

Short description of the methodology applied to the Court-commissioned review

1. The review was commissioned by the Court of Directors of the Bank of England against the backdrop of the Serious Fraud Office's ("SFO") investigation into certain of the Bank's liquidity auctions conducted during the financial crisis. The purpose of the review was to identify whether there existed operations during the financial crisis which may have been at risk of potential manipulation and which had not otherwise been examined during the course of the SFO's investigation involving the Bank. The Bank informed the SFO that it was undertaking this review, the scope of which did not overlap with the matters under investigation by the SFO.
2. Following an assessment by Bank analysts of risk profiles across the Bank's various liquidity auctions during the financial crisis, it was decided that the review would encompass the 16 US\$ Repo operations¹ conducted during the period 18 September 2008 – 6 October 2008 and 21 Extended Collateral Long Term Repo ("ECLTR") operations² conducted in the period 20 May 2008 – 14 April 2009.
3. It was acknowledged that it would not be feasible to conduct a review that was capable of identifying definitively whether there was evidence of potential manipulation across all of the Bank's liquidity auctions conducted during the financial crisis, which would have involved a review of over 400 operations conducted over the period 2007 – 2009. The review was therefore designed to be a proportionate, targeted exercise aimed at giving the Court of Directors of the Bank comfort that an appropriate review had been conducted into the actions of the Bank in the context of the operations most vulnerable to risk of potential manipulation.
4. The review proceeded by way of an extensive document review. In line with previous guidance given by the SFO not to contact individuals in respect of their extant investigation, individuals identified in the contemporaneous materials could not be interviewed by the Bank's Legal Directorate or by Travers Smith. This methodology paper summarises the approach taken to document review.

Review methodology – overview

5. Over a million documents were extracted from the Bank's systems and this population was reduced to approximately 350,000 unique documents by de-duplication. Date restrictions and – for the ECLTR review only – keyword filtering were then applied to this review pool, and that population of nearly 100,000 documents was then reviewed document-by-document. Various documents outside of this population were also reviewed for background and analytical purposes, including bid and results data from the operations, as well as contemporaneous operational summaries of the ECLTRs. Experts on markets issues within the Bank, not

¹ In response to elevated levels of stress in the US dollar funding market, the Bank introduced the US\$ Repo operations on 18 September 2008 to lend dollars directly to UK-domiciled banks via variable-rate auctions.

² The ECLTR operations, introduced by the Bank on 18 December 2007, were variable-rate auctions where counterparties could bid for reserves for a three-month term, against a wider set of collateral than the Bank's normal Long Term Repo operations.

relevant to the SFO's extant investigation, assisted with the interpretation of materials identified during the review.

US\$ Repo review

6. The US\$ Repo review spanned the 16 operations during the period 18 September 2008 – 6 October 2008. Emails within a 36 hour period around the date of each of the operations were reviewed, yielding a total review population of approximately 30,000 documents.
7. Specific issues identified from the documents reviewed on a document-by-document basis were escalated to the Bank's Legal Directorate for further consideration. Further searches over the document population were carried out where it was considered necessary to addressing or understanding the relevant issues. At the conclusion of the US\$ Repo review, any potential issues identified were sent to the Bank's external counsel, Jonathan Laidlaw QC, for further consideration.

ECLTR Review

8. The ECLTR review spanned the 21 ECLTR operations conducted between 20 May 2008 and 14 April 2009. The exercise encompassed an in-depth review across certain selected ECLTR operations. In order to determine which of the 21 ECLTR operations should be the subject of this review, an analysis was conducted, with the assistance of experts from the Bank's Markets Directorate, to assess which of these operations were susceptible to the greatest risk of potential manipulation. The review yielded a review population of approximately 70,000 documents.
9. Any specific issues identified from the documents reviewed on a document-by-document basis were escalated to the Bank's Legal Directorate for further consideration. At the completion of the ECLTR review, the Bank's external counsel, Jonathan Laidlaw QC, was instructed to advise on the various issues identified for further consideration and on whether, for example, further searches were appropriate.

Travers Smith LLP

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