

**BANK OF ENGLAND
MONEY MARKETS LIAISON GROUP (MMLG)**

Friday 27 June 2008 -Bank of England

MINUTES

Attendees

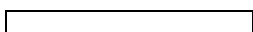
David Hopton	Abbey
Richard Smith	ACT
Andrew Thursfield	AFB/Citi
Ian Hares	Alliance and Leicester
Andre de Roy	APACS
Miles Storey	Barclays
John Ewan	BBA
David McFarlane	CHAPS
Joanne Perez	DMO
Robert Fair	EUI
Ian Dowglass	EUI
Douglas Hull	FSA
Alan Ireland	Goldman Sachs
Ian Fox	HBOS
Chris Walker	HSBC
Danny Corrigan	ICAP
Frederic Mouchel	JP Morgan
John Burke	LCH
Paul McGregor	LIFFE
Clive Jones	Lloyds
Rob Verillo	LMMA / RBS
Scott Nygaard	RBS

Apologies

Paul Tucker	Bank of England
Peter Lightfoot	APACS LMG / RBS
David Nicholls	Deutsche
Jonathan Curry	IMMFA/BGI
Euan Harkness	GEMMA/Barcap
Steve Nichols	Britannia

Bank of England

Michael Cross (Chairman)
Simon Wells (Secretary)
Roger Clews
Al Wilson
Stephen Collins
Ben Wensley
John Rippon



BANK OF ENGLAND ITEMS

1 Introductions

1.1 Mike Cross welcomed Scott Nygaard (RBS) to the group.

2 Current and expected future money market conditions

2.1 Members thought that the past few months could be divided into two periods. During May, conditions in financial markets had been improving. Equity prices had risen, credit spreads had narrowed and money markets had been improving. During June, however, global market conditions had deteriorated again. This reflected heightened market concerns about global inflationary pressures as well as declining asset prices and the risk of slower global growth. There had also been a further wave of deleveraging by financial institutions, which had added to the strains in markets.

2.2 In sterling money markets, trading at maturities shorter than one month had improved and been relatively liquid since the previous meeting. Overnight sterling interest rates had been stable and close to Bank Rate. The group welcomed the Bank's measures to assist the functioning of sterling money markets, including raising the ceilings on reserves targets in May and, during especially tight conditions, maintaining a relatively wide range around reserves targets within which banks are remunerated on their reserves balances. Members did not expect any significant additional strains over the half-year end, although there had been slight decline in the supply of term money in late June. At maturities beyond one month, conditions had remained difficult.

2.3 The launch of the Bank's Special Liquidity Scheme (SLS) was welcomed. The SLS was seen by members as helpful in improving the liquidity of, and confidence in, the UK banking system.

3 Non-standard CREST closure

- 3.1 Ian Dowglass updated the group on the work by Euroclear UK & Ireland (EUI) and the Bank to manage a situation in which CREST was unable to close 'normally'. Non-standard CREST closure before DBVs settled could result in large unexpected liquidity positions between banks. The preferred solution was effectively to roll the settlement of two trading days into one, thereby providing time to resolve any technical issues that caused the problem.
- 3.2 A number of technical changes to CREST software had been made and EUI would shortly publish a white paper explaining the changes. Outstanding issues included the terms on any overnight borrowing from the Bank that arose as a result of the contingency measures, and the treatment of any remuneration or charges amongst banks.
- 3.3 These plans would be presented to the forthcoming meeting of the Cross-Market Business Continuity Group. Following this, it was proposed that the detail be considered further by the MMLG operations subgroup.

WIDER MARKET ISSUES

4 BBA Consultative Paper on Libor

- 4.1 John Ewan said that the BBA had conducted its annual review of the governance and definition of Libor. Following this, and in the context of recent stressed conditions in financial markets, it had published a consultative paper on strengthening Libor for the future. Several MMLG member institutions had commented on the document before its release.
- 4.2 The BBA welcomed bilateral discussions on any of the issues raised in the consultative paper. Michael Cross said that the Bank was supportive of the BBA's efforts to develop the governance arrangements for Libor consistent with its role in global financial markets.

5 Money market contingency exercise

- 5.1 Following David Hopton's report at the previous meeting, the final paper on the March 2008 desktop exercise had been circulated to MMLG members.
- 5.2 Regarding next steps, there were questions about when and how to follow up the 'live' test conducted in May 2007 with another exercise. Before the previous test, the group had envisaged it would be the first of a series. Members agreed that the Operations Subgroup should discuss options for conducting a live test in 2008Q4 or 2009Q1 and revert to the group at its next meeting. Where possible, this exercise could be dovetailed with banks' existing contingency tests.

Bank of England

July 2008