

**MONEY MARKET INSTRUMENT REVIEW
NEXT STEPS WORKING GROUP**

**MINUTES OF A MEETING AT THE BANK OF ENGLAND
ON 16 NOVEMBER 2000**

Attendees

Neal Hatch (Chair)	Bank of England
John Rippon	
Caroline Pitt	
Stephen Priddle	
Tanveer Hussain (Secretary)	
Toby Davies	CRESTCo
Mike Jones	
Toby Glicher	
Antony Littleton	APACS
Mike Wareham	HSBC Bank plc
Richard Pattinson	Barclays plc
Anna Culley	Goldman Sachs
Ian Mair	LMMA
Maurice Cleaves	Bank One

Apologies

Ross Jones	Gerrard & King
Alastair Wilson	Bank of England
Angus Cameron	Bank of Scotland
Ian Firth	Lloyds TSB Bank Treasury
Michael Blane	Foreign Banks Association
Jim Coleman	Association of Corporate Treasurers
Mike Jones	CRESTCo
Allison Holland	DMO
Tony Hibbitt	Cater Allen
Sarah Elliot	LSE
Annabel Murday	Lloyds TSB Bank Treasury

Matters arising from the previous minutes

- 1 There were no matters arising and the minutes were agreed.

Sub-Groups

2 **Mr Jones** provided an update on the establishment of the Sub-Groups considering the detailed preparation necessary for the integration of MMIs into CREST. The Operational Sub-Group had met twice since the last meeting (on 22 August and 04 October). The valuation and grouping of collateral Sub-Group had also met twice (on 06 September and 20 October). He added that the Sub-Groups had reached a consensus on many issues and identified issues that either needed more work or consultation. CRESTCo therefore intend to issue a green paper later this year.

Report from the third and fourth meetings of the Operational issues sub-group

3 **Mr Jones** reported on the discussions that took place in the Operational Issues Sub-Group on collateral management. This issue had been discussed extensively before and the Sub-Group agreed that a joint CRESTCo/Bank consultation, detailing existing CREST functionality, proposed new functionality, and the concerns expressed, would be the best way of resolving the issue.

Report from the first and second meetings of the Valuation and Categorisation Sub-Group

4 **Mr Jones** reported on the discussions that took place in the Valuation and Categorisation Sub-Group. He said that there is a large degree of consensus on the proposal to use a standard formula for discount instruments using LIBOR plus or minus x basis points, although more discussion is required on how coupon bearing CDs should be valued. The CREST system will also need to group securities for Delivery By Value and Margined Stock Value purposes. Although the way forward has largely been agreed, more discussion is required on how MMIs will be categorised, given that the MMI collateral market operates on issuer name and limits. This differs from equities where securities with similar profiles, in particular liquidity and issuer credit, are grouped together.

5 **Mr Davies** added that the Sub-Group had approved the overall framework for MMIs in CREST based on credit assessment and valuation on a theoretical formula basis. The CREST green paper would provide an opportunity to consult on this.

Information items:

Legislation and legal issues

6 **Mr Rippon** reported on the 09 November meeting with HM Treasury which sought to discuss further the question of whether section 207 of the Companies Act 1989 provided the *vires* to deliver by secondary legislation the main objectives on dematerialisation and settlement identified so far; and to consider the legislative work programme and timetable.

7 **Mr Rippon** said that HMT were kept fully informed of the work carried out by the Sub-Groups and the discussions in this Working Group; and in advance of the meeting, were provided with a paper which set out the main legal background and key points on the way forward as agreed with the market.

8 **Mr Rippon** explained that HM Treasury had emphasised that they could only express a provisional opinion on *vires* under section 207; and that they could not give a firm view until much more detailed work had been done in preparing the legislation. Subject to these caveats, HM Treasury felt that it seemed likely that section 207 would allow the necessary legislation to be made to help deliver the main objectives identified, and they noted in particular that 'security' in terms of section 207 appeared to have a wide meaning which would cover all the main types of MMI.

9 HM Treasury thought that dematerialised MMIs in CREST should be considered as essentially new types of security, given the changes that would be entailed in moving from paper, negotiable instruments to dematerialised, registered instruments.

10 HM Treasury also thought that the Electronic Transfer of Title (ETT) legislation, which will allow CREST records to act as a register of legal ownership of securities

settled in CREST, would support the market's preference for MMIs to be subject to the ETT legislation without a requirement for an external register for MMIs.

11 **Mr Rippon** added that, as the next step, work is being taken forward by CRESTCo and the Bank on how different the 'new' securities will be from the current form of MMIs taking account of the legal characteristics and business uses of MMIs.

Transition

12 **Mr Rippon** said that HM Treasury's preliminary view is that it is unlikely that section 207 would provide the *vires* to dematerialise existing paper MMIs, and that this would therefore make it improbable that a 'big bang' transition could be made without primary legislation.

13 **Mr Davies** noted that one of the other options for transition (dual running of CMO and CREST systems for a year or shorter) would now have to be considered though this may add a three to four month delay to the timetable.

14 **Mr Pattinson** said that it was important to know the details of the option as system changes would be required; and the associated planning would be crucial. Mr Rippon said that the legal issues would have to be settled first.

Timetable

15 **Mr Rippon** reported that HM Treasury noted that the main focus of their legislative work was currently on ETT and the secondary legislation needed to implement the Financial Services and Markets Act 2000. The detailed legislative work on MMIs will begin once the ETT legislation is nearer finalisation, probably in the first quarter of 2001. HM Treasury noted that the legislative work on MMIs could be complex and protracted although it was not yet apparent that this would prejudice the objective of achieving dematerialisation in 2002. HM Treasury emphasised that there was, however, no cause to hold up the ongoing preparation work with the market.

16 **Mr Littleton** said that the existence of resource constraints at HM Treasury was a familiar story.

Consultation papers

17 **Mr Rippon** said that the Bank and CRESTCo planned to publish two papers in December. The Bank paper would pick up on wider policy questions e.g. collateral management; consult on trade bills; and provide an update on legislation and the timetable. The CRESTCo paper would be more detailed and technical.

18 **Mr Davies** added that the consultation process would last six weeks and extends to institutions not active in the discussions in this Group and the sub-groups. This will include those participants who will have the opportunity to hold MMIs once they are settled in CREST.

19 **Mr Hussain** said that a draft paper would be circulated in early December with a circulation list.

Date of next meeting.

20 This will be arranged in the New Year (February) once responses to the consultation documents have been received.

Any other business.

21 **Mr Rippon** noted that the FSA had also been kept informed of the legal issues and the work of the Sub-Groups. A number of questions have also been put to them to ascertain if the work on MMI reform would conflict with FSA policies and whilst no definitive answers are possible at this stage, no problems have been identified. The FSA, on the whole, welcomes the changes.

Bank of England

December 2000