

## **BANK OF ENGLAND STERLING MONEY MARKETS LIAISON GROUP**

Meeting at 12.00n on Tuesday 16 December 2003

Paul Tucker (Chairman)	Bank of England
David Rule	Bank of England
Sarah Breeden (Secretary)	Bank of England
John Burke	London Clearing House
Robert Fair	CRESTCo
Peter Fingland	Association of Foreign Banks
Nick Fisher	UK Debt Management Office
Ian Fox	HBOS
Adrian Gray	Citibank
Simon Hills	British Bankers Association
Clive Jones	LloydsTSB Bank
Antony Littleton	Association for Payment Clearing Services
Ronnie Maiti	London Money Market Association
Brian Morrison	Abbey National Treasury Services
David Morrison	Royal Bank of Scotland
Richard Pattinson	Barclays Bank
Claire Poots	Financial Services Authority
Jonathan Wood	HSBC

Also present:

Roger Clews	Bank of England
Paul Mikhailoff	Bank of England
John Rippon	Bank of England

### **Apologies**

Mike Beales	Wholesale Markets Brokers' Association
Nigel Dawes	Prebon Marshall Yamane
Ian Firth	LloydsTSB Bank
Euan Harkness	GEMMA
Barry Holland	London Investment Banking Association
Peter Knight	IMMFA
Ian Mair	London Money Market Association
Lindsay Mackay	HBOS
Mark Painting	Goldman Sachs
Jason van Praagh	Rabobank
Robert Stheeman	UK Debt Management Office
Amanda Sudworth	LIFFE
Les Winnister	Association of Corporate Treasurers

## **Agenda Item 1 – Contingency Planning**

David Rule (Bank of England) noted that the report of the Task Force, chaired by Sir Andrew Large, addressing the need for possible statutory powers in response to the threat of major operational disruption in the UK financial system, had been published on 3 December. The report had concluded that statutory powers were not needed but had made a number of other recommendations. The report had acknowledged the work done by MMLG on agreeing ex ante compensation arrangements that would apply in the sterling money market in the event of disruption and had recommended that other markets consider whether such arrangements might be useful. It had also recognised the key role of MMLG in managing the impact of any operational disruption in the sterling money markets and wholesale payments systems, including both advising and taking binding decisions. Paul Tucker said it was important in this regard that MMLG members had the authority to speak for the institutions they represented and he asked members to ensure that this was the case, providing additional contact details for other senior staff if needed.

Sarah Breeden (Bank of England) reported on the recent test of the MMLG contingency conference call facilities. It was agreed that it would be useful to repeat the test, including on an unscheduled basis.

## **Agenda Item 2 – Bank of England Repo Survey**

Sarah Breeden reported on some initial analysis of the results of the Bank's recent questionnaire sent to the largest participants in the sterling repo market. The survey suggested that only a few players were actively using non-gilts (sterling-denominated corporate debt and equities or non-sterling debt) to back their sterling repo business; that most non-gilt repo was used for funding/hedging, with specials activity generally limited; that, looking forward, banks were mixed in their views as to whether the scale of gilt repo business would increase, but most expected that of non-gilt repo business to rise; that the use of tri-party repo varied; and that there was no consensus in favour of 'shaping' of sterling repo trades for settlement, despite recent recommendations in favour by the European Repo Council and ISMA. She noted that the Bank would be following up the survey with meetings with market participants to check that different firms had completed the questionnaire in a consistent way. It would then share the overall results with those institutions involved in the survey, as well as members of MMLG and SLRC.

### **Agenda Item 3 – Financial Stability Review Article On Large UK Banks’ Wholesale Funding Requirements**

David Rule described an article in the Bank of England’s December 2003 Financial Stability Review, which had described the recent rise in the large UK banks’ wholesale funding needs in order to meet rapid growth in net lending to UK households and non-financial corporates. Members agreed that wholesale funding was more diversified than in the late 1980s when it had also increased sharply. For example, asset-securitization markets had developed. One member noted the importance of sterling CD issuance in wholesale funding: his impression was that much CD issuance was at short maturities, hence there could be refinancing strains in the event of a big shock to the system. Another member said that banks were generally looking to extend the maturity of wholesale borrowing, prompted in part by the FSA’s proposed new liquidity requirements, and thus the importance of short-term financing was likely to fall. Another commented that foreign-currency bond issuance had not been an important funding source in recent years: distribution was important and so lack of issuance perhaps reflected a lack of familiarity with UK names on the part of overseas bond investors. Banks needed to fund not only customer asset growth but also the stock of liquid assets required to support those assets.

### **Agenda Item 4 – Review Of The Bank Of England’s Operations In The Sterling Money Markets**

David Rule noted that the Bank was continuing its consultation and had now held meetings with a broad range of interested parties, including users of the money markets such as funds and corporate treasurers, to discuss the review. This initial process of consultation was now almost complete but Paul Tucker reiterated that the Bank would consult again on any proposals and would continue to be open to views at any time from anyone with an interest in the review.

### **Agenda Item 5 – Any Other Business**

John Rippon (Bank of England) encouraged MMLG members to consider whether there were any aspects of the Non-Investment Products Code that were in need of updating or review in the light of recent market experience.