

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

Meeting at 11am on 21 March 2005

Paul Tucker (Chairman)	Bank of England
David Rule	Bank of England
Sarah Breeden	Bank of England
Ben Wensley (Secretary)	Bank of England
Warren Alsop	CRESTCo
Lilia Tira (alternate for John Burke)	LCH
Adrian Gray	Citigroup
Euan Harkness	GEMMA
Barry Holland	LIBA
Jonathan Curry (alternate for David Hynes)	IMMFA
Clive Jones (alternate for Ian Firth)	Lloyds
David McFarlane	CHAPSCo
Ronny Maiti (alternate for Ian Mair)	LMMA
Douglas Hull	FSA
Graham Niblock	RBS
Jeff Dipper (alternate for Nigel Dawes)	Prebon
Ian Stevenson	WMBA
Nick Fisher (alternate for Robert Stheeman)	DMO
Jon Wood	HSBC
Peter Fingland	Bankgesellschaft/AFB
David Lally	J P Morgan
David Nicholls	Deutsche Bank
Ian Fox	HBOS
Amanda Sudworth/Richard Stevens	LIFFE

### **Also present**

Alastair Wilson	Bank of England
Richard Wellington	Bank of England
John Rippon	Bank of England
Ben King	Bank of England

### **Apologies**

Tim Hayter	Bunzl/ACT
Antony Littleton	APACS
Brian Morrison	Abbey
Richard Pattinson	Barclays
Alex Merriman	BBA

## **Agenda Item 1 – Introduction by the Chairmen**

David Rule (Bank of England) welcomed the new members to the committee: David Lally (JP Morgan), Douglas Hull (FSA), Richard Wellington (Bank of England), and Ben Knight (Bank of England). Paul Tucker (Bank of England) mentioned that members needed to make every effort to attend the meeting, wherever possible, rather than send an alternate as had increasingly been the case.

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

David Rule (Bank of England) noted that the latest draft of the decision-making table provided at the meeting had been updated by the Bank and CHAPSCo. One of the changes was for it to reflect that in a crisis there were formal processes in place between these two bodies (concerning CHAPS) in which the MMLG had no direct role other than in perhaps offering consultation as a representative market body.

Paul Tucker noted that it was important members ensured the table tallies with their thoughts on the issues as it will soon become the accepted wisdom in this regard.

## **Agenda Item 3 – RTGS and OMO Collateral**

Paul Tucker talked about why the Bank had decided to align the two collateral lists, namely that intraday collateral should have the same standards as overnight collateral since in extreme circumstances the Bank may have to hold them both overnight. This narrowing of the RTGS collateral list to mirror that for OMO also reflected that the Bank did not have an appetite to take some of the collateral on the ECB's Tier 1 collateral list and that was currently eligible in RTGS.

Alastair Wilson (Bank of England) noted that banks would get three months notice before the changes would come into force in order for them to prepare for them.

## **Agenda Item 4 – Money market reform**

### **○ Introduction of interim measures last week**

David Rule (Bank of England) noted that the measures had been introduced smoothly, although they had not yet been tested in all conditions. The Bank would continue to

discuss these measures – and indeed the full reforms – with market participants, including at the April conference.

- **February’s conference with prospective reserve account holders**

Alastair Wilson (Bank of England) reported that the conference had largely covered technical matters (eg process, costs, lead-times etc) and was in part an attempt to emphasise the importance of interested banks thinking through the operational logistics now. Feedback had shown that at least one bank objected to each of the possible go live dates.

- **April 7 conference at the Bank of England**

David Rule (Bank of England) said that the forthcoming conference had a number of purposes. First, to allow the Bank to explain from our perspective how it envisages the full reforms working, while getting thoughts from potential users on how they see the implementation. Second, to discuss the technical aspects of implementing the full reforms. And finally to announce the go-live date for the full reforms.

Paul Tucker (Bank of England) noted that alongside the conference the Bank was still talking to institutions in an effort to gauge the demand for reserves – eg do they have a clear idea of their first bids?

- **Staff changes to Bank of England’s money market reform team**

Paul Tucker (Bank of England) reported certain changes to the Bank team. David Rule (Bank of England) was now leading the implementation team and Richard Wellington (Bank of England) had joined the team in order to take over many of Sarah Breeden’s (Bank of England) responsibilities when she goes on maternity leave in April. Paul Tucker (Bank of England) said that Richard Wellington (Bank of England) would be looking to meet key institutions to introduce himself over forthcoming weeks.

## **Agenda Item 5 – Updating the NIPS code**

David Rule said that members would have a chance to provide comments on the latest version of the NIPS code, currently with the FX JSC legal sub-group, when it is circulated probably around May time.

## **Agenda Item 6 – The possibility of OIS futures in sterling**

Ronny Maiti (LMMA) reported that Abbey had suggested to the LMMA that any efforts to start a sterling OIS futures market should be encouraged. He thought such an instrument would provide a benchmark market rate (closely related to the MPC's official rate) which would prove beneficial for hedging or speculative purposes. It might appeal to institutions either with securities financing business and/or with a mortgage book. The former because it would facilitate the use of cash as collateral, and the latter because mortgage providers would have access to a potentially better hedge than is currently the case – typically funded in 3-mth LIBOR which do not provide a perfect hedge for the MPC's official rate (eg LIBOR rates contain term premia).

He thought rapid growth in the SONIA market evidenced the demand for among both users and market-makers – although HBOS and RBS were unsure about the latter – and pointed to the popularity of a similar US\$ instrument.

Euan Harkness (GEMMA) said such a development would be a welcome addition, but thought as useful – and perhaps easier to introduce – would be greater granularity in short sterling contacts. That is, for them to be traded in half bps rather than just full bps and David Nicholls (Deutsche) agreed this would be a useful development.

Amanda Sudworth (LIFFE) noted that from an exchanges' point of view they would need to feel there was some demand for such an instrument, but they were certainly open to discussion. In fact, they were still conducting a survey – and the follow-up conversations – on the demand for instruments in this area. She also noted that of those surveyed concerning a possible reduction in traded tick size, half wanted a reduction but the other half – particularly brokers – wanted it to be left at 1bps.

Richard Stevens (LIFFE) pointed out that of the comments on OIS futures in sterling, the market had made similar noises about the desirability of EONIA, yet liquidity had fallen away since its introduction. However, David Nicholls (Deutsche) pointed out this perhaps more related to the contract dates not being fully aligned with ECB rate decision dates.

## **Agenda Item 7 – AOB**

David Rule reminded members that the current version of the MMLG contingency contact list had been circulated and asked members, where possible, to check their details are correct before Easter if possible.

Bank of England

22 March 2005