BANK OF ENGLAND

Extending eligible collateral in the Discount Window Facility and information transparency for asset-backed securitisations

A consultative paper by the Bank of England

March 2010

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This paper seeks views on two specific issues; first on broadening the range of collateral eligible in the Bank's Discount Window Facility (DWF), where the Bank has specific proposals to extend eligible collateral to include loan portfolios; and second, on the Bank's initiative to require greater transparency in relation to structured products (asset-backed securities and covered bonds (ABS)) as part of the eligibility criteria for instruments accepted in its operations.

This paper represents further development of 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*.[1] It is being issued for formal consultation. Comments are invited from all interested parties, including participants in the Bank's Sterling Monetary Framework, and investors in and issuers of ABS.

Comments should be sent by 30 April 2010 to:

The Head of Risk Management Division
Bank of England
Threadneedle Street
London, EC2R 8AH

or by email to RMDconsultation@bankofengland.co.uk

Further copies of the paper are available on the Bank's website at www.bankofengland.co.uk, from the above address and email, and by telephone 020 7601 3201 or fax 020 7601 5002.

The Bank stands ready to discuss these issues with interested parties.

(1) *The Development of the Bank of England's Market Operations — a consultative paper*, 16 October 2008, available at www.bankofengland.co.uk/markets/money/publications/condococt08.pdf.

I Introduction

1 In October 2008 the Bank of England published a consultative paper[(1)] setting out plans for changes to its permanent framework of operations in the sterling money markets. That paper described how, consistent with the operation of central banks generally, the Bank through its permanent operations would provide short-term liquidity insurance to sound banks against a wider population of high-quality collateral. In so doing the Bank would help to contain the costs to the wider economy of a crystallisation of the liquidity risks to which banks are exposed, but on terms that avoid the creation of incentives for banks to manage the risk of liquidity of their own balance sheets less carefully.

2 This consultative paper follows up on the October 2008 paper.[(2)] The first part of the paper seeks market participants' views on further widening the range of collateral in the Discount Window Facility (DWF): specifically, a proposal to accept as eligible collateral portfolios of loans. The second part of this paper seeks views on the Bank's initiative to require greater transparency in relation to structured products (asset-backed securities and covered bonds (ABS)) as part of the eligibility criteria for instruments accepted in all of its operations, including the extended-collateral long-term repo operations, the Special Liquidity Scheme while it is outstanding, and the DWF.

3 The purpose of the DWF is to provide short-term liquidity insurance to sound banks. The DWF is not and cannot be a source of long-term funding and it would be imprudent for banks to rely on it except for short periods of time or in stressed circumstances. Since it is not part of a central bank's role to take on credit risk through its provision of liquidity insurance, the Bank aims to exclude from all its facilities any bank which is facing fundamental problems of solvency or viability. The Bank will take as collateral only those instruments which it believes it can value and where it would be capable of managing an outright holding in the event of default.

4 The Bank aims to be transparent to the banking system and others about the terms on which it will provide liquidity insurance. These proposals are designed to ensure that in providing short-term liquidity insurance to the banking system, the Bank can underpin confidence in the financial system, on terms that avoid encouraging imprudent risk management and taking risk onto the Bank's balance sheet.

(1) *The Development of the Bank of England's Market Operations — a consultative paper*, 16 October 2008, available at www.bankofengland.co.uk/markets/money/publications/condococt08.pdf.
(2) The new operational design for long-term repo operations discussed in the October 2008 paper will be launched later in 2010.

II Expansion of eligible collateral in the Discount Window Facility

5 The purpose of the DWF is to provide liquidity insurance to the banking system. It is in principle available to all eligible UK banks and building societies.(1) It is not intended for counterparties facing fundamental problems of solvency or viability. Requests to draw under the DWF can be made at any time, though all drawings are subject to approval by the Bank. The Bank has the right to ask about the circumstances that have given rise to the request to draw and may ask for further information at the point of drawdown or subsequently thereafter. Loans from the DWF normally take the form of a collateral swap where the Bank lends UK government debt (gilts) against eligible collateral(2) and drawings are for a 30-day term. Counterparties have the option to redeliver the gilts at any time.

Collateral currently eligible in the DWF

6 The October 2008 paper *The Development of the Bank of England's Market Operations* sets out the principles underlying the design of the Bank's liquidity insurance facilities. As described in that paper, the Bank may lend against a wide range of private sector collateral provided that it is capable of valuing and managing it in the event of a counterparty default. The terms of each facility (eg collateral-eligibility criteria and haircuts) are designed to enable the Bank to control the risks associated with the pledged collateral.

7 Annex A sets out the types of collateral currently eligible in the DWF. Instruments currently eligible in the DWF are classified into four groups (or levels). The broad definitions are set out in Box A on page 5. Borrowing against own name instruments (Level D) is subject to higher haircuts and fees. This is for two reasons: first, if the collateral provided by a counterparty comprises portfolios of self-originated loans (whether in securitised form or not), such assets may be difficult to dispose of in the event of a default; second, the Bank's risk exposure is greater due to the correlation between the value of a counterparty's asset portfolio and the probability of it defaulting. The general haircuts that apply to the DWF are provided in Annex B. The Bank may vary haircuts at its discretion to reflect the risk in specific collateral types or specific counterparties.

Expansion of collateral eligible in the DWF

8 As discussed in the October 2008 consultation paper, the Bank has been considering further expansion of the types of collateral eligible in the DWF. The Bank aims to be transparent to the banking system and others about the terms on which it will provide liquidity insurance to the banking system. The DWF is designed to provide short-term liquidity insurance to banks. It is not a permanent source of funding for assets whose financing markets have closed.

9 This paper seeks views on extending eligible collateral to include portfolios of loans to non-banking companies, consumer loans and mortgages. The initial eligibility criteria are contained in Box C (page 7). Such loan portfolios would be categorised as Level D.

10 Counterparties are currently able to deliver securitisations of loans they have originated themselves ('own name' ABS) in the DWF, but the process of securitising own-name loan portfolios can be both costly and time consuming. Furthermore, not all counterparties may be able to undertake such transactions. In extending DWF eligibility to include loan portfolios, the Bank believes that the majority of assets held by commercial banks would become eligible for use as collateral. Loan portfolios would be subject to the same rigorous eligibility and risk management standards as any other DWF collateral; the Bank plans to ensure this by requiring pre-positioning of loan portfolios. Accepting raw loans would also ensure that securities taken in the Bank's operations have a genuine private sector demand rather than comprising 'phantom' securities created only for use in central bank operations. The Bank is interested in obtaining the views of counterparties on accepting loan portfolios as eligible collateral in the DWF based on the criteria and processes outlined in this paper.

(i) In the view of counterparties, is there likely to be demand for delivering loans as collateral in the DWF?

(ii) What would be the main obstacles/challenges for participating counterparties?

(1) All institutions that are subject to the statutory cash ratio deposits (CRD) regime or institutions that pay an annual fee are eligible to apply to access the DWF. The Market Notice dated 13 November 2009 — 'Changes to the eligibility criteria for access to reserves accounts and other sterling monetary framework facilities' and the Market Notice dated 25 September 2009 — 'Consolidated Market Notice: Discount Window Facility' further detail the eligibility requirements for institutions seeking to access the DWF.
(2) Please refer to the following link for detail on eligible collateral: www.bankofengland.co.uk/markets/money/dwfcollateral.htm.

Box A: Summary of DWF collateral levels — see Annex A for details of the full list of current eligible collateral for the DWF

Level A: high-quality sovereign and supranational bonds. Such instruments are those eligible in the Bank's short-term repo OMOs; in the Operational Standing Facility and intraday in the sterling wholesale payments system.(1)

Level B: other high-quality debt that, in normal circumstances, is tradable in liquid markets. Such instruments include debt issued by G10 government-guaranteed agencies, certain sovereign-guaranteed bank debt and highly rated asset-backed securities provided that they are trading in liquid markets.

Level C: non-tradable debt, and other transferable instruments, that are not tradable in liquid markets. Such instruments include high-quality transferable securitised loans and highly rated mortgage bonds that are not trading in liquid markets, or which have been privately placed. Where a market becomes illiquid, eligible instruments may be moved from Level B to Level C.

Level D: currently includes 'own name' securitisations and covered bonds.

(1) During the day, the Bank provides intraday liquidity to facilitate the functioning of the wholesale payments systems. This intraday liquidity is provided against the same list of collateral that is eligible for the Bank's routine short-term OMOs. See paragraph 45 of *The Framework for the Bank of England's Operations in the Sterling Money Markets* (the 'Red Book') for more detail, available at www.bankofengland.co.uk/markets/money/publications/redbookjan08.pdf.

(iii) What would be the primary benefits over and above other collateral types?

(iv) Which types of loan portfolio would be the most straightforward to deliver in the short term and in the medium term?

Additional DWF counterparty eligibility criteria to submit loans as collateral

11 The Bank plans that there would be a separate DWF application process for counterparties seeking to place loan portfolios with the DWF. This application process would be in addition to the standard DWF counterparty approval process. The purpose of the additional counterparty eligibility criteria is to assess a counterparty's framework for loan administration, including its risk-rating system, lending policies and procedures, so far as they are relevant to the Bank managing its risk.

12 Counterparties seeking to submit loan portfolios to the DWF would submit a review of their lending operations, procedures and risk assessment methodologies. This review, which would not need to be undertaken solely for the Bank, would be carried out by qualified internal personnel (eg internal auditors) to provide the Bank with a sufficient level of confidence regarding the counterparty's approach to the risk management of its loan book. The Bank would reserve the right to request an independent, third-party review (eg external audit) if deemed appropriate in light of the internal review. Any costs would be borne by the counterparty. The Bank would specify the scope of this review. A high-level summary of the counterparty lending operations review is proposed in Box B.

Box B: Counterparty lending operations review

The Bank would seek to obtain an internal review of the counterparty's lending operations. The objective of the review would be to confirm that the counterparty's lending operations were appropriate and risk controls were adequate based on the counterparty's size and business scope.

- The lending operations review would be conducted by qualified internal personnel. The Bank would reserve the right to request an independent, third-party review if deemed appropriate in light of the internal review. Any costs would be borne by the counterparty.
- The lending operations review would include a review of the counterparty's lending procedures and policies — paying particular attention to a counterparty's ability to monitor and assess its lending operations. Historical lending default and recovery rates would also be assessed.
- The counterparty's internal credit model would be reviewed and assessed on criteria related to the counterparty's size and business scope.
- The Bank is minded to request that the counterparty lending review be updated regularly, perhaps annually.

13 In addition to the internal lending review, the Bank would request feedback from the relevant regulator, for example on the counterparty's financial strength, lending policies/procedures, and credit risk rating system.

14 The Bank envisages that the proposed additional DWF counterparty eligibility process may take up to three months to complete.

(i) Do counterparties have any views on the proposed counterparty eligibility requirements?

(ii) Would any of the proposed criteria prevent widespread participation?

Indicative loan portfolio eligibility criteria

15 Set out in Box C on page 7 are the Bank's potential high-level eligibility criteria for portfolios of loans. The criteria would be kept under review.

16 *It is envisaged that the following types of loans would not be eligible*:

- Loans to banks, bank holding companies, and companies within banking groups.
- Loans under partially drawn term loan facilities or where part of the term loan is made available by way of letter of credit/bank guarantee.
- Term loan facilities where the Bank's credit criteria is met only as a result of any letters of credit/bank guarantees.
- Loans under a revolving credit facility (including credit cards).
- Subordinated debt (including second ranking loans).
- Leveraged loans.

(i) Do counterparties have any views on the proposed loan eligibility requirements?

(ii) Would counterparties comment on the currency and minimum/maximum maturity criteria for individual loans accepted as collateral?

(iii) The Bank is minded to set the minimum rating requirement at BB- (or its internal equivalent) for individual corporate loans but seeks views on the potential impact of such a requirement.

(iv) Would any of the proposed criteria prevent widespread participation?

Legal issues and documentation

17 At present all collateral accepted in the Bank's market facilities is in the form of securities (this includes eligible securitised portfolios of loans). In considering whether the eligibility criteria should be expanded to allow market participants to deliver portfolios of loans, the Bank has been considering two specific legal issues. First, methods of taking loan portfolios as collateral without transferring legal ownership to the Bank (except on default). Second, issues concerning assignment and transferability which arise from clauses commonly found in loan documentation which have the potential to affect the Bank's rights in respect of loans and so can affect the transfer method.

18 The DWF counterparty would provide a portfolio of loans to the Bank in accordance with the DWF terms. The transfer of the loans would be effected by equitable assignment or by a declaration of trust; the Bank would also consider a secured loan structure. Potential methods for taking loans as collateral are set out in Box D (page 8). Which of these structures is appropriate will depend primarily on restrictions on transferability/assignment in loan documentation. Once counterparties have had time to amend their lending documentation, the Bank anticipates that permissible types of loan transfer may be amended.

19 Counterparties may have restrictions on encumbering assets based on their own existing funding documentation with third parties (eg as a result of having granted a negative pledge). Counterparties would need to review any funding documentation for contractual provisions that would limit the pre-positioning and offering of their loan portfolios as collateral using any of the methods described in Box D.

20 Currently, it is common for loan documentation for certain types of obligor to contain provisions that limit or prohibit assignment and transferability of a lender's rights to a third party. Such clauses are particularly associated with larger corporate loans. The Bank has been considering the implications of such clauses if it were to accept loans as eligible collateral in the DWF and what changes could be made to underlying loan documentation in the future to support the use of loans as collateral in the Bank's operations. It is envisaged that the Bank's eligibility criteria for corporate loan portfolios would require loan agreement documentation to be in the Loan Market Association's (LMA) standard form for investment-grade corporates or a counterparty's own form of loan agreements provided the terms are at least equivalent to the LMA standard.

21 The Bank's eligibility criteria for loan portfolios will require there to be no restrictions on the disclosure of communications, financial and other information from the underlying borrower to the Bank.

22 Legal due diligence (carried out by a counterparty-appointed counsel) would be necessary to

Box C: Indicative list of loan portfolio eligibility criteria

Loan types	• Residential mortgages • Consumer loans (excluding credit cards) • Commercial real estate loans • Corporate loans to non-banking companies (including small and medium-sized enterprises)
Domicile of borrowers	• United Kingdom (including requirement that the centre of main interests be located in the United Kingdom) • Individual borrowers have to be resident in the United Kingdom
Currency	Loans may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona or Swiss francs.
Loan characteristics	• Fully drawn, senior-ranking term loans • Borrower is not currently in default under the loan (including payment default or arrears) • Loan maturity is greater than the maturity of the borrowing from the DWF (at least three months) • Loans are freely assignable by the counterparty (or borrower consent cannot be unreasonably withheld or delayed and is deemed given within a short period of time) • Restriction against borrower set-off rights • No restrictions on the disclosure of communications, financial and other information to the Bank
Choice of law	Governed by the laws of England and Wales, Scotland or Northern Ireland.
Minimum rating requirement	Loans to individual corporate borrowers must have a rating of BB- or higher based on an approved rating agency or counterparty internal rating model.
Minimum/maximum maturities	Three months – 30 years.
Maximum borrower concentration	Loan portfolios will be subject to maximum borrower concentration limits. Borrower concentration limits will be linked to the loan type. *For example, corporate loan portfolios may be subject to a maximum borrower concentration limit of 2%*.
Maximum industry concentration limits	Loan portfolios will be subject to relevant maximum industry concentration limits relevant to that particular loan type. *For example, corporate loan portfolios may be subject to maximum industry concentration limit of 5%–10% depending on the industry*.

The list above is for indicative purposes only and subject to change.

verify that documentation standards have been met. As described above, loans would not be eligible if the obligor under the loan or a third party (such as the holder of a negative pledge) has an unqualified right to withhold consent for the transfer (or use as collateral) of rights under the loan to the Bank, or if the obligor has material claims on the counterparty that it may, in insolvency, set off against amounts due under the loan. Counterparties would be expected to bear the legal costs associated with transferring loans to the Bank in the DWF and the due diligence opinion from external counsel on the eligibility of the loans.

(i) Do counterparties see any particular issues with the Bank's legal requirements for loan delivery and loan documentation?

Box D: Potential methods of taking loans as collateral

Equitable assignment	The counterparty would provide to the Bank a portfolio of loans where the transfer is effected by way of equitable assignment. Requires unfettered transfer rights in the underlying loans.
Trust structure	The Bank may be prepared to accept the transfer of the portfolio of loans to be by way of a trust structure in cases where underlying loans restrict assignment but where the creation of a trust is not prohibited. The counterparty would declare a trust over the portfolio of loans in favour of the Bank.
Secured loan structure	Rather than using an assignment or trust structure, the Bank would make a loan to the market participant and take a fixed charge over the loan portfolio as security for the loan. Registration of the security interest is no longer necessary due to the exemption granted pursuant to Section 252 of the Banking Act 2009.

(ii) Do counterparties see any difficulties with the methods of transferring loans outlined above?

(iii) The Bank would welcome comment on any constraints in current loan documentation or counterparty funding documentation related to the transfer of loans to the Bank as collateral (including the ability to declare a trust) or giving security over the loans.

(iv) The Bank would welcome comment on any other legal or related issues in relation to the Bank accepting loans as collateral.

Approval process for loan portfolios

23 The Bank would establish a process for the approval of eligible loan portfolios and receipt of information to enable ongoing monitoring and valuations on a regular basis. The entire approval process for a counterparty first wishing to pledge an eligible loan portfolio is likely to take up to three months to complete, provided that all required information is submitted to the Bank in a timely manner. The types of loan information likely to be requested by the Bank include (but would not be limited to) the following: borrower details (unique loan identifiers); nominal loan amounts; accrued interest; loan maturity dates; loan interest rates; and other reporting line items that are relevant to the underlying loan portfolio (ie borrower location, loan to value ratios, payment rates, industry code). The initial loan portfolio information reporting requirements would be consistent with the ABS loan-level reporting requirements detailed in paragraph 42 in this consultative document. Data would need to be regularly updated, it is suggested on a weekly basis, given the possibility of unexpected loan repayments.

24 Counterparties would be required to undertake for each pre-positioned loan portfolio a pool audit (carried out by an independent third-party auditor) where a sample of loans in the portfolio would be verified to conform with the Bank's eligibility requirements and traced back to the original loan documentation. The Bank is minded to request that the pool audit be updated regularly, perhaps on an annual basis. Counterparties would be expected to bear the costs of such an audit.

25 As described previously, counterparties would also be required to instruct external legal counsel to conduct a full legal review of each loan portfolio in order to verify compliance with the Bank's eligibility requirements. Thus if a counterparty plans to submit portfolios of residential mortgages and corporate loans as collateral, then the counterparty would be required to complete a pool audit and legal review for each loan portfolio. The pool audit and legal review would take place during the pre-positioning phase of the DWF loan transfer process. Box E on page 9 outlines the proposed DWF approval process for submitting loans as collateral.

Pre-positioning of loan portfolios

26 The Bank would require counterparties to pre-position loan portfolios for use as collateral in the DWF at a later date. Pre-positioning in the context of loan portfolios means the submission of the portfolio to the Bank, its analysis by the Bank and the decision to deem such a portfolio eligible. If approved, the loan portfolio would be transferred to the Bank and thereby 'pre-positioned' by one of the methods mentioned previously (equitable assignment, declaration of trust, or secured loan).

27 Pre-positioning collateral would provide the Bank with more time to analyse and value loan portfolios for risk management purposes and thus potentially enable the Bank to respond more quickly to any request to access the Bank's facilities. While loans accepted in a pre-positioned portfolio

Box E: DWF approval process for submitting loan portfolios as collateral

DWF — Loans: Counterparty eligibility approval process
The Bank envisages the following steps to determine whether a counterparty is suitable to submit loan collateral to the DWF.

- Counterparty submits an internal lending operational review.
- Regulatory feedback received.

DWF — Loans: Loan portfolio pre-positioning approval process
If a counterparty is approved to submit loans to the DWF, then the Bank envisages the following steps to determine if a loan portfolio is eligible collateral for the DWF.

- Counterparty submits the loan portfolio to the Bank.
  - Loan portfolio information may include unique borrower identifiers, nominal loan amounts, loan maturities, loan interest rate, amount of accrued interest, and other relevant reporting line items — consistent with the ABS loan-level reporting criteria outlined in this paper.
  - A counterparty will update the pre-positioned loan-level portfolio information on at least a weekly basis.
- Counterparty submits the results of the independent pool audit.
- Counterparty submits the results of the loan portfolio legal review.

DWF — Loans: Loan portfolio pledging (drawing) approval process
If the counterparty's loan portfolio is approved as eligible collateral, and pre-positioned in the DWF, then the Bank envisages the following steps for a counterparty to draw against the pre-positioned loan collateral.

- Counterparty requests a drawing against the pre-positioned loan portfolio. The drawn amount may be less than the pre-positioned amount.
  - A counterparty will continue to update the loan-level portfolio information (for both the pre-positioned and drawn loan portfolios) on at least a weekly basis.

will not guarantee that a drawing will be approved (the Bank approves drawings under the DWF on a case-by-case basis) it will reduce the amount of time between approval being given and the drawing being made.

(i) What are the views of market participants on the pre-positioning of loan portfolios with the Bank?

(ii) Would there be any constraints (eg operational, legal or other) which might make pre-positioning loans impractical?

Risk management issues

Data/reporting requirements

28 Consistent with the guiding principles for collateral accepted in its operations, the Bank must be able to risk manage loan collateral. In order to do so effectively, the Bank would need to receive adequate information to enable it to monitor the performance of loan portfolios on an ongoing basis and to ensure the eligibility criteria continue to be met. For example, as described previously the Bank would require that all loan portfolios (pre-positioned and drawn) contain no loans that are in arrears and hence would require the substitution or removal of non-performing loans. Expected and contractual maturity of loans would be required to be greater than the maturity of the borrowing from the DWF. If repayments are made on a loan during the term of borrowing from the DWF, the counterparty would be required to post additional collateral or repay part of its borrowings under the Facility via remargining procedures. The counterparty would be required to comply with the eligibility criteria at all times and the Bank reserves the right to request an audit to that effect at any time. The Bank may request historical loan portfolio and borrower performance information.

(i) Counterparties are asked to comment on any operational constraints in sharing this information on loan portfolios with the Bank.

(ii) Specifically, counterparties are asked to comment on any legal restrictions arising from sharing loan-level information with the Bank.

Maximum default probability/minimum ratings requirements

29 The Bank is considering imposing a maximum default probability/minimum ratings requirement on loans in eligible portfolios. The Bank would give consideration to either public or private (shadow) ratings by an approved rating agency. When ratings are not available, the Bank may accept the rating derived from the counterparty's own credit risk model including those that have been approved by the relevant regulator. Counterparties may be required to share their

internal credit risk models with the Bank. Depending on the type of loan portfolio, the Bank may require that the average probability of default be less than a specified percentage and that no loan is above a specified probability of default. The Bank is minded to set the minimum ratings requirement for individual corporate loans at BB-. The internal rating and default probability would not take into account any financial guarantees by a third party (other than by a UK-incorporated parent company or affiliate within the same group as the obligor).

(i) The Bank seeks comment on the potential criteria requiring a minimum individual loan rating (either from a public or internal source).

(ii) Would some loan types be more impacted than others?

(iii) What would be the potential constraints on translating/mapping credit risk model outputs to a public rating agency scale?

Loan haircuts and valuations

30 The Bank would apply haircuts on pre-positioned loan portfolios based on the Bank's internal process. The loan portfolios would be valued taking into account prevailing market prices. The Bank may use a variety of sources for valuing loan portfolios including third-party valuation services, proxy valuations for similar collateral types and internal valuation models.

31 Box F below contains indicative haircuts to be used as a general guideline for certain types of loan portfolios. Final haircuts would be outlined in a Market Notice for the DWF to be published in due course.

32 Potential haircuts stated in Box F are indicative haircuts for generic/benchmark loan portfolios. The Bank's loan portfolio haircuts would be dependent on the credit quality of the loan portfolios and may in consequence be outside the ranges listed in Box F.

Operational issues

33 Delivering loans as collateral may present operational challenges for counterparties in the short term, due to constraints on the functionality of existing systems infrastructure. The Bank will as a minimum require counterparties' systems to be capable of the demarcation (flagging) of loans provided as collateral to (or pre-positioned with) the Bank.

34 For pre-positioned and loan portfolios provided as collateral, the Bank will require an update on each portfolio's outstanding balances (nominal amount plus accrued interest), and records of payment (current or in arrears) on a weekly basis (or more frequently if required) and other relevant reporting line items — consistent with the ABS loan reporting criteria outlined in this paper. The reporting requirements enable the Bank to monitor and value the loan portfolios both in pre-positioned form and when they have been provided as collateral.

35 It will be a requirement for all data to be delivered to the Bank in an electronic format. For readily securitisable loan portfolios (eg prime residential mortgages), some counterparties may have systems that are already capable of accommodating the Bank's requirements for providing loan portfolios in the DWF.

(i) Counterparties are asked to outline any operational constraints that may make the delivery of loans in the DWF unfeasible.

(ii) The Bank would be interested to know from counterparties how long they envisage systems development would take in order to meet the proposed requirements for provision of data to the Bank and demarcation of loans provided to the Bank.

(iii) Counterparties are asked to comment on their ability to provide updated information on both pre-positioned loan portfolios and loan portfolios provided as collateral on a weekly basis.

(iv) Will banks seek to pre-position as required?

Box F: DWF loan portfolio haircut ranges

- UK residential mortgages: 25%–50% haircut
- UK consumer loans: 35%–60% haircut
- UK corporate loans: 35%–60% haircut
- UK commercial real estate: 30%–60% haircut

The haircut ranges listed above are for indicative purposes only and are subject to change.

III Enhanced disclosure requirements for eligibility of ABS collateral in the Bank of England's operations

36 Since December 2007 the Bank has accepted asset-backed securities and covered bonds (ABS) in its extended-collateral long-term repo operations, temporary Special Liquidity Scheme and Discount Window Facility. As noted in paragraph 28, one of the guiding principles is that the Bank must be able to risk manage and value collateral accepted in its operations. The Bank has therefore been giving consideration to the information that it requires from issuers of ABS in order to be able, more easily and efficiently, to undertake risk management of the collateral.

37 In order to improve the efficiency of its risk management of asset-backed collateral, the Bank is minded to amend its eligibility criteria to require enhanced disclosure of information relating to these securities. These enhanced disclosure requirements would apply to all forms of ABS accepted by the Bank,(1) from all jurisdictions, with specific requirements applied to each separate asset class. The Bank considers it important that the increased levels of disclosure required are provided publicly to help market-wide transparency rather than being required solely on a bilateral basis to the Bank. The remainder of this consultation paper sets out the Bank's preliminary proposals for these requirements, on which the views of all interested parties are sought. It also seeks views on certain initiatives that would improve the transparency and the ease with which these securities can be risk managed, but would not necessarily form part of the Bank's eligibility criteria in the short term.

38 The Bank is aware of initiatives in the ABS market regarding the disclosure of additional information, including those being undertaken, for example, by the ECB (which released its own consultative paper on 23 December 2009) and the Association for Financial Markets in Europe/European Securitisation Forum, both of which are aiming to enhance transparency and disclosure in securitisation markets. The Bank supports those initiatives and is consulting with those institutions to ensure, to the extent possible, consistency and complementary requirements.

Granular asset information

39 There is currently an information asymmetry between the information routinely and publicly provided by the issuers of ABS and the information required by investors to risk manage such instruments. The Bank believes that more granular information than is currently routinely provided on the assets underlying ABS is required in order to allow a more detailed assessment of credit quality. The Bank (contingently through its market operations) and other holders of such securities, are exposed to the credit quality of assets backing them, and so should reasonably expect to receive as much information about their credit quality as the originator of those assets.

40 *The Bank is considering making it an eligibility requirement that loan-level data must be provided in specified formats on a periodic basis for ABS*. This information would be provided separately from, and in addition to, the summary information provided in the form of investor reports.

41 The Bank is aware that the usefulness of these data depends on a number of factors, including the risk appetite of investors and their ability to analyse such granular data. For its part, the Bank seeks to formulate its own independent judgement on the ABS pledged in its operations rather than relying on the judgement of third parties. To support this, the Bank requires transparency on both the underlying assets and structures of ABS. Further, the Bank views it as important from a transparency and consistency standpoint that enhanced information is uniformly available across deals and for all classes of notes.

42 The Bank has considered the loan-level data fields which it considers would be most relevant for residential mortgage-backed securities (RMBS) and covered bonds and sets out a high-level indication of some of those fields in the list below:

- Portfolio, subportfolio, loan and borrower unique identifiers.
- Loan information (remaining life, balance, prepayments).
- Property and collateral (current valuation, loan to value ratio and type of valuation).

(1) A summary of eligible collateral for the DWF can be found in Annex A of this document.

- Interest rate information (current reference rate, current rate/margin, reset interval).
- Performance information (performing/delinquent, number and value of payments in arrears, arrangement, litigation or bankruptcy in process, default or foreclosure, date of default, sale price, profit/loss on sale, total recoveries).
- Credit bureau score information (bankruptcy or IVA flags, bureau scores and dates, other relevant indicators (eg in respect of fraudulent activity)).

Requirements for other asset classes will be defined in due course, but will be broadly in line, where relevant, with those used for RMBS and covered bonds, and the fields outlined in Box G on pages 14–15 for each asset class. These fields, which are not exhaustive, will be consistent, where possible, with those used by other organisations, in order to help bring consistency to the market as a whole.

43 The Bank understands that it may not be possible to provide complete sets of data for every portfolio and so some data points may need to be left blank, although the extent of any blank data fields would further assist the Bank in assessing the risk of a security. In terms of credit bureau information, the Bank is aware that this data, using standardised definitions, is available already to issuers and considers the sharing of this information with noteholders to be important in supporting effective risk analysis. The Bank is, in consequence, keen to explore whether the issues of reciprocity, that would be associated with wider use of such data, may be addressed in some way.

44 Loan-level data should be provided at each bond payment date; and, for revolving asset pools, each time a new pool is added to the existing pool, with an identifier for each pool added. This is to permit analysis of the credit quality of securities where the composition of underlying assets can change over time.

45 For certain asset classes, such as credit card ABS, loan-level data may be less appropriate, given the shorter terms of the loans and the high turnover of the portfolio. For these portfolios, the Bank would view it as more appropriate for more detailed summary statistics of underlying loan information to be provided and consequently it does not currently plan to require loan-level data to be made available. Notwithstanding this, where loan-level data is available, investors would also benefit from summary stratification tables being provided in the investor reports. Ideally these may take the form of flexible (ie user defined) stratification tables through a web interface, but refined stratification data published on a regular basis could also be considered acceptable. An indicative list of the stratification table requirements for each key asset class is shown in Box G.

46 *The Bank appreciates that these data are not currently provided to investors on a regular basis and so preparation time, during which systems can be upgraded, may be required*. The Bank notes however that this information is already provided to rating agencies at the inception of a transaction. Furthermore, these data would also be valuable to the originator from an internal risk management perspective, therefore if current systems do not allow for the provision of these data, originators should have incentives to upgrade them as necessary. The Bank will not seek personal data (eg names or addresses) to be published.

47 The Bank considers it important that performance data are made available not only for the lifetime of the transaction but also covering a period in advance of a security being issued in order that holders of newly created paper are able to understand the risks associated with the underlying loans. The Bank is therefore minded to look for historical performance data and loan-level data being made publicly available at closing for newly issued securities before acceptance into its operations. Where the loans have only recently been originated, the Bank may request information for a portfolio with similar characteristics as the one being securitised.

(i) Do counterparties perceive any constraints in providing loan-level data (a) to the Bank and (b) to the wider investor community?

(ii) Do counterparties envisage any constraints in providing loan-level data for a particular asset class?

(iii) Do counterparties envisage any constraints in providing loan-level data on each bond payment date and stratification data on a monthly basis?

(iv) Would historic performance data (eg over at least the past three years) and a loan-level pool cut at closing be readily available?

(v) How long would it take for banks/issuers of ABS to develop their systems to regularly provide such data?

Information on securitisation structures

48 Based on its experience, it has become apparent to the Bank that the structures of some ABS may be insufficiently transparent for the Bank and other holders to be readily able to assess the risks of a security. The underlying transaction documents governing the transactions can be difficult to obtain, and the structures of securitisations can be complicated and unclear, for example where there are trigger mechanisms that alter how the security's cash flow behaves. The Bank considers it important that information relating to aspects other than the underlying assets is disclosed publicly and in a concise manner facilitating more effective risk

management, for example, by enabling the accurate modelling of securities under various scenarios.

49 *The Bank is considering making it an eligibility requirement that the prospectus, together with all underlying closing transaction documents, should be readily, publicly available in an electronic format*. Updated versions of documents should also be available where material changes occur. Given these documents set out the legal framework for ABS transactions, the Bank considers it necessary for them to be easily accessible to meet its eligibility requirements.

50 The Bank appreciates the complexity of the transaction documents can often lead to investors being unaware of key features which may substantially change their risk profile in certain scenarios, for example, the ability of junior noteholders to veto senior noteholders or deferred interest payments. To the extent that structural features are considered to be non-market standard the Bank is unlikely to deem the related transaction eligible in its operations.

51 *The Bank is also considering making it an eligibility requirement that each issuer provides a summary of the key features of the transaction structure in a standardised format*. This summary would include:

- Clear diagrams of the deal structure.
- Description of which classes of notes hold the voting rights and what proportion of noteholders are required to pass a resolution.
- Description of all the triggers in the transaction and the consequences of them being breached.
- What defines an event of default.
- Diagramatic cash-flow waterfalls, making clear the priority of payments of principal and interest, including how these can change in consequence to any trigger breaches.

52 *The Bank is also considering making it an eligibility requirement that cash-flow models be made available that accurately reflect the legal structure of an asset-backed security*. The Bank believes that for each transaction a cash-flow model verified by the issuer/arranger should be available publicly. Currently, it can be unclear as to how a transaction would behave in different scenarios, including events of default or other trigger events. The availability of cash-flow models, that accurately reflect the underlying legal structure of the transaction, would enable accurate modelling and stress testing of securities under various assumptions.

53 The following is an indication of the level of detail the cash-flow model would need to be able to handle, based on an RMBS transaction. Similar requirements for different asset classes would be defined. It is not meant to be an exhaustive list of stresses, and the test options would vary based on different asset classes, but it provides an indication of the flexibility required in the model to run the cash flows under user-defined variables:

- Loan-level or stratification table data inputs.
- Payment and prepayment scenarios.
- Arrears, default and recovery scenarios.
- Property value decline scenarios.
- Interest rate scenarios.
- Ability to run scenarios with and without the various deal triggers being breached.
- Capability to model pre (base case) and post-enforcement waterfalls.
- Effect of disruption to various hedging arrangements.

54 *The Bank is therefore minded to make it an eligibility requirement that cash-flow models appropriately verified by issuers or arrangers, are publicly available to assist in its determination of eligibility, valuation and appropriate haircuts*. The Bank would consider these models to be 'public' if they are available on both Intex and ABSXchange (the selection of these providers to be reviewed regularly) or, provided it can be easily integrated into a users' risk management systems, a website maintained by the issuer.

(i) Do issuers perceive any problems in ensuring cash-flow models, as verified by the issuer or arranger, are made available to investors?

(ii) Does there need to be a degree of uniformity in how the models operate?

(iii) Are there any other parties who would be suitable as providers of cash-flow models?

Investor reporting

55 The level of detail provided in investor reports varies considerably, both within and across asset classes. The absence of, and inconsistencies surrounding, information provided makes it difficult to assess the ongoing performance of ABS; and in particular, it does not facilitate peer comparison and analysis. It is the Bank's view that more comprehensive and consistent information, in a format which is easier to use, is required to allow the effective risk management of securities. *The Bank considers that investor reports should be provided on at least a monthly basis and is considering making that an eligibility requirement for securities delivered in its operations*.

56 *The Bank is also considering making it an eligibility requirement that investor reports should be produced in a*

Box G: Asset class stratification table requirements

For all asset classes except credit cards, loan-level data will be required, but in addition, the following standardised stratification tables would also be required to be included in the investor reporting. Certain stratification tables will be requested on a multivariate basis (eg against loan to value ratios for RMBS).

RMBS and covered bonds
Detailed stratification tables showing total outstanding balance and number of loans for the following fields:

- Original and current loan to value
- Original and current principal balance
- Arrears
- Defaults
- Value and number of CCJs
- Mortgage purpose
- Property type
- Original and current loan to value
- Original and current indexed loan to value
- Seasoning
- Remaining term
- Repayment method
- Income verification status
- Latest available credit bureau/credit score
- Income multiple
- Interest rate type
- Floating-rate index
- Discount rate
- Lien
- Geographical distribution

CMBS
Detailed stratification tables showing total outstanding balance and number of loans and properties for the following fields:

- Current, whole and senior loan balances
- Interest coverage ratios (ICR) and covenants
- Debt service coverage ratios (DSCR) and covenants
- Loan to value (LTV) and covenants
- Maximum loan to value
- Exit loan to value
- Remaining loan term
- Amortising type
- Property type
- Geographical distribution
- Property market value
- Property vacant possession value
- Property net operating income
- Number of tenants
- Occupancy rate
- Lease term
- Lettable area
- Top 20 tenants
- Loans on watch list or in special servicing

CLOs
Detailed stratification tables showing total outstanding balance and number of loans for the following fields:

- Interest collections
- Principal collections
- Delinquencies
- Defaulted loans over the period
- Detail of all covenant tests compared to triggers
- Loan losses over the period
- Cumulative loan losses
- Portfolio change during period
- Loan substitutions
- Average balance
- Maximum balance
- Borrower concentration amounts
- Geographical distribution
- Credit qualification
- Industry classification

Consumer/auto loans and leases
Detailed stratification tables showing total outstanding balance and number of loans for the following fields:

- Current loan balance
- Seasoning
- Remaining term
- Delinquency status
- Latest available credit bureau/FICO score
- Product types
- Defaults and delinquencies
- Interest rate paid by debtor
- Geographical distribution
- Top 20 borrowers
- Down payments
- Auto loans — residual value and balloon amounts outstanding
- Auto loans — manufacturer of vehicle
- Auto loans — new and used vehicles

Student loan ABS
Detailed stratification tables showing total outstanding balance and number of accounts for the following fields:

- Current loan balance
- Loan status
- Loan type
- School type
- Seasoning
- Remaining term
- Delinquency status
- Defaulted loans
- Defaults and delinquencies
- Geographical distribution
- Interest rate paid by debtor
- Latest available credit bureau/FICO score
- FFELP — Rejected claims

Loan-level data will not be required for student loan portfolios guaranteed by a sovereign (eg US FFELP).

Credit cards
Loan-level data will not be required, but the following standardised stratification tables would be required in the investor reporting, showing total outstanding balance and number of accounts for the following fields:

- Current account balance
- Current account limit
- Seasoning
- Delinquency status
- Current minimum payment
- Latest available credit bureau/FICO score
- Product types
- Defaults and delinquencies
- Geographical distribution
- Current APR

standard format, with common definitions and set templates for each asset class. The Bank is aware of initiatives currently being undertaken to standardise the content and definitions used in investor reports and intends to work with these groups to determine templates acceptable to all parties which will then form the basis of its eligibility criteria.

57 The Bank considers it essential from a risk management perspective that the extent to which bonds are exposed to not only the underlying assets but also to entities that provide services to the transaction (eg swap counterparties, bank account providers etc) is reported on. *In particular the Bank is minded to introduce eligibility criteria relating to the disclosure of account balances, as well as the mark-to-market of the swaps to the transaction*.

58 Similarly, transparency of permitted investments is important, covering as a minimum, average concentrations of different types of assets into which available cash has been invested in the previous reporting period. Examples of the asset class stratifications to be detailed would include sovereigns, own-name securities (ie those originated by the issuing entity or a counterparty on the transaction), jurisdictional concentrations and asset classes (eg commercial paper, RMBS).

59 Certain data which the Bank views as being important to be included in this template, which may not necessarily be common practice today, have been identified. *The Bank is therefore minded to incorporate into its eligibility criteria the disclosure of the following through investor reporting*:

- Detailed cash-flow allocation, showing clearly how amounts received have been distributed through the waterfall and details of all ledgers.

- List of all triggers (such as counterparty rating triggers) and their status.

- List of all counterparties involved in a transaction, their role in the transaction and their credit ratings.

- Details of cash injected into the transaction by the originator/sponsor bank, or any other support provided to the transaction (eg the repurchase of accounts). Where there may be a possible claw-back risk, solvency certificates should be provided.

- Amounts standing to the credit of the Guaranteed Investment Contract (GIC) (and other) accounts.

- The mark-to-market (MTM) of the swaps to the transaction, and details of any related collateral postings, in order to quantify the extent to which the notes are exposed to the swap counterparties.

- Stratification tables showing average concentrations of different types of assets into which permitted investments are made.

60 In support of its own risk management practices, *the Bank is also considering making it an eligibility requirement that full historic performance data from investor reports is available in an*

easily manageable format (eg Microsoft Excel) and that this is updated on a monthly basis.

Information storage and availability

61 The proposals set out in this consultation paper would involve the provision of significantly more information on ABS transactions than currently disclosed. The storage and dissemination of this information is therefore a key issue that would need to be addressed.

62 One option would be for this information to be delivered by market data provider/s or another form of depositary. Another option would be for the issuer to provide this service through a website, similar to how many investor reports are currently published. The Bank welcomes views on possible solutions to this problem, specifically:

(i) Is a single data depositary or separate websites preferred?

(ii) Are there any other potential solutions?

Standardised legal documentation and post-trade reporting

63 There are other initiatives — standardised legal documentation templates and post-trade reporting — which the Bank supports but is aware may take longer to implement. These issues may be captured by eligibility criteria in the future.

64 The legal documentation underlying each ABS transaction is typically complex and each transaction requires individual detailed analysis. There is a lack of standardisation in documentation, which makes it necessary to examine in detail each transaction, in order to extract even relatively straightforward information such as who holds the voting rights, or what triggers are present and how could they impact a particular bond. Some aspects of this issue are addressed by the Bank's proposals for enhanced disclosure of non-asset information discussed in paragraph 51. However, the Bank believes there is scope to simplify transaction documentation, making it easier to identify and manage the legal/structural risks present in transactions.

65 One possibility would be to have a set of standardised documentation for each asset class, describing a particular legal structure which serves as the starting point for a transaction. Issuers would not be required to conform to this prescribed structure, but would have to highlight clearly each aspect of the transaction that deviated from the standard template. The legal documentation for each transaction would therefore consist of a standardised 'Master' template, together with a document that clearly described all features that differed from the standard, broadly analogous to the ISDA documents used for swap transactions.

66 The availability of standardised legal documents would improve transparency and simplicity, given that the master template would describe a standard and well-understood structure, with investors instead needing to analyse the 'variations' document to gain a clear picture of the structure of the transaction.

67 There is currently a lack of transparency in the secondary market between the traders of, and investors in, ABS. The Bank actively uses market prices in its risk management process and would welcome market participants' feedback on whether an initiative to improve pricing transparency such as post-trade reporting would be considered helpful.

(i) The Bank seeks views on the possible introduction of an eligibility requirement for standardised documentation. Would there be an appetite for a market-led initiative to achieve this?

(ii) The Bank would be interested in obtaining participants' views on the desirability of greater pricing transparency.

Implementation

68 This document has discussed various initiatives to improve transparency of ABS information. It has noted that many of these initiatives will become part of the Bank's eligibility criteria for securities accepted in its operations. In summary, those are likely to be as follows:

- Provision of loan-level data and inclusion of certain stratification tables in investor reports.
- Availability of cash-flow models.
- Availability of legal documentation and summary of structural features.
- Provision of monthly investor reports (including disclosure of mark-to-market of swaps and account balances and permitted investments).

69 The Bank is minded to allow a period of time from the publication of updated eligibility criteria before they take effect, in order to allow issuers to make any necessary changes to conform to the requirements set out above. After this time, securities not meeting the requirements will be deemed ineligible. Implementation of these various requirements into the Bank's eligibility criteria for both outstanding and new transactions will be phased in, beginning in 2011.

(i) The Bank would be grateful for feedback from its counterparties/issuers of ABS as to minimum feasible timeframes for each of the above proposals.

(ii) Do investors in ABS have any views on these proposals and whether the data the Bank is looking for would be useful? Is there any other data investors might find useful?

IV Summary of questions and next steps

70 The Bank is seeking views from interested parties on the following issues:

Expansion of eligible collateral in the Discount Window Facility

Paragraph 10

(i) In the view of counterparties, is there likely to be demand for delivering loans as collateral in the DWF?

(ii) What would be the main obstacles/challenges for participating counterparties?

(iii) What would be the primary benefits over and above other collateral types?

(iv) Which types of loan portfolio would be the most straightforward to deliver in the short term and in the medium term?

Paragraph 14

(i) Do counterparties have any views on the proposed counterparty eligibility requirements?

(ii) Would any of the proposed criteria prevent widespread participation?

Paragraph 16

(i) Do counterparties have any views on the proposed loan eligibility requirements?

(ii) Would counterparties comment on the currency and minimum/maximum maturity criteria for individual loans accepted as collateral?

(iii) The Bank is minded to set the minimum rating requirement at BB- (or its internal equivalent) for corporate loans but seeks views on the potential impact of such a requirement.

(iv) Would any of the proposed criteria prevent widespread participation?

Paragraph 22

(i) Do counterparties see any particular issues with the Bank's legal requirements for loan delivery and loan documentation?

(ii) Do counterparties see any difficulties with the methods of transferring loans outlined above?

(iii) The Bank would welcome comment on any constraints in current loan documentation or counterparty funding documentation related to the transfer of loans to the Bank as collateral (including the ability to declare a trust) or giving security over the loans.

(iv) The Bank would welcome comment on any other legal or related issues in relation to the Bank accepting loans as collateral.

Paragraph 27

(i) What are the views of counterparties on the pre-positioning of loan pools with the Bank?

(ii) Would there be any constraints (eg operational, legal or other) which might make pre-positioning loans impractical?

Paragraph 28

(i) Counterparties are asked to comment on any operational constraints on sharing information on loan portfolios with the Bank.

(ii) Specifically, counterparties are asked to comment on any legal restrictions arising from sharing loan-level information with the Bank.

Paragraph 29

(i) The Bank seeks comment on the potential criteria requiring a minimum individual loan rating (either from a public or internal source).

(ii) Would some loan types be more impacted than others?

(iii) What would be the potential constraints on translating/mapping credit risk model outputs to a public rating agency scale?

Paragraph 35

(i) Counterparties are asked to outline any operational constraints that may make the delivery of loans in the DWF unfeasible.

(ii) The Bank would be interested to know from counterparties how long they envisage systems development would take in order to meet the proposed requirements for provision of data to the Bank and demarcation of loans provided to the Bank.

(iii) Counterparties are asked to comment on their ability to provide updated information on both pre-positioned loan portfolios and loan portfolios provided as collateral on a weekly basis.

(iv) Will banks seek to pre-position as required?

Enhanced disclosure requirements for eligibility of wider collateral in the Bank of England's operations

Paragraph 47

(i) Do counterparties perceive any constraints in providing loan-level data (a) to the Bank and (b) to the wider investor community?

(ii) Do counterparties envisage any constraints in providing loan-level data for a particular asset class?

(iii) Do counterparties envisage any constraints in providing loan-level data on each bond payment date and stratification data on a monthly basis?

(iv) Would historic performance data (eg over at least the past three years) and a loan-level pool cut at closing be readily available?

(v) How long would it take for banks/issuers of ABS to develop their systems to regularly provide such data?

Paragraph 54

(i) Do issuers perceive any problems in ensuring cash-flow models, as verified by the issuer or arranger, are made available to investors?

(ii) Does there need to be a degree of uniformity in how the models operate?

(iii) Are there any other parties who would be suitable as providers of cash-flow models?

Paragraph 62

(i) Is a single data depositary or separate websites preferred?

(ii) Are there any other potential solutions?

Paragraph 67

(i) The Bank seeks views on the possible introduction of an eligibility requirement for standardised documentation. Would there be an appetite for a market-led initiative to achieve this?

(ii) The Bank would be interested in obtaining participants' views on the desirability of greater pricing transparency.

Paragraph 69

(i) The Bank would be grateful for feedback from its counterparties/issuers of ABS as to minimum feasible timeframes for each of the proposals.

(ii) Do investors in ABS have any views on these proposals and whether the data the Bank is looking for would be useful? Is there any other data investors might find useful?

Next steps

71 The Bank would be glad to discuss the issues raised in this paper with interested parties. Comments are invited and should be sent to the Head of Risk Management Division, Bank of England, Threadneedle Street, London EC2R 8AH, or by email to RMDconsultation@bankofengland.co.uk by 30 April 2010.

72 In the light of comments received and following further consultation if necessary, the Bank will finalise its proposals for the development of the Bank's market operations.

Annex A: Collateral currently eligible for the Discount Window Facility

This currently comprises:

Securities, other than HMG Treasury bills and gilts that are routinely accepted in the Bank's short-term repo open market operations.

G10 sovereign bonds
Bonds issued by G10 sovereigns rated Aa3/AA- or higher, subject to any settlement constraints.

G10 government-guaranteed agency bonds
Bonds issued by G10 government agencies explicitly guaranteed by national governments, rated AAA. Government-guaranteed agencies are subject to individual review and additions will not be announced separately.

FHLMC, FNMC and FHLB securities
Conventional debt security issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Corporation and the Federal Home Loan Banks system, rated AAA.

UK and EEA residential and public sector covered bonds
UK and EEA covered bonds rated A3/A- or above, provided that they were rated AAA at issue. The underlying assets may be either public sector debt, social housing loans, SME loans or residential mortgages. Own-name covered bonds will be accepted.

UK, US and EEA commercial mortgage covered bonds
UK, US and EEA covered bonds where the underlying assets are commercial mortgages and that are rated A3/A- or above, provided that they were rated AAA at issue. Own-name covered bonds will be accepted.

UK, US and EEA ABS
The most senior tranches of UK, US and EEA asset-backed securities (ABS) backed by credit cards; student loans; consumer loans; auto loans; social housing; and certain equipment leases rated A3/A- or above, provided that they were rated AAA at issue. Own-name ABS will be accepted.

UK and EEA RMBS
The most senior tranches of UK and EEA residential mortgage-backed securities (RMBS) rated A3/A- or above, provided that they were rated AAA at issue. Own-name RMBS will be accepted.

UK, US and EEA CMBS
The most senior tranche of UK, US and EEA commercial mortgage-backed securities (CMBS) rated A3/A- or above provided that they were rated AAA at issue. Securities containing construction loans will not be eligible. The collateral pool must be diversified. Own-name CMBS will be accepted.

UK, US and EEA securitised corporate loans
The most senior tranche of UK, US and EEA securitised portfolios of senior secured or on balance sheet, corporate or SME loans rated A3/A- or above, provided that they were rated AAA at issue. Portfolios containing leveraged loans are not permitted. The collateral pool must be diversified. Own-name securities will be accepted.

UK, US and EEA securitised corporate bonds
The most senior tranches, rated A3/A- or higher, of UK, US and EEA securitised portfolios of corporate bonds, provided that the tranches were rated AAA at issue. Portfolios containing high-yield bonds are not permitted. The collateral pool must be diversified. Own-name securities will be accepted.

Some types of UK, US and EEA asset-backed commercial paper (ABCP)
Some types of UK, US and EEA asset-backed commercial paper (ABCP) with the highest short-term ratings (A-1+/P1/F1+). Only the most senior paper will be accepted. A liquidity line must be in place from a bank with a short-term rating of A1/A+ or higher. The eligibility of individual programmes must be agreed with the Bank. The Bank will assess programmes against criteria that must be satisfied by the underlying assets; and against transparency requirements. The underlying assets must be of a type that is itself eligible for delivery in the Bank's Discount Window Facility.

Portfolios of senior corporate bonds and commercial paper issued by non-financial companies in the UK, US and EEA
Portfolios of senior corporate bonds rated at least A3/A- and commercial paper rated at least A2/P2/F2, issued by non-financial companies in the United Kingdom, United States and the European Union are eligible, subject to a diversification requirement that no more than 10% of the total value of the portfolio may be from any single issuer. For the purposes of this requirement, legal entities in the same group or those with close links as determined by the Bank, will be treated as a single issuer.

UK, EEA or US covered bonds or ABS backed by certain Export Credit Agency guaranteed loans rated AAA
These will subject to individual review.

HM Government guaranteed bank debt
Bank debt guaranteed under HM Government's bank debt guarantee scheme announced by the UK Government on 8 October 2008.

Specific non UK Government guaranteed bank debt
Senior bank debt that is guaranteed under certain non UK sovereign bank debt guarantee schemes. Various schemes have now been reviewed and are considered eligible. The eligibility of sovereign-guaranteed bank debt schemes is reviewed at the Bank's discretion, in the light of requests from counterparties. The debt must be due to mature prior to the expiry date of the relevant guarantee. In certain cases where the Bank has had to do extensive due diligence to determine whether a particular asset is eligible for inclusion in the DWF, these costs may be charged back to the relevant counterparty.

Annex B: Discount Window Facility haircuts

	OMO eligible and G10 sovereign paper		Government guaranteed agencies and US GSEs or ABS or covered bonds backed by ECA loans	Bank and building society debt securities guaranteed under specified government guarantee schemes	RMBS, covered bonds backed by residential mortgages or social housing loans	ABS backed by credit cards and other consumer debt or social housing loans	ABS backed by corporate or SME loans and corporate bonds or SME covered bonds	CMBS, covered bonds backed by commercial mortgages	Corporate bonds and commercial paper issued by non-financial companies
Credit rating	Aa3/AA- or higher		Aaa/AAA		Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Corporate bonds A3/A- or higher Commercial paper A2/P2/F2 or higher
	Coupon	Zero coupon							
All floating rate	5.5	5.5	8.0	8.0	17.0	20.0	25.0	30.0	35.0
Fixed interest rate up to 1 year maturity	5.5	5.5	8.0	8.0	17.0	20.0	25.0	30.0	35.0
Fixed interest rate 1–3 years to maturity	6.5	6.5	10.0	10.0	19.0	22.0	27.0	32.0	37.0
Fixed interest rate 3–5 years to maturity	7.0	7.0	11.0	11.0	20.0	23.0	28.0	33.0	38.0
Fixed interest rate 5–10 years to maturity	8.0	8.5	13.0	n.a.	22.0	25.0	30.0	35.0	40.0
Fixed interest rate 10–20 years to maturity	9.5	11.0	15.0	n.a.	24.0	27.0	32.0	37.0	42.0
Fixed interest rate 20–30 years to maturity	11.0	13.5	18.0	n.a.	27.0	30.0	35.0	40.0	45.0
Fixed interest rate more than 30 years to maturity	12.5	19.0	20.0	n.a.	29.0	32.0	37.0	42.0	47.0

Additional notes

Haircuts for asset-backed commercial paper (ABCP) are determined by the Bank for each issue following the agreement of the specific ABCP programme and will be in the range of 17 percentage points–35 percentage points depending on the underlying asset classes and the diversification of the pool.

An additional 6 percentage points is added to haircuts to allow for currency volatility when securities are non-sterling.

Note on calculation: adjusted collateral value (post-haircut) = collateral value x (100 – haircut) %.

A haircut add-on of 2 percentage points is applied to yen-denominated securities to allow for higher volatility in the sterling/yen exchange rate.

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

A haircut add-on of 5 percentage points is applied to eligible collateral for which no market price is observable.

A haircut add-on of 5 percentage points is applied to eligible covered bonds, RMBS, CMBS and ABS that have been downgraded from AAA to Aa/AA; a further 5 percentage points will be added for eligible covered bonds, RMBS, CMBS and ABS that have been downgraded from AAA to A.

Haircut add-ons may apply for portfolios of corporate bonds that are not well diversified, where the largest single bond concentration by market value exceeds 2% of the total market value of corporate bonds delivered.

The Bank may make further specific haircut add-ons for particular eligible collateral or a particular participant's circumstances in drawing from the DWF, at its discretion.

Haircut add-ons are kept under review. The Bank reserves the right to alter them, including on outstanding transactions.

Credit ratings must have been provided by two or more of Fitch, Moody's, and Standard & Poor's.