



BANK OF ENGLAND

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Consultation on Extending Eligible Collateral in the Discount Window Facility and Information Transparency for Asset Backed Securitisations

The Bank is today publishing a consultative paper seeking views on proposals for its liquidity insurance facilities for the banking system.

The paper follows the proposed changes to the Bank's facilities first outlined in the October 2008 consultative paper, 'The Development of the Bank of England's Market Operations'. That described how the Bank, through its Discount Window Facility (DWF) and Extended Collateral Long Term Repo operations, would provide temporary liquidity insurance to sound banks against a wider population of high quality collateral. And it stated the Bank would develop further detailed eligibility criteria for collateral.

The consultative paper builds on these objectives and seeks views on two proposals:

First, an extension to the pool of eligible collateral in the DWF to include portfolios of loans. The DWF allows eligible banks and building societies to borrow gilts against a wide range of collateral. It is intended for counterparties that need temporary access to liquidity, but not as a source of long term funding. Counterparties are currently able temporarily to exchange securitisations of loans they have originated themselves for gilts in the DWF. By extending eligibility to raw loans, the Bank is looking to ensure that in stressed circumstances the main assets of most commercial banks would be eligible for use as collateral in the DWF without the need for securitisation.

The Bank would apply the same rigorous standards for eligibility and risk management as for other collateral in the DWF. Counterparties would need to pre-position loan portfolios, which would be subject to regular review.

Second, to improve the efficiency of the Bank's risk management of asset backed securities (ABS) and covered bonds, the Bank is minded to amend its eligibility criteria to require enhanced disclosure of information relating to these securities. One of the Bank's guiding principles for its market operations is that it must be able to manage risk and value the collateral accepted. The Bank has therefore been giving consideration to the information that it requires from issuers of ABS.

Amongst other things, the proposed revisions would require counterparties to make publicly available granular information in the form of loan-level data for most asset classes and standardised summary tables in investor reports; as well as key legal documents, summaries of structural features and models for each transaction. The public disclosure of such information - not just on a bilateral basis with the Bank - should create greater transparency across the market. The consultation proposes that the Bank would begin to adopt these requirements during 2011.

Commenting on the proposals, Paul Fisher, Executive Director for Markets, said: "These proposals are designed to further enhance the Bank's facilities for providing short-term liquidity insurance to counterparties, thereby underpinning confidence in the financial system, and to help the Bank manage the collateral it holds more efficiently through greater transparency."

Notes to Editors

The March 2010 consultative paper can be found at

<http://www.bankofengland.co.uk/markets/money/publications/condocmar10.pdf>

A Market Notice published on 19 July 2010 can be found at

<http://www.bankofengland.co.uk/markets/marketnotice100719.pdf>

The Development of the Bank of England's Market Operations - A Consultative Paper
16 October 2008

www.bankofengland.co.uk/markets/money/publications/condococt08.pdf