

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

Friday 22 May - Bank of England

MINUTES

**Attendees**

Paul Barnes*	Abbey
Antony Littleton	APACS
Peter Lightfoot	APACS Liquidity Managers Group
Alex Merriman	BBA
Paolo Tonucci	Barclays
Jeremy Wilson	CHAPS
Ronan Rowley*	Deutsche
Robert Stheeman	DMO
Ian Dowglass	Euroclear
Navin Hingorani*	FSA
Euan Harkness	GEMMA
Olly Benkert	Goldman Sachs
Jon Wood	HSBC
Ian Collett	ICAP (and alternate for WMBA)
Frederic Mouchel	JP Morgan
Ian Firth	Lloyds Banking Group
John Burke	LCH
John O'Neill*	LIFFE
Ian Mair	LMMA
Marc Thomasson*	RBS

\* *Alternates*

**Apologies**

David Whelan	ACT
Nick Van Overstraeten	AFB/Citi
Steve Nichols	Britannia Building Society
Jonathan Currie	IMMFA

**Bank of England**

Paul Fisher (Chairman)  
Ben Wensley (Secretary)  
Roger Clews  
Stephen Collins  
Christian Hawkesby  
Chris Salmon  
Al Wilson  
Graham Young

## 1 Introductions

- 1.1 Paul Fisher welcomed Chris Salmon as the new Head of the Sterling Markets Division for the Bank, taking-over from Mike Cross who had moved to be Head of the Foreign Exchange Division.
- 1.2 He also noted that Christian Hawkesby has been appointed Head of Market Intelligence for the Markets area of the Bank. So Ben Wensley would be succeeding Christian as the MMLG secretary and Mike Jones replacing him on the operations sub group.

## 2 Market conditions

- 2.1 Jon Wood (HSBC) opened a discussion of money market conditions and noted that they improved since the February MMLG meeting. Sentiment towards banks had improved as reflected in lower cost of short-dated funding, with the sterling 3-mth Libor-OIS spread having narrowed by over 50bps since February (to below 90bps).
- 2.1 The largest US money funds had increased their term lending somewhat, which had reduced the premium being paid for dollars. The Bank suspending reserve targets in March as part of QE was also welcome in providing greater flexibility for banks. However, he cautioned that term lending volumes were less improved than prices, especially outside of dollar markets. He detected some lingering nervousness in unsecured markets.
- 2.2 Following the opening remarks from Jon Wood the group discussed market conditions. They agreed with his points. They also noted that some tiering between names persisted and that unsecured lending volumes were less improved beyond 3-month tenors.

## 3 Sterling Market Framework

- 3.1 Paul Fisher noted that the MPC had recently increased the size of QE asset purchases from £75bn to £125bn. The extension was consistent with the increased risk of CPI inflation being significantly below the inflation target in

the medium term, as evident in the May Inflation Report projections. He noted that it would take some time for the QE impact to be fully felt.

- 3.2 Graham Young (Bank) reported that as part of the QE process the Bank had suspended the reserves averaging framework. The Bank was continuing to offer reserves in extended collateral long term-repos, and draining reserves via bills, with the aim of keeping the net supply of reserves, excluding the impact of QE, at around the pre-QE level. Asset purchases up to 22 May had been £64bn of gilts, £2.1bn of CP and £0.7bn of corporate bonds.
- 3.3 Paul Fisher explained that a minimum rate of 0.60% had recently been introduced for the Bank's Long Term Repo operations (LTRs) as part of a gradual return to more normal conditions. Take-up in LTR operations had subsequently fallen which could mean that banks were less reliant on funding from the Bank. Separately, he noted that the Bank was in the process of reviewing its government bond haircuts. The Bank would be speaking to some counterparties on this.
- 3.4 Graham Young noted that the initial phase of the Red Book Review had now been completed. There would be further detailed meetings on the design of LTR options.

#### 4 Market exercises and tests

- 4.1 Christian Hawkesby (Bank) reported that the Sterling money market exercise had been postponed until aspects of the Sterling Monetary Framework were reintroduced. In the meantime, he also noted that contingency arrangements for gilt purchases were being tested and bilateral tests were encouraged. Institutions continued to be signed up for the Discount Window Facility, with testing of the facility also encouraged.

#### 5 MMLG operations sub-group

- 5.1 Peter Lightfoot (APACS Liquidity Managers Group) noted that the MMLG contingency procedures had been updated, including on non-standard Crest closure. Crest was currently speaking to a couple of settlement banks in order to

analyse the potential impact from such a closure and hoped to speak to more banks in June.

- 5.2 Peter Lightfoot reported that the ops group had discussed the possibility of testing of the Operational Standing Facility lending facility in a coordinated fashion. Paul Fisher said that if there was a working level appetite the operations group should look into the issues and come up with possible options for such a test. Peter Lightfoot asked for any views on this to be fed to him.
- 5.3 Peter Lightfoot also asked that the MMLG approve the 'standard' deed of issuance for new CGS CD and CP classes in CREST. There were no objections.

## 6 AOB

- 6.1 Ian Dowglass (Euroclear) noted that the introduction of the Euroclear single platform system providing a term-based repo product was still on schedule for launch in 2011. A document relating to the collateral management aspects would be published in June and he encouraged MMLG members to read it thoroughly and provide feedback.
- 6.2 John Burke (LCH) also noted that in a low interest rate environment the incentive to fail on trades (delivering collateral) potentially increased, as had been seen in the US in December. While it had not yet been a problem in Europe nor the UK, LCH were reviewing the feasibility of introducing a financial penalty framework to act as a deterrent. He noted that it could be applied to participants that started to fail regularly beyond a certain trigger level, say more than three times the market average. He said that the penalty charge would need to increase as interest rates fell in order to reflect that the corresponding financial disincentive for banks to fail also reduces. Eg, the charge could be 3% (minus the policy rate) per day on the size of any failed trades.
- 6.3 While the threat of Swine Flu was potentially receding, Frederic Mouchel (JPM) thought it had raised the question of how many staff were needed at main or back-up sites in order for money markets to function. Some of these issues had also been considered by the CMBCG in a recent call. Paul Fisher concluded

that the market and the Bank should be committed to providing basic services and functions. He asked that the operations sub group consider whether this could be done in some of the possible scenarios. He also asked that LCH, Crest and some of the large Clearers be consulted.

- 6.4 Graham Young noted that Weekly MMLG calls had been halted in April as market began to stabilise, but would resume if MMLG members felt it would be beneficial.
- 6.5 Stephen Collins noted that the possibility of a CMBCG infrastructure workarounds exercise was on the agenda for the annual meeting in July.
- 6.6 Paul Fisher noted that the Bank was still actively looking at a mechanism whereby it could lend out some of the gilts it had purchased under QE in order to reduce demand for particular stocks. Robert Stheeman (DMO) then noted that the DMO had just announced it would be reintroducing the (1-week) Special Repo Facility with a view to mitigating any pressures.