procedures are governed. The Bank of England Market Operations Guide (BEMOG)[1] describes the rationale behind the SMF and the elements currently in operation.

1.4 In the event of a conflict between these SMF Operating Procedures and the Terms and Conditions, the Terms and Conditions shall prevail. In the event of any conflict between any Market Notice and these SMF Operating Procedures or the Terms and Conditions, the Market Notice shall prevail.

1.5 The Bank may amend these SMF Operating Procedures generally or in particular circumstances from time to time, with any such amendment taking effect at a time specified by the Bank. A link to copies of the Documentation as amended, or the relevant amended parts, will be circulated to Participants in the SMF and posted on the Bank's website.[2]

1.6 The Bank will endeavour to give reasonable notice of any amendment, but reserves the right to introduce any amendment with immediate effect. The Bank may also vary the operational timetable[3] or vary or omit any of the procedures described on any particular day.

1.7 All transactions or planned transactions by individual Participants as part of the Bank's Sterling Monetary Framework are confidential (see clause A.16 of the Terms and Conditions).

1.8 All references to times are to London time, unless stated otherwise.

1.9 In some cases these SMF Operating Procedures and Market Notices follow market terminology in using expressions such as 'lending', 'repurchase', 'repo', 'margin' and 'substitution'. This is done for the sake of familiarity, but is not a reflection of the legal nature of the transactions described in these SMF Operating Procedures and any Market Notice, which is determined by the Terms and Conditions.

1.10 Reference is made in these SMF Operating Procedures to a 'coupon' or 'dividend' being payable during the life of a security; this word has the same meaning as 'income payments' as used in clause D.5 of the Terms and Conditions.

1.11 Documentation relating to the Term Funding Scheme with additional incentives for SMEs is available separately on the Bank's website.

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[1] https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide

[2] https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation

[3] The calendar of operations is available on the Bank's website at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants

2 Participant Eligibility

2.1 All Participants must conform to the 'Eligibility Criteria for Participation in the Bank of England's operations under the SMF'.[4] These Eligibility Criteria are summarised in Table 1.

Table 1 Summarised Eligibility Criteria for SMF Facilities

Criterion	Condition	Reserves Account	Operational Standing Facilities	Short-Term Repo & Gilt Purchase OMOs	Indexed Long-Term Repo	Discount Window Facility	Contingent Term Repo Facility
Eligible institution under the Bank of England Act 1998, i.e.an Eligible Liability reporter (a **'Bank or Building Society'**)		✓	✓	✓	✓	✓	✓
Investment firm which is designated by the PRA for prudential supervision (a '**Broker Dealer'**)		✓	✓	✓	✓	✓	✓
Central counterparty operating in the UK markets either authorised under EMIR or recognised by ESMA (a '**CCP**')		✓	✓			✓	
International central securities depository which (a) in the Bank's opinion, is active in sterling markets and either (b) is recognised or has applied for recognition pursuant to CSDR in the United Kingdom or (c) in the Bank's opinion, is being regulated to broadly equivalent UK standards (an '**ICSD'**)		✓	✓				
Has the operational capability to participate in and efficiently settle transactions		✓	✓	✓	✓	✓	✓
Acts in a way that is consistent with achieving competitive and fair sterling markets		✓	✓	✓	✓	✓	✓
Must regularly provide liquidity and risk management information (if not already provided to the Bank)		✓	✓	✓	✓	✓	✓
Contributes to the Bank's market intelligence work as a monetary authority		✓	✓	✓	✓	✓	✓
No Events of Default have occurred (see Terms & Conditions A.11)		✓	✓	✓	✓	✓	✓
No objection has been raised by the PRA, FCA or any other relevant regulatory body		✓	✓	✓	✓	✓	✓
Meets the Bank's standards of prudence and risk		✓	✓	✓	✓	✓	✓
Conditions that apply in certain circumstances:							
Bank's standard guarantee is provided by the Primary Entity in a Group	If not the Primary Entity in a Group	✓	✓	✓	✓	✓	✓

[4] The full SMF Eligibility Criteria are included in the SMF Documentation, available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation

Must also be an OSF Participant[5]	If signing up for a reserves account	✓					
Must be a DWF Participant	To participate in the CTRF						✓
Must demonstrate that they meet additional Group entity assessment criteria (see 2.4 below)	If another member of the Group is a participant in that facility	✓	✓				
Legal capacity and enforceability opinion must be provided in relation to the applicant	If applicant is incorporated overseas	✓	✓	✓	✓	✓	✓
Legal capacity and enforceability opinion must be provided in relation to the guarantor	If guarantor is incorporated overseas	✓	✓	✓	✓	✓	✓

✓ = Criterion must be met

2.2 All legal entities within a Group which are eligible to act as Participants in the SMF may apply for access to the Discount Window Facility (DWF), and Open Market Operations (except Gilt Purchase OMOs). The Bank will normally limit the number of its Participants within a Group which have access to a reserves account and OSFs. It will however grant more than one entity access where members of the Group have direct membership of CHAPS or CREST, and will also be willing generally to grant access to additional Group entities subject to the criteria set out in 2.3 below.

2.3 If another member of the institution's Group has been granted access to a reserves account, Operational Standing Facilities (OSFs), and another member of the institution's Group also wishes to apply for the same facility, then it must demonstrate to the Bank's satisfaction that:

i) there are legal or regulatory barriers to the movement of liquidity or collateral around the Group;

ii) access to that Facility does not increase complexity in the Group's use of the SMF facilities, in the provision of liquidity insurance or in group structures; and

iii) access to the Facility is appropriate given the relative scale and independence of the applicant institution compared to the rest of the Group.

2.4 The Bank may terminate or suspend access to a reserves account, OSFs or Open Market Operations for additional legal entities within a Group if the circumstances of the Group change (e.g. following a merger or major organisational or business change).

2.5 Eligible institutions wishing to apply for access to participate in SMF facilities should complete an application form, available to download from the Bank's website.[6] The Bank may waive, add to or vary any or all of the eligibility requirements in relation to any institution or institutions.

[5] The Bank may grant a waiver to allow smaller Participants to apply solely for access to a reserves account, subject to certain conditions.

[6] https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-applicants

Fee Paying Institutions

2.6 Banks and Building Societies which are not required under the Bank of England Act 1998 to make a levy payment to the Bank – i.e. are not 'Levy payers' - but have been granted access to one or more of the Bank's Facilities are, along with Broker Dealers, CCPs, and ICSDs, 'Fee Paying Institutions'. The fee which a Fee Paying Institution pays to the Bank is the 'Access Fee'. The Bank will review the level of the Access Fee from time to time and may amend it, any such amendment taking effect at a time specified by the Bank.

2.7 The Access Fee is calculated by category as follows:

i) Bank or Building Society: £10,000 per annum;

ii) Broker Dealer: an annual fee equivalent to 0.0001% of the Participant's Total Liabilities, Total Liabilities being the average of the Participant's total liabilities (excluding equity) reported by the Participant to the PRA under FINREP in the four quarters immediately preceding the date on which the annual Access Fee payment is due, as described in paragraph 2.9 below;

iii) CCP: £50,000 per annum; and

iv) ICSD; £50,000 per annum.

2.8 The Access Fee should be paid via CHAPS, into a designated account, details of which will be notified by the Bank to the Participant in writing.

2.9 The Access Fee should be paid in advance in one annual instalment, in May each year for the year ahead. The Bank will send an advance notice to the Fee Paying Institution before the payment date is due confirming the amount of the Access Fee and its payment due date.

2.10 If by the respective payment date, a Participant becomes a Levy payer, it will no longer be required to pay the Access Fee. If by the payment date, a Participant is no longer required to make Levy payments to the Bank, it will become a Fee Paying Institution and will be required to pay the Access Fee.

2.11 The Access Fee for the initial twelve month period in which a Fee Paying Institution is admitted to the Facilities under the SMF is payable in advance and will be pro-rated to reflect that institution's date of admission.

2.12 Fees are non-refundable, including in the event that a Fee Paying Institution merges or amalgamates with another entity or in the event of suspension or termination in accordance with clause A.9 of the Terms and Conditions.

2.13 Where a Fee Paying Institution fails to pay the Access Fee, the Bank reserves the right to suspend the Fee Paying Institution's access to any or all of the Facilities under the SMF. If that Fee Paying Institution is a Reserves Account Participant, the Bank reserves the right to deduct the amount payable from that Fee Paying Institution's reserves account.

3 Reserves Accounts

3.1 Reserves accounts are in effect sterling current accounts for Participants.

Balances, remuneration and maintenance periods

3.2 Maintenance periods[7] run between one scheduled Monetary Policy Committee (MPC) decision date and the next, beginning on the day of the MPC decision and ending on the day before the next MPC announcement (normally, but not necessarily, a Thursday and a Wednesday respectively).

3.3 The reserves balance is typically remunerated at Bank Rate. If Bank Rate is negative, such Participants would typically pay interest on their reserves balance at Bank Rate. In the case of a negative rate, interest will be debited from a Participant's reserves account.

3.4 For Participants other than CCPs and ICSDs (who are subject to reserves averaging), the reserves scheme does not require Participants to hold a particular level of reserves unless the Bank has specified a requirement to hold a Minimum Balance for operational reasons; instead, reserves balances can be varied freely[8] to meet day to day liquidity needs, for example to accommodate unexpected end of day payment flows[9].

3.5 For CCP and ICSD Participants, the reserves scheme requires such Participants to hold a target average daily balance across a maintenance period (as defined in 3.2). The expected average daily balance ("**Target Balance**") for a maintenance period must be agreed between the Participant and the Bank at least two working days before that maintenance period commences.

3.6 For CCP and ICSD Participants, where the actual average daily balance held during the maintenance period is greater than or equal to 99% and less than or equal to 101% of the Target Balance, the reserves balance is typically remunerated at Bank Rate (including if Bank Rate is negative, in which case, CCP and ICSD Participants would typically pay interest on their reserves balance at Bank Rate). Where the actual average daily balance held during the maintenance period exceeds 101% of the Target Balance, interest will typically be applied at Bank Rate up to 101% of the Target Balance, and at Bank Rate minus 200bps on the amount by which the actual average daily balance exceeds the Target Balance. Where the actual average daily balance is less than 99% of the Target Balance, interest will typically be applied at Bank Rate on the actual average daily balance and in addition, a charge of 200bps will be applied on the shortfall between the actual average daily balance and the Target Balance. For the avoidance of doubt, in each case, where Bank Rate is negative, CCP and ICSD Participants shall pay such interest to the Bank and any charges will be deducted from a CCP/ICSD Participant's reserves account. Interest, accrued up to and including the last day of the maintenance period, will be credited or debited (as applicable) directly to or from the Participant's reserves account on the first day of the following maintenance period.

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[7] A calendar of maintenance periods is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants

[8] Under the reserves averaging scheme used by the Bank between 2006 and 2009, Participants were required to set a target for their average reserves balance.

[9] For further information see the BEMOG at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide

Reserves account arrangements for a negative Bank Rate

3.7 As set out in paragraphs 3.3 and 3.6, if Bank Rate is negative, Participants would typically be required to pay interest to the Bank on reserves balances. Any interest which accrues on a reserves balance during a maintenance period would typically be deducted automatically from a Participant's reserves account on the first day of the following maintenance period.

3.8 The Participant would also be required to maintain a Minimum Balance to cover any interest that may become owed to the Bank for the maintenance period. The size of this balance shall be at the Bank's discretion, and calculated to ensure that such interest is covered in full (based on activity on the Participant's account(s) over previous maintenance periods).

3.9 The Bank may increase the size of the Minimum Balance during the course of a maintenance period. Participants would not be able to withdraw funds below the minimum reserves balance limit without prior agreement from the Bank.

3.10 Further details of the Bank's methodology for calculating the size of the Minimum Balance will be provided on the Bank's website in due course.

3.11 If the MPC announces that Bank Rate is negative, the Bank may additionally decide to apply a rate other than Bank Rate to part of a Participant's reserves balance, with Bank Rate being applied to the remainder. This is known as "tiering". The Bank will indicate at that time whether it will apply a rate other than Bank Rate to reserves balances in this way, and will confirm the applicable rates.

3.12 If the Bank decides to apply tiered rates to reserves account balances, at the start of the maintenance period it will provide Participants with a threshold below which Bank Rate is not applied. Participants will be able to view the threshold for their account via BERTI from close-of-business on the first day of a maintenance period.

Accounts in RTGS

3.13 All reserves accounts are held in the Real Time Gross Settlement (RTGS) Service as defined in the RTGS Account Mandate Terms and Conditions.

3.14 Account holders in RTGS are also subject to the RTGS Account Mandate Terms and Conditions,[10] the Reserves Account Annex and the RTGS Rules (or other agreements in relation to the operation of the account), issued separately from this Documentation.

BERTI

3.15 Participants manage their accounts and can access information about their account balances via the Bank of England Real-Time Interface (BERTI).[11]

3.16 BERTI is a user interface that is accessed via SWIFT WebAccess.[12] All Participants must be SWIFT members to access BERTI.[13] Messages between BERTI and the RTGS service are exchanged over

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[10] The RTGS Terms and Conditions under collateral pooling are published on the Bank's website at https://www.bankofengland.co.uk/payment-and-settlement. http://www.bankofengland.co.uk/markets/Documents/money/documentation/rtgsmandate2.pdfOther documentation is available to Participants on the Bank's website.

[11] Under the reserves averaging scheme, Participants also input their target average balance via BERTI.

[12] Connection will be through either SWIFT Alliance Webplatform or Alliance Lite 2.

[13] Annex 5 to the RTGS Rules (which was previously the Enquiry Link Security Code of Conduct), describes the security standards applicable to the service, also applies to Reserves Account Participants. The Access policy for RTGS

the SWIFT network. BERTI is available for enquiries and receiving messages throughout the RTGS Business Day (as defined in the RTGS Account Mandate Terms and Conditions), until shortly before the RTGS service closes.

3.17 Participants fund/defund their Reserves account via CHAPS, to ensure that transactions are settled efficiently (i.e. on a same day basis). Reserves accounts can also be funded and de-funded through use of the Bank's OSFs (see section 4) and OMOs (see section 5). For additional information regarding RTGS payments, please refer to section 10 covering settlement.

3.18 On the final day of the maintenance period, Participants which are also CHAPS Direct Participants are able to make payments to each other's reserves accounts for a 10 minute period after the CHAPS close.[14] OSFs are available to all reserves account Participants for a further 10 minute period after this additional 10 minute window, providing eligible collateral required for the operational standing lending facility is already held with the Bank.

CHAPS and CREST Settlement Banks

3.19 Reserves account Participants that are CHAPS Direct Participants use their reserves account for CHAPS settlement.[15] CREST settlement banks have a separate account in RTGS for CREST settlement. CHAPS and CREST settlement banks use BERTI for managing their settlement accounts.

3.20 CHAPS or CREST settlement banks whose reserves accounts are likely to be overdrawn (or below any Minimum Balance applied to the account) at the end of the day may apply to use the operational standing lending facility. In the event that they are overdrawn (or below any Minimum Balance) at the end of the day, overdrafts on individual days during the maintenance period are charged at 2% plus Bank Rate or such other rate as the Bank may in its discretion decide. There is a minimum charge of £500. The overdraft charge is deducted from the account on the next RTGS business day.

3.21 The RTGS tariff continues to apply to CHAPS and CREST settlement banks' RTGS accounts and is described on the Bank's website.[16].

settlement accounts and services provides a description of the different types of accounts in RTGS, including reserves accounts.

[14] Cut-off times for CHAPS and CREST are set out on the Bank's website at https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgstimetable.pdf?la=en&hash=43A5CD97E4F3F95C04B329F1800B904CCE89DB2D.

[15] A guide to Bank of England Settlement Accounts is published on the Bank's website, available at https://www.bankofengland.co.uk/payment-and-settlement.

[16] RTGS and CHAPS fees are set out on the Bank's website at https://www.bankofengland.co.uk/payment-and-settlement/rtgs-chaps-fees

Participants that are not CHAPS Direct Participants

3.22 For non-CHAPS members, reserves accounts can be funded via CHAPS payments, either from a CHAPS Direct Participant or from the Bank of England (see 3.10). Participants must ensure that incoming CHAPS payments are addressed to the Bank of England 'RT' CHAPS membership for the credit of their reserves account.

3.23 Non-CHAPS members' reserves accounts can be de-funded via BERTI, to generate a CHAPS payment to a single pre-defined account (usually at their CHAPS Direct Participant), as notified to the Bank in writing as a standard settlement instruction.

3.24 BERTI is available for de-funding throughout the CHAPS Day. Timings for funding may be subject to any restrictions imposed by CHAPS Direct Participants.

3.25 Non-CHAPS members are not able to make payments from their reserves accounts of greater size than the balance on the account. If a de-funding payment is entered for more than the current balance (minus any Minimum Balance requirement) on a reserves account, the payment will be queued awaiting incoming funds and cancelled at the end of the day if no funds are forthcoming.

4 Operational Standing Facilities

4.1 The Operational Standing Facilities (OSFs) support firms in managing liquidity demand shocks, such as payment frictions, by allowing participants to borrow or deposit reserves at a fixed spread to Bank Rate.[17]

4.2 The operational standing lending facility is provided via collateralised overnight lending against the Bank's Level A collateral set. The operational standing deposit facility is provided as an unsecured overnight deposit.

OSF Rates

4.3 The OSF deposit and lending rates establish a corridor around Bank Rate, helping to limit volatility in overnight market interest rates by providing an alternative source of borrowing to our regular, market-wide operations, thereby supporting short-term rate stability. This corridor is usually symmetric and interest is calculated on a daily basis.[18]

4.4 On MPC decision days[19] the OSFs are charged using the Bank Rate (which, for the avoidance of doubt, may be a negative rate, in which case the applicable charge shall be paid by the Bank on the lending facility and paid by the Participant on the deposit facility) set at 12.00 pm (noon) that day even if the request or transaction takes place before then.

Requesting OSF Transactions

4.5 OSFs are available to Participants on demand throughout the day, subject to timing constraints imposed by settlement and payment system deadlines. Cut-off times for delivery of cash and securities are set out on the Bank's website.[20] The OSF is a same day settlement operation. The Bank encourages firms to pre-position collateral with us early and to regularly test all facilities to ensure readiness and familiarity with both systems and settlement processes.

4.6 Participants requesting use of the OSFs must contact the Bank's sterling dealing desk via telephone on 0203 461 5000. Alternatively, OMO Participants may use their direct telephone line, where available. The Bank's sterling dealing desk will then call Participants back on a telephone number which has been pre-authorised on behalf of the Participant by one or more authorised signatories, to authenticate requests and confirm the amount.

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[17] See BEMOG for further details, available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide

[18] For further details on OSF pricing, see Bank of England Market Operations Guide: Our tools and Update to lending and deposit spread of the Operational Standing Facility – Market Notice 8 December 2025.

[19] In the event of an unscheduled MPC meeting, the approach outlined in paragraph 12.4 will be applied.

[20] See Summary of RTGS daily timetable | Bank of England for cut-off times.

5 Open Market Operations

Open Market Operations currently in operation and suspended

5.1 Participants in Open Market Operations (OMOs) must be either a Bank or Building Society or a Broker Dealer.

5.2 The SMF includes a number of OMOs, not all of which are currently active. The status of each of these is summarised in Table 2 below and in a table on the Bank's website.[21]

Table 2 OMOs currently in operation and suspended

Open Market Operation	Brief Description	Status
Indexed Long-Term Repo (ILTR)	The ILTR provides a source of reserves for payments and precautionary reasons against the full range of Eligible Collateral. [22]	Active.
Short- Term Repo (STR)	The STR is a monetary policy tool for short-term market interest rates control, supplying reserves against Level A collateral in weekly operations.	Active.
Gilt Purchase OMOs	The Bank may choose to provide reserves longer term to the banking system via outright purchases of gilts.[23]	Suspended.
Contingent Term Repo Facility (CTRF)	The CTRF is a contingency liquidity facility, providing reserves against the full range of Eligible Collateral.	The Bank may activate the CTRF in response to actual or prospective market-wide stress of an exceptional nature.

5.3 The ILTR, STR and CTRF are described in more detail in sections 5A, 5B and 5C respectively.

Conducting Open Market Operations via Btender

5.4 The timetable for the Bank's OMOs and a summary of the parameters of each operation are published on the Bank's website.[24]

5.5 The Bank conducts OMOs via its electronic trading system, Btender.[25]

5.6 The start and end times for each OMO are set out in the Btender system shortly ahead of the operation and are available, for information, in the Bank's wire services announcements. Bids may be submitted once the operation begins in Btender. Bids must be received by the Bank prior to the close time for the operation.

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[21] A summary of the parameters of each of the Bank's operations is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools
[22] See section 7 on Collateral Eligibility for more detail.
[23] These are separate from Asset Purchase Facility gilt purchases undertaken by the Bank as part of Quantitative Easing.
[24] The OMO timetable is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants
[25] The Btender User Guide is available at https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/btender-user-guide.pdf?la=en&hash=151E98D91BFAA5F4B12677D522C19A3810C9BC2F.

5.7 The time stamp applied to any bid in accordance with these SMF Operating Procedures is final and binding. Participants should note that it may take some seconds for bids to be received at the Bank's server after being input. A countdown timer is provided in the Btender system to assist users.

5.8 It is the responsibility of Participants using Btender to maintain access to Btender and to ensure that access rights to Btender are assigned appropriately, in each case, within their organisations. The Bank does not accept any liability for loss or damage, whether direct, indirect or consequential resulting from the use of, or inability to use, Btender.

5.9 Participants may cancel or amend bids using the Btender system at any point up to the close of the operation. Bids which are submitted as at the close of the operation are irrevocable. By submitting a bid a Participant is committed, if its bid is accepted, to entering into OMO transactions up to the amount specified in the bid, the details of those transactions being determined in accordance with the procedures described below.

5.10 Participants may neither bid through, nor discuss their bids with, any third parties.

5.11 Participants should access their individual allocations via the results screen in the Btender system to confirm whether the full value of their bid has been accepted or, if not, what amount of their bid has been accepted. Should Btender not be available, the Bank would call each Participant by telephone to confirm allocations.

5.12 In the event of a dispute, reference may be made to the Btender system archive or recordings of telephone conversations.

5.13 Notwithstanding any provision in these SMF Operating Procedures, the Bank reserves the right to accept individual bids in full, in part and in any amounts determined by the Bank at its sole discretion, and to reject individual bids.

5.14 For security and contingency purposes, the Bank encourages Participants in OMOs to install and maintain a designated direct line into the Bank's sterling dealing desk. Where a Participant chooses not to have a designated direct line, such Participant must provide a telephone number(s) which is pre-authorised on behalf of the Participant by one or more authorised signatories[26]. The Participant must accept the additional risks associated with not having a designated direct line, including the risk that its participation in some of the Bank's operations may be restricted in the event that access to Btender is not available for an OMO. The caveats associated with telephone bids more generally are further explained in section 12A.

[26] The Participant should complete the Front Office Contact Form.

5A Indexed Long-Term Repo

5.15 The regular weekly market-wide Indexed Long-Term Repo (ILTR) provides reserves for payments and precautionary reasons, against Level A, B or C collateral.[27]

5.16 The key parameters of the operation are set out in Table 3 below, and are also available on the Bank's website.[28] The Bank will keep all ILTR parameters under review.

Table 3 Parameters currently applicable for the ILTR

Parameter	Description
Maturity	Six months.
Timing	Normally conducted weekly on a Tuesday at 10.00 am.
Size	The minimum amount offered in each ILTR auction will initially be set at £5 billion, with the total amount available rising to many multiples of this minimum amount.
Announcement	The Bank publishes the minimum amount to be offered, the settlement and maturity dates via wire services announcement one week before the operation.
Rate	Indexed to Bank Rate for the life of the transaction.
Duration of auction	30 minutes.
Collateral	Participants are able to borrow against the Bank's three collateral sets (Level A, Level B and Level C).
Minimum bid	£1 million
Minimum bid increment	£1 million
Maximum total bids from a single banking group	No restriction currently. The Bank may, at its discretion, limit the maximum total size of a Participant's bids.
Settlement	T+2 days

Interest

5.17 The interest charged on each ILTR transaction will be calculated on a daily basis, using the applicable interest rate that day. The interest rate will be the sum of Bank Rate (which, for the avoidance of doubt, may be a negative rate) at close of business that day plus the clearing spread (see paragraph 5.18) for the respective collateral set in the auction. The total interest payable over the life of the ILTR transaction will be the sum of these daily interest accruals. For the avoidance of doubt, if the applicable interest rate on a given day is negative, then the interest accrual for that day would be in favour of the Participant.

Participation

5.18 Participants may choose to submit any number of bids against Level A, Level B or Level C collateral. Participants should bid by submitting a nominal amount and a spread to Bank Rate expressed in whole basis points. Bids will be subject to a minimum bid spread, as outlined in the Market Notice[29].

[27] See the BEMOG for further details, available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide
[28] A summary of the Bank's current operations in the sterling money markets is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools
[29] ILTR Market Notices are available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-

The Bank does not set plausibility limits in Btender for the ILTR operations; Participants may do so individually.

Allocation

5.19 The auction's pricing mechanism uses a so-called uniform-price format, in which every successful bidder pays the lowest accepted spread (the 'clearing spread') for borrowing against a specific collateral set.

5.20 The clearing spread for each collateral set is determined in the auction based on the pattern of bids received and the Bank's preferences for supplying funds across collateral sets and in aggregate. For each collateral set, bids are ranked in descending order of their bid spread. Bids at the highest spread are accepted first, followed by bids at successively lower spreads until the Bank's pre-determined supply preferences have been met. Bids above the clearing spread will be fully allocated and bids at the clearing spread may be scaled back, i.e. allocated 0%-100% of the bid amount, rounded down to the nearest allocation increment, currently £0.1 million.

5.21 The auction is designed to be flexible. Two automatic responses are built into each ILTR operation. First, a greater proportion of funds is lent against a particular collateral set as the clearing spread for that collateral set increases relative to the other collateral sets. Second, a greater total quantity of funds is made available as the pattern of bids observed in the auction suggests a greater demand for reserves.

5.22 The Bank will offer some funds against each collateral set in each ILTR operation at the minimum bid spreads to Bank Rate and will offer more funds as the clearing spreads rise. The minimum aggregate amount offered in each ILTR auction will initially be set at £5 billion, with the total amount available rising to many multiples of this minimum amount.

5.23 The Bank aims to announce the result of each operation at 10.40 am on the day of the operation on the Bank's wire services pages, or as soon as possible thereafter. The results detail the amount bid and the amount allocated for the operation in aggregate and the amount bid, amount allocated and the clearing spread to Bank Rate for each collateral set.

5B Short-Term Repo

5.24 The weekly Short-Term Repo (STR) supplies reserves to Participants for a 7 day term. It allows Participants to bid for reserves against Level A collateral.[30]

5.25 The key parameters of the operation are set out in Table 4 below, and are also available on the Bank's website.[31] The Bank will keep all STR parameters under review.

Table 4 Parameters currently applicable for the STR

Parameter	Description
Maturity	One week.
Timing	Normally conducted once a week at 10:00 am on a Thursday. On the day of an MPC announcement the operation begins at 12:30 pm.
Size	Unlimited.
Announcement	The Bank publishes the settlement and maturity dates via wire services announcement one week before the operation (after the completion of the previous week's operation).
Rate	Bank Rate. Indexed to Bank Rate for the life of the transaction.
Duration of auction	30 minutes.
Collateral	Participants are able to borrow against Level A collateral only.
Minimum bid	£1 million.
Minimum bid increment	£1 million.
Maximum total bids from a Participant	1.
Settlement	T+0 days.

Interest

5.26 The interest charged on each STR transaction will be calculated on a daily basis, using Bank Rate (which, for the avoidance of doubt, may be a negative rate) at close of business on that day. The total interest payable over the life of the STR transaction will be the sum of these daily interest accruals. For the avoidance of doubt, if the applicable interest rate on a given day is negative, then the interest accrual for that day would be for the benefit of the Participant.

Participation

5.27 Participants may submit one bid, as a nominal amount, against Level A collateral. The Bank does not set plausibility limits in Btender for the STR operations; Participants may do so individually.

Allocation

5.28 Valid bids will be fully allocated in all operations.

[30] See the BEMOG for further details, available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide

[31] A summary of the Bank's current operations in the sterling money markets is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools

5.29 The Bank aims to announce the result of each operation on the Bank's wire services pages at 10.40 am on the day of the operation, or 1.10pm on the day of an MPC meeting, or as soon as possible thereafter. The results detail the amount allocated in the operation in aggregate.

5C Contingent Term Repo Facility

5.30 The Contingent Term Repo Facility (CTRF) is a contingent liquidity facility that allows the Bank to provide liquidity against Level A, Level B and Level C collateral at any time, term and price it chooses, in response to actual or prospective exceptional market-wide stress.

5.31 The terms of the CTRF are set by the Bank each time it is deployed. Its contingent nature means the Bank will announce its activation and the supporting operational details, including the size, term, frequency and price, via a Market Notice.[32] The sections below therefore provide summary information only.

5.32 The Bank will publish the settlement and maturity dates on the business day preceding the auction, normally at 4.00 pm. This information will be set out in Btender and will also be available on the Bank's wire services pages.

Interest

5.33 The interest charged on each CTRF transaction will be calculated on a daily basis, using the applicable interest rate that day. The interest rate will be the sum of Bank Rate at close of business that day plus the clearing spread in the auction. The total interest payable over the life of the CTRF transaction will be the sum of these daily interest accruals. If the applicable interest rate on a given day is negative, then the interest accrual for that day would be in favour of the Participant.

Participation

5.34 Bids should be submitted via Btender where possible. Participants should bid by submitting a nominal amount and a spread to Bank Rate expressed in whole basis points. The Bank does not set plausibility limits in Btender for CTRF transactions; Participants may do so individually.

5.35 Participants without access to Btender should submit bids via telephone to the Bank's sterling dealing desk via direct lines or on 0203 461 5000. Participants who submit multiple bids via telephone must also provide the weighted average spread of those bids to three decimal places.

Allocation

5.36 CTRF auctions operate under a variable rate, uniform-price format, in which every successful bidder pays the lowest accepted spread (the 'clearing spread').

5.37 Bids are ranked in descending order of the spread bid. Bids at the highest spread are accepted first, followed by bids at successively lower spreads until the auction is fully allocated or bids received are exhausted. Bids at the clearing spread may be scaled down on a pro rata basis and rounded down to the nearest allocation increment.

5.38 The Bank will announce the result of each operation on the Bank's wire services. The Bank will publish the total value of funds allocated and the clearing spread to Bank Rate in the result announcement.

[32] CTRF Market Notices are available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants

6 Discount Window Facility

6.1 The Discount Window Facility (DWF) is a bilateral facility that allows firms to borrow highly liquid assets (gilts and reserves) on demand for up to 30 days, against the full range of SMF collateral. The DWF is a tool for participants who anticipate or experience previously unexpected liquidity need, complementing our regular, market-wide operations.

6.2 Eligible Collateral consists of:

i) In the case of a Bank or Building Society or a Broker Dealer, collateral from the Bank's three collateral sets: Level A, Level B and Level C.

ii) In the case of CCPs, collateral from the following two of the Bank's collateral sets; Level A and Level B.

6.3 The DWF is not a facility to obtain particular gilts, for example those trading 'special' in the repo market. That would be contrary to the purpose of the DWF and could interfere with HM Government's debt management objectives, which are the responsibility of HM Treasury and the UK Debt Management Office.

6.4 Participants are not permitted to borrow gilts from the DWF simply to use them in the operational standing lending facility in order to obtain cash against eligible collateral. That would be contrary to the purpose of the OSFs, which is to support Participants in managing liquidity demand shocks, such as payment frictions. However, gilts borrowed in the DWF may be used as collateral in the Bank's Open Market Operations.

6.5 DWF Transactions typically terminate 30 calendar days (for Banks and Building Societies and Broker Dealers) or 5 calendar days (for CCPs) after they are entered into, where applicable rolled back to the preceding sterling business day, but the Bank at its discretion may offer other maturity terms. The Participant or the Bank may terminate a DWF Transaction at any time subject to giving the requisite notice in accordance with the Terms and Conditions.

6.6 Participants may apply to roll an outstanding DWF Transaction from its maturity date. This will be at the discretion of the Bank.

Fees

6.7 The fee payable on use of the DWF varies according to the level of collateral pledged.

6.8 For drawings of reserves, the fee is indexed to Bank Rate as follows:

i) Drawings collateralised against Level A collateral will be priced at +15bps above Bank Rate

ii) Drawings collateralised against Level B collateral will be priced at +25bps above Bank Rate

iii) Drawings collateralised against Level C collateral will be priced at +50bps above Bank Rate

6.9 For drawings of gilts, the fee is as follows:

i) Drawings collateralised against Level A collateral will be priced at +15bps

ii) Drawings collateralised against Level B collateral will be priced at +25bps

iii) Drawings collateralised against Level C collateral will be priced at +50bps

6.10 The fee accrues daily, dependent on the type of collateral and total stock of borrowing from the DWF on that day. For drawings of gilts, the stock of borrowing is the total market value of gilts outstanding

under the DWF. For drawings of reserves , the stock of borrowing is the nominal value of borrowed reserves.

6.11 If the applicable rate on the DWF fee on a given day is negative, then the interest accrual for that day would be in favour of the Participant.

6.12 The DWF fee is applied to the total stock of borrowing at the end of each day. Drawings against multiple collateral sets are priced using a weighted average.

6.13 Where a Participant substitutes Collateral, the DWF fee will be adjusted in accordance with the fee structure.

6.14 Details of accrued and estimated future DWF fees are available from the Bank each day.

6.15 The DWF fee is payable in arrears on the first business day of each calendar month or on the maturity of the final outstanding drawing on the DWF if earlier. The DWF fee payable is equal to the total of daily fees incurred since the start of each calendar month. DWF fees are rounded to the nearest penny.

6.16 The Bank may vary the DWF fee at its discretion.

6.17 If the Participant fails to pay the DWF fee when due, it will pay interest on the outstanding amounts in accordance with the Terms and Conditions.

Conducting the Transaction

6.18 Participants considering use of the DWF are strongly encouraged to contact the Bank at an early stage. Requests for a DWF Transaction should be initiated by contacting the Bank's sterling dealing desk (+44 (0) 203 461 5000) as early as possible, and no later than midday, to maximise the chance of the drawing settling on the same day.

6.19 A Participant can request a DWF Transaction by completing a DWF Transaction Notice[33] and submitting it by email to discountwindow-drawings@bankofengland.co.uk

6.20 Depending on the time received and subject to acceptance of the request, delivery of assets will take place same day on a reasonable endeavours basis, or the following business day.

Acceptance of a request

6.21 Following receipt of a DWF Transaction Notice, the Bank will inform the Participant whether it will enter into the DWF Transaction on the terms specified in the DWF Transaction Notice. It will also confirm the anticipated amount of the DWF fee over the life of outstanding DWF Transactions.

6.22 Notwithstanding any other provision of these SMF Operating Procedures, the Bank reserves the right to reject any request to enter into a DWF Transaction. The Bank also reserves the right to cancel a DWF Transaction before settlement.

[33] The DWF Transaction Notice is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation

7 Collateral Eligibility

7.1 The Bank accepts collateral from three collateral sets.[34]

i) Level A comprises certain high-quality sovereign securities which are liquid in all but the most extreme circumstances.

ii) Level B comprises high-quality liquid collateral, including other sovereign supranational, mortgage and corporate bonds.

iii) Level C comprises less liquid securitisations, own-name securities and portfolios of loans.

7.2 The Bank will confirm on application the collateral level into which a particular security is placed. The Bank will discuss bilaterally with each Participant any preferences the Bank has over the order in which Eligible Collateral should be used in the Bank's facilities.

7.3 Participants should advise the Bank if at any time they become aware of information that may affect the eligibility of any collateral delivered to the Bank.

7.4 The Bank forms its own independent view of the risks in the collateral it takes in its operations and reserves the right to reject any security offered or loan provided as collateral, for any reason, at any time.

Collateral Securities – Eligibility

7.5 Level A securities will not become eligible unless and until they are detailed in a list published on the Bank's website.[35]

7.6 For the other collateral sets, Participants can confirm security eligibility directly with the Bank. Lists of collateral securities to be checked for eligibility should be submitted to the following email address eligible.securities@bankofengland.co.uk. The lists should be accompanied by a formal assurance of compliance with the criteria as specified on the Bank's website[36] from time to time.

7.7 If a Participant opts to use the Collateral Management Portal (CMP), eligibility can be checked using the CMP. A list of collateral securities can be submitted, and if the security has previously been assessed by the Bank, the CMP will return a definitive result. If the security has not been assessed previously, Participants will need to contact the Bank via email as set out in paragraph 7.6 above.

7.8 Participants have a responsibility to ensure collateral securities comply with the Bank's eligibility criteria. Only securities which the Participant believes to be eligible, or expects to become eligible, should be delivered to the Bank.

7.9 Should a security be downgraded by a credit rating agency, the Bank would normally seek to understand the circumstances of the downgrade before determining whether that meant any change to the security's eligibility.

7.10 Collateral Securities can be delivered to the Bank by the methods set out in section 9.

Loan Collateral – Eligibility, pre-positioning and data requirements

[34] Definitions of these sets are available at https://www.bankofengland.co.uk/markets/eligible-collateral.
[35] A list of Level A collateral eligible securities is available at https://www.bankofengland.co.uk/markets/eligible-collateral.
[36] https://www.bankofengland.co.uk/markets/eligible-collateral.

7.11 Portfolios of loans are eligible as collateral in certain Bank facilities (including the ILTR, DWF and CTRF), provided they are pre-positioned with the Bank in advance of transactions. The eligibility criteria for individual loans are defined on the Bank's website.[37]

7.12 Loans written under Scottish Law need to be held in a separate loan portfolio.

7.13 Pre-positioning cannot take place until the loan portfolio eligibility approval process has been completed, and the Bank has made a decision that the Participant and the loan portfolio are eligible.

7.14 The eligibility review process involves a review of the Participant's lending practices, policies, procedures and controls including a due diligence questionnaire and site visit; a legal review of the loans, including a legal sampling exercise; the provision of a loan level data tape in a format agreed by the Bank; and a data audit to provide assurance on the accuracy and integrity of the data on which the Bank bases its risk management. The review process will be repeated from time to time.

7.15 There is an ongoing requirement that the Participant should inform the Bank of any significant changes that might impact the Bank's view of the Participant's eligibility.

7.16 Upon satisfactory completion of the documentation, the Bank will confirm eligibility to the Participant and provide them a unique portfolio identifier that should be used in all subsequent correspondence. Full details of the Participant and loan portfolio pre-positioning process can be found in the 'Guide to Pre-positioning Level C Loan Collateral', which is available on the Bank's website.[38]

7.17 Once a loan portfolio is pre-positioned, information is required on a regular basis to enable ongoing monitoring and valuation of the loan portfolio. This includes Loan Level Data (e.g. the primary and secondary income of the borrower, start date and maturity date of the loan, the postcode and/or region of the property, the original and latest valuation of the property, the property type and the credit score of any borrower and any borrower identification – in relation to each mortgage loan)[39], and weekly reporting of nominal loan balances.[40]

7.18 Participants are generally permitted to remove individual loans from a portfolio and add additional loans into a portfolio, but in order to do so must follow the appropriate procedure – especially where the portfolio has been transferred to the Bank. To effect changes to the loans in a portfolio – regardless of whether they have been transferred to the Bank – Participants are required to submit a new loan level data tape. The Bank reserves the right to carry out further due diligence and the eligibility of the loan portfolio may be reassessed. Further legal due diligence will be required for loans added to a portfolio that use loan documentation that is different from that which is reviewed as part of the initial legal due diligence carried out as part of the loan portfolio eligibility process.

7.19 Full operational details on the ongoing data requirements and process for top-ups and loan removals can be found in the 'Guide to the Managing Level C Loan Collateral.'[41] In the event of any doubt, Participants should discuss bilaterally with the Bank before taking any action.

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[37] https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/level-c-loan-collateral.pdf

[38] https://www.bankofengland.co.uk/markets/eligible-collateral/guide-to-pre-positioning-loan-collateral

[39] Data templates are available at https://www.bankofengland.co.uk/markets/eligible-collateral

[40] The Bank is willing to consider pre-positioning portfolios in instances where Participants are only able to provide balances on a monthly basis, but additional Haircuts will apply, at its own discretion.

[41] https://www.bankofengland.co.uk/markets/eligible-collateral/guide-to-the-management-of-loan-collateral

Loan Collateral – Disclosure

7.20 Subject to section 7.21, the Bank will not disclose any Participant's Loan Level Data which could otherwise be disclosed under clause A.16.3(a) or (b) of the Terms and Conditions unless such data has first been aggregated and anonymised so that the recipient of such Loan Level Data would not be able to ascertain to whom such data relates.

7.21 The Bank may disclose Loan Level Data which has not been aggregated or anonymised in accordance with clause A.16.2 of the Terms and Conditions or if legal title to the mortgage loan to which such Loan Level Data relates has been transferred to the Bank.

8 Daily Management of Positions

8.1 The Bank operates a collateral pooling model to support its official operations. Under this model, each Participant maintains one or more collateral pools of securities and loans, to cover the exposures the Bank has to that Participant. The collateral is not earmarked against individual transactions. Instead, subject to the application of the Bank's risk controls, the aggregate Adjusted Value of the collateral held in each pool will be used to collateralise the aggregate value of the Bank's exposure(s) to that Participant managed in that pool.

8.2 Security settlement movements and the associated back-office processes are reduced to those instances where a Participant needs to supply more collateral to cover the Bank's aggregate exposure to them (e.g. in the case of a valuation change leading to a call for additional Eligible Collateral), or where the Participant requests the return of individual securities (e.g. when there is excess collateral which is over and above the value of exposures).

Collateral pools

8.3 Under the Bank's collateral pooling model, each Participant will maintain one main collateral pool, with further sub-pools (subject to their participation in the Bank's operations), as illustrated in Figure 1.

8.4 Collateral held in a Participant's main collateral pool can be used to collateralise the following operations:

i) Operational standing lending facility;

ii) Indexed Long-Term Repo;

iii) Short-Term Repo;

iv) Contingent Term Repo Facility;

v) Term Funding Scheme with additional incentives for SMEs (TFSME);[42]

vi) Intra-day Liquidity (IDL) provided to RTGS settlement banks for CHAPS settlement; and

vii) Notes Circulation Scheme exposures.

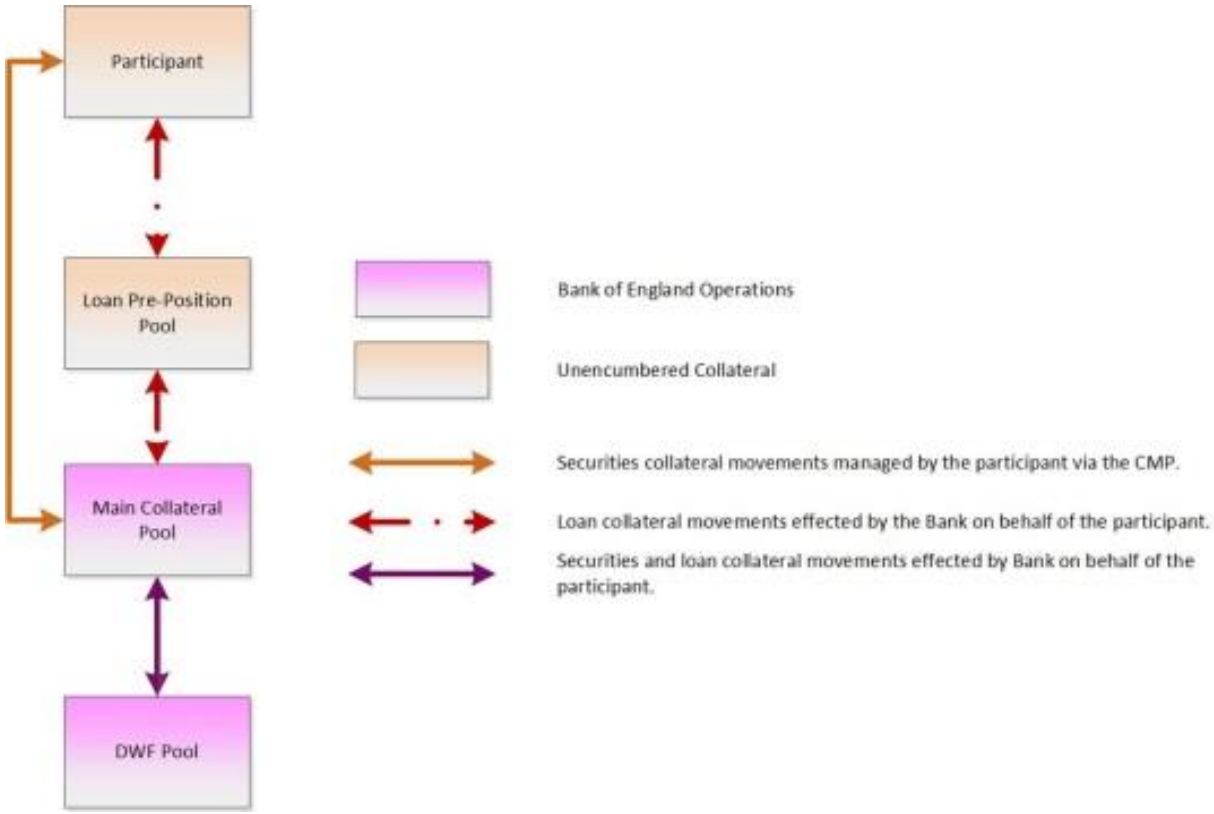
8.5 Where a Participant is also a CHAPS Direct Participant, eligible excess Level A collateral in the main collateral pool (i.e. that which is over and above the amount required to cover the Bank's exposure to the Participant) is used to generate intraday liquidity (IDL) within RTGS up to an agreed limit. This functionality is described in the RTGS Service Description.[43]

To ensure Participants can participate efficiently in the Bank's operations, they are strongly encouraged to hold collateral in the main collateral pool with an Adjusted Value sufficient to back all existing and any new exposures that they expect to arise as a result of current and planned participation in the Bank's operations.

[42] The TFSME Documentation is available at https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation

[43] The RTGS Service Description is available to Participants on the Bank's website.

8.6 **Figure 1 Simplified illustration of the Bank's collateral pooling model**



8.7 A separate collateral pool is used to collateralise exposures arising from DWF transactions.

8.8 The 'Loan Pre-positioning Pool' (LPP) is for loans which meet the Bank's collateral eligibility requirements, but have not yet been used to cover any transactions. Once a loan from the pre-positioned pool has been encumbered, the Bank will transfer it to the Single Collateral Pool (SCP) for use.

Collateral transfers into or out of the pools

8.9 At a high level, collateral pooling for the SMF and TFSME operates as follows:

i) Collateral securities for SMF and TFSME transactions must first be delivered into the main collateral pool. A Participant is able to add or remove collateral from its main collateral pool at any time, subject to the deadlines of the relevant Securities Settlement System (SSS), Custodian or (International) Central Securities Depository ((I)CSD) and subject to any exposures in the main or DWF pools being covered and there being no cash amounts owing to the Bank.

ii) Only the Bank can instruct movements into and out of the DWF pool, having first agreed them with the Participant.

iii) A Participant can only withdraw securities via the main collateral pool. Securities that have been moved to a different pool will need to be transferred back to the main collateral pool before they can be withdrawn. There must be sufficient excess collateral, after the Bank has re-valued the collateral, to allow a withdrawal of securities.

iv) Loan collateral is held in a pre-positioned pool, which is separate to a Participant's main collateral pool. The Bank controls movements of loan collateral between the pre-positioned pool and DWF collateral pool. Once the beneficial or equitable transfer of the loan collateral has been completed a Participant can use some or all of that loan collateral to cover exposures in another pool.

v) Each pool operates in the same way, but there may be different risk controls in place depending on the operations it covers. Any exceptions are described within these SMF Operating Procedures.

Methods for moving collateral to or from pools

8.10 There are four methods for Participants to use when instructing the Bank to effect movements of collateral between pools.

i) *The Collateral Management Portal (CMP)*. The CMP can be used to instruct the delivery or removal of collateral securities to or from the main collateral pool. A Participant is able to monitor positions of securities and loan collateral and check the eligibility of collateral securities. A description of the full functionality of the CMP can be found in the CMP User Guide.[44] As of April 2021 the portal is free to use.

ii) *SWIFT*. The Bank has adopted a range of ISO 15022 compliant messages to allow Participants to instruct deliveries of collateral securities to or from the main collateral pool.

[44] The CMP User Guide will be supplied directly to Participants by the Bank.

Any Participant wishing to use this option should contact cmc.scp@bankofengland.co.uk to discuss the preparation and testing required.

iii) *Secure email.* Participants who have not signed up to the CMP or do not have access to SWIFT may move collateral securities by submitting a confirmation form[45] via secure email.

iv) *Loan collateral.* When a loan portfolio is first encumbered, instructions to transfer loan collateral from the pre-positioned pool to the main collateral pool should be sent via secure email to the Collateral Management and Custody Team cmc.scp@bankofengland.co.uk using a confirmation spreadsheet (see section 9.28 to 9.32). If loan collateral is already encumbered then instructions to move it between pools should also be detailed in the confirmation spreadsheet and sent via secure email to the same address.

8.11 Participants will be required to quote the Securities Account number of the destination collateral pool on all instructions to the Bank. The account number of the (I)CSD/SSS should not be quoted.

8.12 It is the responsibility of Participants using CMP to ensure that access rights to CMP are assigned appropriately within their organisations. The Bank does not accept any liability for loss or damage, whether direct, indirect or consequential resulting from the use of, or inability to use, CMP.

Daily Valuation Process, including Haircuts

8.13 On a daily basis, Participants should ensure that, for each 'active' collateral pool (i.e. a pool with one or more open exposures), the Adjusted Value of Transferred Collateral in that pool is equal to or greater than the Bank's Relevant Exposure to the Participant being managed in that pool.

8.14 Collateral Securities transferred to the Bank will be valued daily by the Bank, using the Haircuts applicable to the SMF specified on the Bank's website,[46] or at the Bank's discretion. The website also sets out the circumstances in which additional Haircuts are applied including, but not limited to, where securities are denominated in currencies other than sterling, where securities have no observable market price, and where the quality of the underlying asset pool warrants a higher Haircut in the Bank's judgment.

8.15 Haircuts will be kept under review. They will be updated and refined, including, for example, in the light of developments in financial markets and the financial system.

8.16 Securities are valued by the Bank using observed market prices that are independently and routinely publicly available or reference prices published by the UK Debt Management Office. If, in the Bank's judgment, an independent market price is unavailable, the Bank will use its own calculated price and apply a higher Haircut. The Bank's valuation is binding.

8.17 The value of securities will include the aggregate amount of income owed to the Bank which, as of the relevant record date, has accrued but not yet been paid. During any ex-dividend

[45] The confirmation form is available at https://www.bankofengland.co.uk/markets/eligible-collateral.
[46] https://www.bankofengland.co.uk/markets/eligible-collateral.

period for those securities, the value of accrued income will be excluded.

8.18 Where necessary, valuations are converted to sterling based on Bloomberg's exchange rate fixing (BFIX), published at 4.00 pm on the previous Business Day. The Bank reserves the right to use other rates at its discretion.

8.19 Any valuations of securities notified to the Participant by the Bank are only indicative, are provided purely for information purposes, and do not necessarily reflect the default market values of the securities following an event of default.

8.20 The Bank will stop giving value to a security once it reaches a set point prior to its redemption or repayment date. For most securities this will be ten business days before redemption date. But exceptions apply to certain other asset types – for example, UK Treasury Bills will retain value until one day before redemption and Bank of England Bills will retain value until redemption date. The Bank may change this at its discretion.

8.21 In addition, where the current business date is within ten business days of a free of payment Term DBV transaction Return Date, then those transactions will be given zero value in the relevant pool. In this situation, subject to settlement deadlines, a Participant can choose to either extend the return date of the Term DBV beyond ten business days or change it to the current date to mature the transaction.

8.22 The Adjusted Value of loan portfolios will be calculated by the Bank and will be dependent on the credit quality of the loan portfolios. The Bank's valuation is binding, but the process of analysing different types of loan assets will be broadly in line with the methodology applied to securities backed by equivalent assets. The Adjusted Value ascribed to individual portfolios will be kept under review. Participants are required to provide to the Bank on a weekly basis (or less frequently if permitted by the Bank) updated nominal balance information for all loans in portfolios, whether encumbered or unencumbered.

Concentration limits

8.23 For certain operations the Bank will apply a concentration limit to cap the Adjusted Value of securities issued by a single issuer eligible in the Level B collateral set when considering if there is sufficient adjusted value to meet the relevant exposures. Concentration limits apply within a pool but not across pools, and are currently applicable to OMOs, CTRF and TFSME facilities within the main collateral pool.

8.24 The cap on adjusted value for relevant securities varies depending on the overall value of the qualifying exposures i.e. those exposures used to determine the concentration limit. Where the overall value of qualifying exposures is less than or equal to £1 billion, the Adjusted Value of securities issued by a single issuer will be capped at £250 million. Where the overall value of qualifying exposures is greater than £1 billion, the Adjusted Value of securities issued by a single issuer will be capped at 25% of the qualifying exposures. The threshold and collateral concentration limit may be varied at the Bank's discretion from time to time.

8.25 For the purposes of calculating concentration limits, eligible debt securities explicitly guaranteed by national governments should be aggregated with bonds issued by that government and treated as a single issuer. Any Level B eligible debt securities explicitly

guaranteed by a national government[47] whose own debt securities are eligible as Level A collateral will not be included in concentration limit calculations. All issues for a single issuer in other collateral levels will be aggregated, regardless of asset class.

Concentration limit monitoring

8.26 Where a pool contains collateral for operations where the Bank applies a concentration limit, securities issued by a single issuer that are part of the Level B collateral set will be capped based on the overall value of the qualifying exposures collateralised by that pool. The cap is applied proportionately across all the relevant securities and the revised value available is known as the Concentration Limit Adjusted Market Value (CLAMV). The CLAMV will be used to assess whether the Relevant Exposures the Bank has to the Participant are covered, not the Adjusted Value. The CLAMV will be assessed throughout the day and recalculated when changes to the pool arise e.g. a change in exposure level.

8.27 The Bank monitors compliance with its concentration limit policy intra-day, as part of the process that compares a Participant's aggregate collateral to the Bank's aggregate exposure to the Participant whenever a change to either occurs. As such, the Bank prevents movements of collateral from a Participant's collateral pool that would cause the remaining securities to be in breach of the Participant's concentration limit. The Bank would not prevent receipt of collateral which would be in breach of concentration limits. However any collateral in excess of concentration limits would not count towards a Participant's aggregate collateral position when assessing if the aggregate exposure to the Participant was covered (for exposures from operations where concentration limits apply).

Diversification limits

8.28 Where Corporate Bonds or Commercial Paper are accepted as Eligible Collateral, the Bank requires that no more than 10% of the total value of delivered corporate bonds in each pool may be from a single issuer. For these purposes, legal entities in the same group (or those with close links as determined by the Bank) will be treated as a single issuer.

8.29 If a Participant delivers an insufficiently diverse portfolio of such collateral, the adjusted value of those securities is reduced through the application of an additional Haircut. The level of diversification is determined as the market value of qualifying securities per issuer as a ratio of the total market value of all qualifying securities. The Bank applies an additional haircut when the limit reaches 2% of the total portfolio. As this percentage increases, greater Haircuts will be applied until the percentage reaches 10%, when it is capped and the maximum add-on of 20% is applied.

8.30 The Bank's system continuously calculates the market value of such securities under the rules, capped at 10%. Such value is known as the diversification limit market value, or DLMV.

8.31 The diversification limit may be varied at the Bank's discretion from time to time.

Calls for additional Eligible Collateral

8.32 On a daily basis, the Bank calculates both its gross exposure to a Participant and the

[47] This includes HM Government.

Adjusted Value (i.e. after applying the appropriate Haircuts and other valuation adjustments) of the available collateral in each pool. The Participant undertakes to ensure that, subject to the Bank's risk controls, the aggregate Adjusted Value of the Eligible Collateral in each pool will at all times at least be equal to the Relevant Exposures being managed in that pool.

8.33 The Bank encourages Participants to hold an excess of collateral in each active pool so that there is enough collateral available to meet any calls for additional Eligible Collateral.

8.34 When calculating whether Eligible Collateral covers the Bank's exposures, the Bank will apply the lowest level of collateral eligible for that operation first, and will continue to satisfy exposures with higher level(s) of collateral (i.e. working from Level C to Level B to Level A), until the aggregate exposures are covered, or all Eligible Collateral has been exhausted.

8.35 The Bank's system will raise a call for additional Eligible Collateral if there is a collateral shortfall (i.e. where the aggregate Adjusted Value of Transferred Collateral is less than the Relevant Exposure(s) being managed in that pool). This will usually occur at 10.00 am or as soon thereafter as possible.

8.36 If the Bank has made a call for additional Eligible Collateral on the Participant, the Bank will prevent payment of any funds or return of collateral (even if other pools are collateralised) until the call is satisfied. The Participant must deliver the greater of the amount of the shortfall and the Minimum Transfer Amount (MTA). The MTA is determined by the Bank and is currently set at £25,000.

8.37 If a Participant is also a CHAPS Direct Participant, the Bank reserves the right to 'claw-back' IDL from the main collateral pool in order to satisfy a call for additional Eligible Collateral. This means that, if possible, the Bank will automatically reduce the level of IDL advanced, and thus the overall exposure level to meet the call.

8.38 The Participant should seek to satisfy a call for additional Eligible Collateral within three hours of the call being made.

8.39 The Bank reserves the right to make unlimited calls for additional Eligible Collateral intra-day and to reject the composition of any proposed collateral transfer.

8.40 Where the Bank has made a call for additional Eligible Collateral and that call has not been met by the Participant, in accordance with clause D2.12 of the Terms and Conditions, the Bank reserves the right to extinguish the collateral shortfall by utilising:

i) any securities held by the Bank in an Eligible Account on behalf of the Participant; or

ii) any cash sum standing to the credit of any cash account; or

iii) any combination of securities and cash.

8.41 The Bank may in its absolute discretion transfer equivalent securities or repay any such sum back to the Participant, if the Participant subsequently delivers collateral to the Bank in satisfaction of the call for additional Eligible Collateral.

8.42 If a Participant proposes to use a pre-positioned loan portfolio to satisfy a call for additional Eligible Collateral and the Bank agrees to accept the relevant portfolios, the Bank will notify the Participant and the transfer will take place upon such notification.

8.43 A Participant may use a pre-positioned loan portfolio as collateral for transactions under the ILTR, CTRF, DWF and TFSME. Where the Participant has assigned or otherwise provided a loan portfolio as collateral under one facility and there is a collateral excess under that facility,

that excess can be used as collateral for one or more other facilities (unless the excess collateral is held in the DWF pool, in which case it may only be used to cover another facility with the agreement of the Bank).

8.44 A request from a Participant for the return of Equivalent Collateral will be processed by the Bank in a timely manner subject to there being no Relevant Exposure and will be returned subject to the deadlines of the related settlement system.

8.45 Where the Bank meets a call for the return of excess Collateral Securities, it will return securities equivalent to the securities previously transferred to it by the Participant.

8.46 The Bank cannot transfer to the Participant (or between collateral pools) only part of a loan portfolio – only the full value of the loan portfolio can be transferred – and this may have the effect of limiting the Participant's right to a return of excess Collateral where it has provided Loan Collateral to the Bank. If, for example, the Participant has transferred

(i) a loan portfolio to the Bank with an adjusted value of £100m;and

(ii) no Collateral Securities

against which it has a Relevant Exposure of £50m, the Bank would not be obliged to transfer any Equivalent Collateral to the Participant under clause D4.2 of the Terms and Conditions.

8.47 Loan collateral, however, can be returned if there are sufficient collateral securities to cover an exposure. For example, if the Participant has transferred:

i) a loan portfolio to the Bank with an Adjusted Value of £20 million; and

ii) Collateral Securities with an Adjusted Value of £60 million

against which it has a Relevant Exposure of £50 million, then the Participant can call for a return of Equivalent Securities or the loan portfolio.

8.48 While Participants can remove loans from individual portfolios, doing so fully removes these loans from pre-positioning and they cannot be returned without going through the full top-up process. For full operational details on how to remove loans from portfolios, see the 'Guide to the Managing Level C Loan Collateral.'[48]

New exposures

8.49 When a Participant has entered into an official operation with the Bank, a new exposure is created in the relevant pool, e.g. the main collateral pool for a Short-Term Repo. Providing there is sufficient excess eligible collateral in the relevant pool to cover this exposure, the exposure will be automatically 'activated' and funds paid to the Participant. The value of excess collateral will reduce correspondingly.

8.50 If there is not sufficient excess collateral in the relevant pool to cover the new exposure, the Participant should seek to deliver or transfer Eligible Collateral, at least equal to the adjusted value of the shortfall, into that pool. When the Bank is satisfied the Eligible Collateral has settled and is equal to or greater than the exposure and that it satisfies concentration and

[48] For more information, see https://www.bankofengland.co.uk/markets/eligible-collateral/guide-to-the-management-of-loan-collateral

diversification limits (where applicable), it will release funds to the Participant, as long as there is no outstanding call for additional Eligible Collateral in another pool. If the Bank is not satisfied of this, it will not release any funds to the Participant, even if some excess collateral is available.

8.51 Where the Participant is also a CHAPS Direct Participant and it has sufficient excess collateral above the chosen maximum level of IDL (IDL Max), then any new exposure. created in the main pool will be satisfied. If, however, the Settlement Bank has a new exposure and a shortfall against their chosen maximum level of IDL, any new eligible collateral delivered into the main collateral pool will first be used to satisfy the latter. The Settlement Bank may choose to reduce the maximum level of IDL in its main collateral pool to make available collateral to cover the new exposure (or alternatively choose to deliver new collateral into the main collateral pool). This gives the Participant control over which exposure it wishes to prioritise.

8.52 The Bank will only 'claw-back' IDL to cover a collateral shortfall against existing exposures, never to cover a Participant's planned exposure in its main collateral pool. The Participant must seek to manage their exposures and level of IDL accordingly.

8.53 Partial activation will occur when Exposures are covered in part by Term DBV versus payment. In these circumstances the Exposures will partially activate for the portion being covered by the Term DBV versus payment and separately for the remainder of the Exposure cash being paid via CHAPS if sufficient excess collateral exists in the pool. Either portion could partially activate ahead of the other.

8.54 Cash amounts corresponding to the principal and interest of maturing or new exposures can be netted.

Discount Window Facility pool

8.55 The DWF collateral pool is held separately to the main collateral pool, and is managed in a different way to the other pools. The rationale for this arrangement is to enable the Bank to approve the collateral used for a specific DWF drawing. The Bank controls movements into and out of the DWF pool with agreement from the Participant.

8.56 Participants should deliver all Eligible Collateral that they want to use in the DWF to the main collateral pool. Participants are required to pre-position loans, or have ensured there is an adequate buffer of Eligible Collateral in the main collateral pool, well before the day on which the drawdown is intended to take place.

8.57 Participants need to agree the DWF drawing, and collateral to be used, with the Bank's sterling dealing desk. The DWF Participant then instructs the Bank to move the collateral required for the drawing from the main collateral pool to the DWF pool. DWF transactions will only be settled once collateral with an aggregate adjusted value has been moved to the DWF pool, in excess of the anticipated fee and lending exposure.

8.58 The Bank reserves the right to reject the composition of any proposed collateral transfer.

8.59 DWF drawings are assessed for any collateral shortfall separately to other pools and calls for additional Eligible Collateral should be met, if necessary, by a further request by the Participant to the Bank's sterling dealing desk to move Eligible Collateral from the main collateral pool (see also section on Calls for additional Eligible Collateral 8.37 to 8.53). On maturity of the DWF drawing, the Participant may request the return of collateral to the main

collateral pool at the Bank's discretion once the gilts or reserves drawn are returned to the Bank and the DWF fee has been paid.

9 Collateral Delivery and Maintenance

9.1 Securities delivered to the Bank are held under the terms of a collateralised loan structure with collateral provided by way of outright title transfer.

9.2 Loan portfolios pre-positioned with the Bank continue to be owned by the Participant prior to their transfer to the Bank. Once transferred using the agreed transfer mechanism, the Bank will have either equitable ownership or beneficial interest under a trust. Legal title to the loans will remain with the Participant until such time as there is an event of default and the Bank decides to perfect and enforce its security interest over the loans.

Collateral Securities – Delivery

9.3 Collateral in the form of securities may be delivered to the Bank's account at one of the following depositories:

i) CREST;

ii) Euroclear or Clearstream (for instruments issued directly into the International Central Securities Depositories (ICSDs));

iii) the Federal Reserve Bank of New York; Bank of New York Mellon (DTC only); the Bank of Canada; or, the Bank of Japan.

9.4 It may also be delivered via the following mechanisms:

i) via international links maintained by ICSDs, namely Euroclear Bank and Clearstream Banking Luxembourg;

ii) via other such delivery mechanisms as the Bank shall specify.

9.5 Securities which are issued directly in CREST should be delivered to the Bank's CREST account.

9.6 For securities delivered via Euroclear or Clearstream, partial settlement will be available for all instructions following the implementation of the CSDR Settlement Discipline Regime. It is possible to opt-out of partial settlement on an individual instruction basis by contacting the Collateral Management and Custody team at cmc.scp@bankofengland.co.uk ahead of a relevant instruction being submitted.

9.7 The trade and settlement date specified in collateral security movement instructions should be the business day upon which that instruction is given (unless settling via the Bank of Japan, where T+2 applies).

9.8 A summary of accounts used for delivery of securities to the Bank can be found on the Bank's website.[49]

9.9 The Bank may designate from time to time specific links between the ICSDs and national central securities depositories (CSDs) which allow securities issued into national CSDs to be

[49] Account details are available on the Bank's website at https://www.bankofengland.co.uk/-/media/boe/files/markets/collateral-and-settlement/securities-settlement-instructions.pdf?la=en&hash=61FC2517A6B103999FBFB7D3710439C7F69F9B95.

delivered to the Bank's account in the ICSD.[50] Any such deliveries should be made from the Participant's account in the ICSD, not direct from its account in the national CSD or any other form of account.

Deliveries in CREST

9.10 For deliveries in CREST, the Bank will allow Participants to use the following methods of delivery to the main collateral pool:

i) Member-to-member free of payment (FoP);

ii) DBV against payment (DvP);

iii) Term DBV against payment (DvP); and

iv) Term DBV free of payment (FoP).

9.11 Where a participant intends to use a Term DBV transaction, this should be notified to the Bank as soon as possible and input and matched in CREST as early as possible, with the highest priority available to users of the system.

9.12 Where a Participant wishes to use the Term DBV or DBV facility in CREST, the 'BoE haircut' option is mandatory for DBV Transactions for all SMF operations and must be selected within the CREST system, or indicated on the instruction sent to the Bank. This function for DBV Transactions will automatically select an appropriate Haircut in relation to the underlying type and maturity of the securities selected by the CREST system.

9.13 Only sterling denominated UK government and Bank of England securities are eligible for delivery via CREST's DBV mechanism. The relevant DBV categories in CREST are (a) all sterling OMO Eligible Repo Securities [ELG]; (b) Treasury bills [TSY]; (c) Unstripped British Government Stock [UBG]; (d) All British Government Stock [BGS], (e) Unstripped British Government Stock Only [UGO]; (f) Bank of England Bills [BEB]; and (g) Treasury Bills and Bank of England Bills [TSB]. 'Bulldogs' are not eligible for inclusion within a Term DBV transaction.

9.14 Only CREST member-to-member free of payment and Term DBV free of payment deliveries will be eligible to cover intra-day liquidity (IDL) exposures and interest exposures.

9.15 Where a Participant uses Term DBV against payment, the end date(s) and aggregate value of the Term DBV transaction(s) should be matched to the corresponding principal exposure(s). The size and maturity of Term DBV against payment transactions is restricted by the size and maturity of the available principal exposures. Adhering to this rule will prevent a proposed Term DBV against payment being rejected and/or complex management of positions where a Term DBV against payment matures prior to a principal exposure(s); this includes avoiding possible clawback of IDL for a settlement bank participant.

9.16 Participants may increase or decrease the value of a Term DBV against payment or a Term DBV free of payment transaction during its lifecycle. Where the value of a Term DBV against payment transaction is decreased, it is important that a Participant ensures that there is sufficient excess eligible collateral already in the relevant pool before doing so to ensure an

[50] A list of approved links between Euroclear/Clearstream and National CSDs for delivery of securities is available on the Bank's website at https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework.

efficient process.

9.17 Where a Term DBV against payment is increased or a new transaction entered into, the Participant must repay the cash that would be advanced in CREST when that transaction settles by 12.00 pm in order for the increase or new transaction to be processed. If a shortfall arises in a Term DBV transaction, for example due to a failed CREST mark-to-market transaction (TDM), or failed automatic eligibility substitution transaction (TDE), the Bank's system will record an exposure equal to the total shortfall value in the relevant pool. The Participant must seek to rectify any shortfall in CREST immediately, regardless of whether aggregate exposures remain covered by other collateral.

Collateral Securities – Corporate Actions, Dividends and Redemptions

9.18 Amounts equivalent to dividend payments received by the Bank in respect of any Eligible Collateral Securities (or would have been received if the Bank continued to hold the securities in question) are paid to the Participant that delivered the relevant securities to the Bank. Such payments are normally made on the dividend payment date, but only once the Bank has verified actual receipt of funds into its account at the relevant system.

9.19 Dividend payments are paid according to Standard Settlement Instructions (SSIs) provided by the Participant.

9.20 In accordance with clause A1.5 of the Terms and Conditions, the Bank is under no obligation to pay a dividend to the Participant if an Event of Default or Potential Event of Default has occurred, if a collateral shortfall exists or will arise as a result of the performance of the Bank's obligation, or if any obligation by the Participant to the Bank under the Terms and Conditions is outstanding.

9.21 Where the Bank has delivered securities to the Participant, and a coupon or redemption occurs, the Participant shall pay the manufactured dividend to the Bank on the payment date. The amount of dividend due to be paid is taken into account when calculating requirements for additional Eligible Collateral for the period between the record date and the date when the Participant pays the manufactured dividend to the Bank; this is reflected by an additional exposure being added to the relevant pool.

9.22 Where the Participant has delivered securities to the Bank and those securities become eligible for a corporate action requiring election of an option, the Bank will inform the Participant of the event and options via email when the Bank receives notification from a settlement system or custodian. The Participant should instruct the Bank to execute an option via encrypted email or SWIFT authenticated message. In accordance with A10.10 of the Terms and Conditions, the Bank is under no obligation to arrange for the exercise of any voting rights of any kind in accordance with the instructions of the Participant.

9.23 Where the Bank has delivered securities to the Participant, and a corporate action occurs, the Participant shall inform the Bank of the corporate action via SWIFT or email. If relevant, the Participant should allow the Bank to instruct an option on the corporate action which the Participant should execute on the Bank's behalf. Payments must be paid to the Bank on the day they are due, according to SSIs which will be provided by the Bank. The Participant is required to gross up for any withholding tax or other charges. The proceeds of a future corporate action due to be effected are taken into account when calculating requirements for additional Eligible Collateral for the period between the record date and the date when the Participant passes the corporate action proceeds to the Bank.

9.24 Where the Bank has delivered securities to the Participant in CREST, such as in a DWF Transaction or a liquidity withdrawal operation, and a corporate action event results in the creation of 'claim transactions' (CLAs), the Participant must ensure that any CLAs settle promptly by 9.00 am on the payment date of the corporate action. CLA is a function in CREST where CREST automatically detects if a corporate action payment on securities is due. CREST will debit the coupon from the Participant's account and pay the dividend into the Bank's account.

9.25 Where dividend payments are reclaimed, reversed or amended by the settlement system, issuer of any securities or depository, the Participant undertakes immediately to repay any excess payment as requested by the Bank. The Participant will also be responsible for meeting any associated costs, including without limitation overdraft charges, claims or other fees.

9.26 Participants must provide any and all documentation as required by the Bank to allow for receipt of dividends and equivalent amounts free of withholding tax, or any other tax or charge. Failure to complete such documentation, or to do so correctly, could lead to withholding tax or other charges being applied. The Bank is under no obligation to take any steps to reduce or avoid any withholding tax or other charges in respect of actual dividends received or paid by the Bank. Nor is the Bank required to gross up for such taxes or charges. If the Participant fails to provide the relevant tax documentation at least ten business days before the tax document expires, the related securities will be given zero value in the relevant pool. Securities may not be accepted by the Bank if there is no record that the Participant has completed the relevant tax documentation.

9.27 Where the Participant fails to pay a dividend or other income payment or amount equivalent to such payments after the date on which such payment fell due, the Bank reserves the right to utilise any remedies detailed under section 8.45 of these SMF Operating Procedures.

Loan Collateral – Delivery

9.28 Pre-positioned loan portfolios are still owned by the Participant and can be used as the Participant wishes prior to using the portfolio in one of the relevant collateral pools. However, the portfolio must be transferred to the Bank (using the agreed transfer mechanism) prior to any use of the portfolio as collateral.

9.29 Pre-positioned loan portfolios can be transferred to the Bank by equitable assignment or declaration of trust. The form of transfer will be determined by the Bank, but may vary between loan portfolios depending on the type of underlying loans. Further operational details on how to deliver loan collateral are contained in the 'Guide to the Managing Level C Loan Collateral.'[51]

9.30 Transfer of the loan portfolio by way of equitable assignment occurs upon counter-signature by the Bank of the Loan Collateral Transfer Request Notice submitted by the Participant. The Participant must use the appropriate form available on the Bank's website.[52]

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[51] https://www.bankofengland.co.uk/markets/eligible-collateral/guide-to-the-management-of-loan-collateral

[52] Loan Collateral Transfer Request Notices are available at https://www.bankofengland.co.uk/markets/eligible-collateral.

9.31 Where loan collateral proposed to be used includes Scottish loans or where loans are subject to a declaration of trust, the Participant must inform the Bank in advance and no later than 2.00 pm on the day of the operation and must ensure that, in addition to the Loan Collateral Transfer Request Notice, the relevant trust documents (e.g. Declaration of Trust, Trust Asset Designation, Scottish Declaration of Trust, Scottish Transfer) are executed and the originals delivered to the Bank prior to settlement day. Transfer of a Scottish loan portfolio occurs upon the delivery by the Participant of signed Scottish Declaration of Trust and Scottish Transfer to the Bank, at which point the relevant loans will become beneficially owned by the Bank. Transfer of loan portfolios by way of declaration of trust occurs upon the counter-signature by the Bank of the Trust Asset Designation Notice, at which point the relevant loans will become beneficially held by the Bank as trust assets.

9.32 When the Participant wishes to use the loan portfolio as collateral, the full value of the loan portfolio must be transferred from the pre-positioned pool, i.e. the portfolio cannot be split between the LPP and the SCP. At the point of transfer, all of the loan portfolio becomes encumbered and can be used to collateralise qualifying exposures arising from operations.

Loan Collateral – Dividends

9.33 If a loan portfolio is used as collateral against an operation, the Participant is required to record and hold in trust all sums that belong to the Bank. This includes any payments of interest or capital that are received from any borrower, issuer or guarantor relating to the loans

9.34 Provided that no Event of Default or Potential Event of Default shall have occurred or be continuing and no obligation owed by the Participant is outstanding under the Terms and Conditions, then the Participant may release from the trust any such sums.

9.35 The Bank would not normally expect to physically receive the cash flows generated by loan portfolios during the drawn period, nor would it normally require the Participant to establish segregated accounts for the collection of these payments, except, in either case, following a Participant default. The Bank will want to know the value of these cash flows on default, but it does not need to be reported to the Bank during drawdown.

9.36 The Bank is required to make a manufactured payment to the Participant in respect of the cash flows generated by loan portfolios during the drawn period, but the amount of this payment will be offset against amounts held by the Participant for the Bank so that no actual payment will be made.

Liability for charges

9.37 Participants are liable in accordance with clause A.6 of the Terms and Conditions to pay the Bank's charges and to reimburse the Bank on demand for all fees, costs, charges, penalties and other expenses (including, without limitation, amounts incurred in connection with any third party custody or settlement or clearing system or depository amounts incurred in connection with checking that collateral is Eligible Collateral and valuing collateral, internal costs and expenses (including staff salary costs), legal expenses, transfer taxes, value added tax, registration charges and other similar taxes and charges) incurred by the Bank in connection with operations under the Sterling Monetary Framework and any Transaction thereunder.

9.38 For Reserves Account holders, the Bank will send advance notice to Participants in a monthly fee invoice, before making a debit to their Reserves Account for such amounts.

9.39 For Participants that do not hold a Reserves Account, the Bank will send a monthly fee invoice for such amounts. Such invoices should be paid by Participants within ten business days.

10 Settlement

Payment of funds

10.1 All funds, including interest payable to the Participant or the Bank, will be paid or received via CHAPS, except where the Participant has opted to use the Term DBV against payment facility in CREST. In this case the principal can be paid through CREST, but interest upon maturity must still be paid via CHAPS. The Participant must therefore ensure that a zero interest rate is applied in such (Term) DBV instructions. In certain circumstances, and with prior agreement with the Collateral Management and Custody Team (CMC), funds can be paid via RTGS to a participant's reserves account. See also BERTI sections 3.15 to 3.18.

10.2 Provided that sufficient securities have been received through the relevant settlement systems and confirmation acceptable to the Bank to this effect has been received, the Bank pays funds according to SSIs. If the Bank is not satisfied of this, it will not release any funds to the Participant, even if some excess collateral is available.

Standard Settlement Instructions (SSIs)

10.3 When requested by the Bank, Participants should provide information required for settlement purposes, including SSIs for payments. The Bank will only accept one set of SSIs per currency, and will need at least 24 hours' notice to implement any changes. Participants wishing to change their SSIs should request a form from CMC.

10.4 SSIs for facilities where the Bank is delivering sterling cash must be provided to CMC. They can be updated by providing a revised form to CMC, signed by an authorised signatory.

Operational Deposit Facility

10.5 Participants should complete payment for operational deposit facility transactions as soon as possible, ahead of payment system deadlines. Cash will be accepted by the Bank until the CHAPS cut-off for inter-bank payments and from reserves accounts via non-CHAPS transfer until 10 minutes later. CHAPS cut-off times are available on the Bank's website.[53]

Discount Window Facility

10.6 The Adjusted Value of the proposed Collateral Securities (the Value multiplied by (100–Haircut)/100), plus the Adjusted Value of any Loan Collateral must be equal to or greater than the value of the DWF Transaction, plus anticipated DWF fees, before any DWF Transaction will be confirmed. Once the necessary collateral is available in the Participant's main collateral pool and a DWF Transaction is agreed, the Bank will aim to move the collateral to the Participant's DWF pool and to deliver DWF securities or reserves on a same day basis.

10.7 The Bank will send an email (or other form of communication determined by the Bank) to the Participant confirming details of the agreed DWF Transaction. This notification will contain,

[53] CHAPS and CREST cut-off times are available on the Bank's website at https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgstimetable.pdf?la=en&hash=43A5CD97E4F3F95C04B329F1800B904CCE89DB2D

for each DWF Transaction, particulars of the gilts (ISINs lent or DBV) or the amount of reserves lent, the categorisation of the Collateral used (Level A, B and/or C), the Transaction Date, and the estimated payment schedule for DWF fees.

10.8 Once the Bank has confirmed a DWF Transaction, it will deliver DWF securities either by the CREST DBV facility using the rolling overnight free of payment DBV mechanism or by Member-to-Member delivery in CREST. Participants should specify the method of delivery, but this will be at the sole discretion of the Bank. Deliveries by DBV will be made free of payment and will be a rolling overnight DBV with a Maturity Date typically 5 or 30 days[54] from the Transaction Date (a DWF ROD Transaction). CREST will automatically generate a return transaction at the start of business each day for each individual DBV transaction. The Participant will need to input daily DBV transactions to match those input by the Bank, using the 'DBV' transaction type in CREST.

10.9 Where delivery is to be effected by DBV, Participants must ensure that they select the option for concentration limits to apply.

10.10 Deliveries by rolling overnight DBV will be made during the DBV window in CREST daily until the Maturity Date.

10.11 Member-to-Member deliveries will require the Participant to enter a matching instruction in CREST. The Bank will aim to make such deliveries by 2.55 pm. However, if this is not practicable, there is an additional settlement window in CREST between 5.30 pm and 6.00 pm where the deliveries can be made.

10.12 When the Bank delivers DWF securities by DBV, the Bank will not return Collateral Securities intra-day until the Termination Date. Loan Collateral used in such a transaction will not be reassigned intra-day, but will be held by the Bank until the Termination Date.

Exchange of DWF securities

10.13 The Bank may, at any time between the Transaction Date and the Termination Date, require that a DWF Transaction be varied by the transfer by the Participant to the Bank of securities equivalent to the DWF securities or of such DWF securities as the Bank shall specify, in exchange for the transfer by the Bank to the Participant of other DWF securities of such amount and description as the Bank shall determine.

10.14 The Bank will use reasonable endeavours to deliver replacement DWF securities the same day upon receipt of DWF securities from the Participant, but shall not be responsible for any failure to do so.

[54] See section 6.7 Discount Window Facility.

11 Maturity and termination

Maturing exposures

11.1 For OMO and DWF cash transactions, providing all morning system processing checks have completed and as soon as the Participant has returned principal funds, with interest if applicable, on the day the Bank's exposure to the Participant matures the collateral adjusted value previously used to cover this exposure will become available to the Participant in the relevant collateral pool. In the event that both the principal and interest are due to be repaid by the Participant, such amounts should be aggregated into one payment.

11.2 For exposures where interest has accrued in favour of the Participant, the Bank will pay interest to the Participant following return of the principal funds.

Rolling exposures

11.3 If a Participant has entered into a new operation managed in the same pool, the aggregate exposure to the Participant would alter by the net difference of the two operations, either increasing their level of excess collateral or reducing the available excess collateral. In the latter case, only if the total value of Eligible Collateral within the pool was insufficient would the Participant be required to deliver additional Eligible Collateral.

Netting of funds

11.4 Subject to the Bank's consent, cash to be returned as part of a maturing exposure (principal and interest) can be offset against cash to be paid as part of a new exposure from the same operation type, resulting in a single net payment by the Participant or the Bank, or no payment in either direction. This netting of payments will occur once a day at the configured time. A data collection form[55] must be completed and returned to the Bank at least 3 days in advance of an operation for netting to be activated.

Termination of DWF transactions

Transfer of assets on termination

11.5 When a DWF Transaction matures or where either the Bank or the Participant elects to terminate the DWF Transaction early, the Bank will, on behalf of the Participant, make the transfers needed to return the other securities equivalent to those transferred at the start of the DWF Transaction. If the loans were solely part of the DWF transaction, the Bank will reassign to the Participant the beneficial interest in the loans and the loan portfolio will cease to be encumbered. If the loans were partly assigned to the DWF transaction they will be returned to the main pool.

11.6 If the Participant wishes to move the loans into the pre-position pool, it can do so provided the loans continue to satisfy the eligibility criteria.

[55] The data collection form is available at Settlement and collateral management | Bank of England

Early Termination

11.7 If the Participant elects to terminate the DWF Transaction in whole or in part ahead of the Termination Date, the Participant shall serve a notice by 10.30 am. The Form of Termination Notice (Partial or Full) is available on the Bank's website.[56]

Partial Termination

11.8 A DWF Transaction can in effect be partially terminated early. This would be achieved by simultaneously terminating the whole DWF Transaction and replacing it with a new DWF Transaction with the Termination Date set as the Termination Date of the original DWF Transaction and for the reduced amount of Collateral Securities or Loan Collateral.

11.9 Where the Participant wishes to terminate the DWF Transaction in part, it must complete the Form of Termination Notice (Partial or Full). The Participant will specify in the form the Value of DWF Equivalent Securities in respect of which it wishes partial termination to take effect and the Value of the new DWF Transaction. Following receipt of the notice the Bank may require the Participant to return all the DWF Equivalent Securities relating to the original DWF Transaction to the Bank before the Bank then delivers to the Participant DWF securities of the appropriate Value.

Redemptions of principal

11.10 If any Collateral Securities in the DWF pool are redeemed in whole or in part, or if a repayment or prepayment of principal is made in respect of Collateral Securities in the DWF pool, the Participant may elect to terminate the DWF Transaction or the part of the DWF Transaction to which the relevant Collateral Securities relate or to continue the Transaction (see section 11.1 and 11.9 in respect of a partial termination). If no termination notification is received by the 10.30 deadline, the Participant will be deemed not to wish to terminate the DWF Transaction.

11.11 The procedures for transferring additional Eligible Collateral as in section 8 will apply. The transfer should take place before the redemption, in which case the Bank will return the proceeds from the redemption to the Participant in the same currency as the amount received by the Bank.

11.12 However, where no prior notice of the redemption was given by or on behalf of the issuer, the Bank will not return the proceeds from a full or partial redemption or coupon if there is an outstanding collateral shortfall. Once additional Eligible Collateral has been received, the Bank will return the proceeds from the redemption as in 11.12. The Bank will not make any recompense for any delay in the return of proceeds caused by the requirement for additional Eligible Collateral to be transferred.

11.13 For partial redemptions of Collateral Securities, the Bank would usually pay the redemption proceeds as income on the securities (in which case the value of the securities would reduce accordingly).

[56] The Form of Termination Notice (Partial or Full) is available to download from https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation

12 Contingencies

12.1 This section sets out the Bank's specific operational contingency plans in relation to several contingency scenarios. The Bank would endeavour to inform all affected Participants as soon as possible by wire services announcement, telephone or email of the response it had decided to adopt in a contingency situation.

12A Contingencies arising from Bank actions or operations

Changes to the MPC timetable

12.2 If it became known after the publication of the annual maintenance period calendar, but before the start of the relevant maintenance period, that the date of an MPC decision had been changed, then the operational timetable would be adjusted so that the relevant maintenance period nevertheless ended on the day before the MPC's decision was announced, and the next maintenance period started on the day of that announcement.

12.3 Once a maintenance period has begun, however, the date of the final day of that maintenance period would not be changed, even if the date of the MPC decision were to change unexpectedly at short notice so that a decision was, in the event, announced during the maintenance period. In such circumstances, reserves balances would be remunerated at Bank Rate prevailing at the end of each day on which reserves balances were held.

12.4 In the event of an unscheduled MPC meeting, any use of the Operational Standing Facilities would be subject to the Operational Standing Facilities rates prevailing at the time at which the transactions were entered into.

12.5 If an emergency MPC meeting were scheduled for a day on which an OMO was scheduled, the operation may be cancelled.

12.6 In the event of an unplanned non-business day or bank holiday, on which OMOs would otherwise have matured, the maturity date for such transactions would be extended until the next business day. Interest would be charged for the additional day at the current prevailing Bank Rate, plus the clearing spread to Bank Rate for the relevant collateral set at the auction where the transaction was originated.

BERTI failure

12.7 In the event of a BERTI failure, where the RTGS Service is not affected, non-CHAPS reserves account holders may request the Bank to enter de-funding CHAPS payments on their behalf. The RTGS system control team should be the first point of contact.

Btender unavailable

12.8 In the event that Btender is unavailable prior to the start of an operation, the operation may be postponed or cancelled. Further information would be published on the Bank's wire services page. In the event an operation is postponed or cancelled and if Btender were to become operational later in the day, the operation would be run later on the scheduled day if the Bank determined that it was able to do so. Participants would normally be given 30 minutes' notice

of the start time via a wire services announcement. If the operation could not be run on the same day, the Bank would announce as soon as practicable an alternative date on which the operation would take place.

12.9 If one or more Participants are unable to participate in an OMO via Btender due to local technical problems, but Btender is still generally available, Participants may send an email to the Bank's sterling dealing desk (proxybids@bankofengland.co.uk) followed by a telephone call to the Bank on their designated direct line or to the Bank's sterling dealing desk on 0203 461 5000, from a pre-authorised telephone number. Where an operation has already started, firms should call the Bank's sterling dealing desk as a priority; the Bank may then request an email or call back to confirm the bid. The Bank would enter bid details manually in Btender. The Bank would only be able to answer calls and enter bids to the extent practicable in the circumstances, and then on the basis of its reasonable endeavours and at the risk of the Participant. The Bank would not amend bids received by telephone, but would cancel bids where, in the Bank's opinion it is reasonable and practicable to do so if the request was received with sufficient notice before the close of the auction.

12.10 If the number of Participants seeking to bid using a designated direct line or by calling the Bank's sterling dealing desk was greater than the number that the Bank could manage operationally, the auction would be postponed or cancelled. If the Bank was satisfied that the local technical problems had been resolved, the operation could be run later in the day. Participants would be given 30 minutes' notice of the start time via wire services announcement. If an operation could not be run on the same day the Bank would announce as soon as practicable an alternative date upon which the operation would take place. The Bank may refuse to accept telephone bids from Participants that persistently fail to use Btender.

12.11 If SWIFT were not operational more widely, or at the Bank, the auction may be conducted via telephone or may be cancelled.

12.12 The Bank reserves the right to cancel an auction at any time before the results are published.

Contingency details for communicating with CMC

12.13 In the event that the Collateral Management Portal (CMP) or SWIFT is unavailable, Participants may use secure email to send an instruction template to the Bank. Instruction templates can be found on the Bank's website.[57] Where requested, the Bank will send participants any statement or reports usually accessed via the CMP or sent via SWIFT to the email address provided.

12B Contingencies arising from market-wide issues

Operational or financial disruption to the money markets or infrastructure

12.14 Following major operational or financial disruption to the money markets or their supporting infrastructure during a maintenance period but where markets and infrastructure were still

[57] The confirmation form is available at https://www.bankofengland.co.uk/markets/eligible-collateral.

functioning, the Bank would be able, if necessary, to meet any increased demand for central bank money by providing additional reserves through either regular weekly or exceptional OMOs. The OMOs may be for a fixed amount determined by the Bank or an offer of funds on demand.

12.15 The Bank would aim to keep market interest rates in line with Bank Rate, while providing additional funds to the market, by varying the rates applied to the OSFs. The Bank may decide to narrow the spread between the operational standing lending and deposit facility around Bank Rate, including to zero, i.e. it could offer to lend overnight (against Eligible Collateral) and to take deposits overnight at Bank Rate.

CHAPS (payment system) extensions

12.16 If the CHAPS close were delayed on a particular day as a result of a CHAPS extension (for example following system difficulties) then, consistent with the objective of the extension to ensure that the day's business could be completed, the Bank would ensure that payments could be made to and from reserves accounts until CHAPS closed.

12.17 The Bank would also extend the availability of the OSFs accordingly. If settlement system timetables were not extended, delivery of securities in the operational standing lending facility may be constrained by the deadlines set by securities settlement systems.

Closure of CHAPS or CREST

12.18 A disruption to the sterling money markets or the supporting infrastructure could mean one or more CHAPS Direct Participants are unable to repay intraday liquidity (IDL), or that one or more CREST settlement banks are unable to unwind auto-collateralising repo (ACR). The presumption is that in such circumstances, where the problem is beyond the control of the banks concerned, overnight credit would be extended by the Bank via the operational standing lending facility, although the Bank reserves the right to extend overnight credit in other forms, such as an overnight overdraft.

12.19 In such circumstances, the Bank is irrevocably authorised, at its absolute discretion and whether requested by the affected Participants or otherwise, to treat the affected Participants as having made a request to use the operational standing lending facility to borrow funds overnight to offset their outstanding IDL or ACRs. The OSF lending transaction would be collateralised by the securities already held by the Bank in respect of the existing IDL or ACR borrowing. The IDL or ACR borrowing would, in effect, be replaced overnight by the operational standing lending facility, which would be charged at the prevailing OSF lending rate or at such other rate as the Bank may in its discretion decide.

12.20 Once the Bank had announced to the affected CHAPS or CREST Settlement Banks that the procedure was being activated, the Bank would take the necessary steps to effect this without further action being taken by the Settlement Banks concerned. On the next working day, the operational standing lending facility transaction will be unwound by the Bank before CHAPS and CREST reopen. Interest payable on the operational standing lending facility will be debited from Participants' RTGS settlement accounts.

12.21 Settlement banks with corresponding long balances could invest the funds in the market, leave them on their reserves account at the Bank or place them in the Bank's operational standing deposit facility.

Appendix A – Communication with the Bank

A.1 Telephone numbers and email addresses, including for front and back offices and the Bank's contingency site, are set out in the table below.

A.2 Participants should understand that email (whether encrypted or unencrypted) is not a secure method of communication and that messages so delivered may be intercepted, lost, destroyed, corrupted or delayed in transmission. The Bank encourages all Participants who communicate with the Bank by email to use encrypted email only.

A.3 All key electronic communications with the Bank are securely archived. Furthermore, all telephone conversations with the Bank's sterling dealing desk and back office are recorded. In the event of a dispute, reference will be made to the archive and recordings.

A.4 Participants must supply the Bank's sterling dealing desk with contact names, email addresses and telephone for their front and back offices, and for their contingency sites.

A.5 The table below summarises contact details for specific queries and actions.

Table A Telephone numbers and email addresses for contacting the Bank

Action	Contact
Queries on admission to the SMF	Sterling dealing desk: applications@bankofengland.co.uk, via direct line or 020 3461 5000
Queries during a live Open Market Operation	Sterling dealing desk: proxybids@bankofengland.co.uk via direct line or 0203 461 5000
Initiate an OSF transaction	Sterling dealing desk: Markets-SMDDealers@bankofengland.co.uk via direct line or 0203 461 5000
DWF drawdown requests or terminate a DWF transaction early (in part or in full)	Sterling dealing desk: discountwindow-drawings@bankofengland.co.uk Via direct line or 0203 461 5000
Queries regarding the operation of a reserves account	Payment Systems and Communications Reserves team: pscreservesteam@bankofengland.co.uk
Contingency manual reserves account fund or defund request	By PGP email to PSC.secure@bankofengland.co.uk
Securities settlement calls for additional collateral and returns of collateral	Collateral Management and Custody team cmc.scp@bankofengland.co.uk
Dividends or other corporate actions	Collateral Management and Custody team cmc.assetservicing@bankofengland.co.uk
Security collateral eligibility and Haircuts	Eligible Securities team: eligible.securities@bankofengland.co.uk
Loan collateral eligibility	Loans Data team: loans.data@bankofengland.co.uk