

BANK OF ENGLAND STERLING MONEY MARKETS LIAISON GROUP

Meeting at 11.30am on 10 December 2004

Paul Tucker (Chairman)	Bank of England
David Rule	Bank of England
Sarah Breeden	Bank of England
Ben Wensley (Secretary)	Bank of England

Warren Alsop (alternate for Robert Fair)	CRESTCo
John Burke	LCH
Ian Fox (alternate for Lindsay McKay)	HBOS
Adrian Gray	Citigroup
Euan Harkness	GEMMA
Barry Holland	LIBA
David Hynes	IMMFA
Clive Jones (alternate for Ian Firth)	Lloyds
Antony Littleton	APACS
David McFarlane	CHAPSCo
Ronny Maiti (alternate for Ian Mair)	LMMA
Alex Merriman	BBA
Brian Morrison (alternate for Nathan Bostock)	Abbey
Graham Niblock	RBS
David Nicholls	Deutsche
James Potter (alternate for Nigel Dawes)	Prebon
Ian Stevenson (alternate for Mike Beales)	WMBA
Conrad Santos	Lehmans
Robert Stheeman	DMO
Jon Wood	HSBC

Also present:

Roger Clews	Bank of England
John Rippon	Bank of England
Lisa Zammit	Bank of England

Apologies

Peter Fingland	Bankgesellschaft/AFB
Tim Hayter	Bunzl/ACT
Gavin Hill	FSA
Phillip Howard	FSA
Richard Pattinson	Barclays
Amanda Sudworth	LIFFE

Agenda Item 1 – Introduction by the Chairmen

Paul Tucker (Bank of England) welcomed the new members to the committee: David McFarlane (CHAPSCo), Alex Merriman (BBA) and David Nicholls (Deutsche).

Agenda Item 2 – Decision-making in the sterling money markets in a crisis: responsibilities and process

David Rule (Bank of England) invited comments on the decision-making table that had been produced following discussions between the Bank, CRESTCo, CHAPSCo and APACS Liquidity Managers Group. The proposal was that MMLG had twin roles in a crisis: to provide a means of communication and to make recommendations on trading or market conventions – eg to reduce unnecessary trading volumes. On communication, David McFarlane (CHAPSCo) said that whether MMLG needed to be used depended on whether there were material issues that needed to be discussed or agreed at a market-wide level. It was agreed that, in discussion with CHAPS etc, the Bank would develop the table to reflect this. In terms of the gilt market, Robert Stheeman (DMO) said that DMO would focus on its own operations eg if any crisis was at the time of a gilt auction.

Euan Harkness (GEMMA) suggested the next logical step with respect to crisis preparation might be to consider a contingency test for the sterling money markets and wholesale payment systems. The Bank would consider this and put together some proposals.

Agenda Item 3 – Money market reform: second consultative paper

David Rule (Bank of England) reminded members of the deadlines for responses on the Bank's second consultative paper: 10 December on whether OMO counterparties could cope with the indexing to the MPC repo rate of repo transactions, as part of the probable transitional changes ahead of the implementation of the main reforms, and 7 January for all other matters. The purpose of the paper had been two-fold, to get feedback on the details of the Bank's proposals following July's announcement of the broad framework, and to gauge the likely level of participation by institutions in the various areas of the proposed new arrangements (the reserve scheme, the standing facilities, and as counterparties in the weekly open market operations).

Sarah Breeden (Bank of England) reported that bilateral conversations with the Bank had so far suggested that a wide range of institutions might join the reserve scheme, possibly holding significant levels of reserves.

The Bank expected to publish details of the new framework following this consultation. It would then continue discussions with potential participants, including the possibility of a conference in April. The timing of the introduction of the full reforms would depend on the Bank's own system preparations and feedback on any timing constraints in the banking sector. The new scheme was unlikely to go live before late 2005 and it might not be until early 2006.

Agenda Item 4 – Sterling money market: change from quoting short-dated interest rates in fractions to decimals

David Rule (Bank of England) said that brokers had changed their screens from fractions to decimals since the discussion in September's meeting. Members agreed that, with no outstanding issues, all short date trading could switch to decimals from the start of 2005, as proposed in September.

Agenda Item 5 – LCH.Clearent Repoclear DBV clearing project

John Burke (LCH) updated MMLG on the project's progress to introduce clearing of gilt DBV repos on the automated Repoclear trading platform. In LCH's view, the clearing of DBV repos offered some major benefits: netting, a central counterparty to minimise credit risk in event of a counterparty's default, and anonymous trading.

Netting had been considered from a US GAAP perspective, and, while there had not been direct consultation with US accountancy boards, a provisional opinion had been obtained to the effect that the product delivered netting in a way that was compatible with US GAAP standards – including FIN 41. Mr Burke would see whether the opinion could be circulated to MMLG members and/or made available on LCH.Clearent's website.

Agenda Item 6 – Guidance on the timetable for the allocation of ISINs to CD issues (draft note was attached to the agenda)

David Rule (Bank of England) proposed that the timetable that had been drawn up (following a meeting of a MMLG sub-group) be posted on the MMLG pages of the

Bank's website if members were happy with its content. Ian Fox (HBOS) thought the guidance that CDs should not be traded on the primary market after noon should include an exemption for instances where the issuer and investor had agreed issuance after this time. Members agreed. The amended guidance would be posted on the Bank's website in late January.

Agenda Item 7 – Review of use of repo functionality in CREST

Warren Allsop (CRESTCo) updated the Committee on use of the repo functionality in CREST: daily volumes remained relatively low, below £1bn per day. Most institutions had no need for the functionality as they had already set up their own straight-through-processing arrangements. But CRESTCo had no plans to withdraw the product at present and Euroclear would also be consulting users on what functionality was needed on the future single platform. Ronny Maiti (LMMA) said that the functionality was valuable for certain types of trade and pointed out that market changes could conceivably increase usage quickly eg if CD repo developed.

Bank of England

14 January 2005