

BANK OF ENGLAND  
STERLING MONEY MARKETS LIAISON GROUP

Thursday 15 November 2007  
Bank of England

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MINUTES

**Attendees**

David Hopton (Alternate)	Abbey
Nick Van Overstraeten	Citi
Ian Hares	Alliance & Leicester
Antony Littleton	APACS
David Whelan	ACT
Steve Nichols	Britannia
Richard Turrell	CrestCo
Robert Stheeman	DMO
Douglas Hull	FSA
Ian Fox	HBoS
Jonathan Curry	IMMFA / BGI
Frederic Mouchel	JP Morgan
John Burke	LCH
Ian Mair	LMMA
Graham Niblock	RBoS
Simon Chatterton (Alternate)	Barclays
John Ewan (Alternate)	BBA
Eric Lepore (Alternate)	Deutsche
Olly Benkert (Alternate)	Goldman Sachs
Chris Walker (Alternate)	HSBC
Ian Collett (Alternate)	ICAP
Sarah Rymell (Alternate)	LIFFE
Clive Jones (Alternate)	Lloyds

**Bank of England**

Paul Tucker (Chairman)  
Simon Wells (Secretary)  
Michael Cross  
Graham Young  
John Rippon  
Stephen Collins  
Angela Hobleby  
Al Wilson

**Apologies**

Euan Harkness	GEMMA / Barclays Capital
Cliff Broadhurst	APACS LMG / ABN Amro
David McFarlane	CHAPS

## BANK OF ENGLAND ITEMS

### 1 Current and expected future money market conditions

1.1 Michael Cross asked the group for feedback on contingency measures taken by the Bank within the Red Book framework, during the recent period of money market stress. In addition, the Bank sought views on current conditions in money markets as well as the building year end pressures.

1.2 Graham Niblock said that in terms of overnight conditions, the widening of the ranges around reserves account holders' targets had been very useful in helping banks to manage their day-to-day and intraday liquidity. Wider ranges had also given banks more confidence to set higher targets. The additional fine-tuning OMO in September had also been welcome. These measures had helped keep sterling overnight interest rates in line with Bank Rate with lower volatility than in euro or dollar overnight interest rates.

1.3 Conditions in global money markets had deteriorated over the previous week or so and had become as bad, if not worse, as in August. In particular, year-end pressures were building as financial institutions adjusted their balance sheets ahead of a key internal and regulatory reporting date. Group members were extremely concerned about the deterioration in liquidity. Even after the year-end difficult conditions could persist until there was less uncertainty about where sub-prime losses were located.

1.4 In general, group members thought central banks could do more to help ease global money market pressures. The following broad headings were identified by members as potential measures:

- A term auction of liquidity at market rates against a wide pool of eligible collateral
- Longer term (more than one week) repo OMOs within the December maintenance period
- Enhanced central bank co-ordination of communication and policy
- A narrower corridor on standing facility rates
- Measures of some kind to remove the stigma currently attached to use of standing facilities
- A wider pool of collateral eligible for use in the standing facilities
- A review of liquidity regulation

1.5 Paul Tucker thanked the group for their candid feedback and said that the Bank would consider seriously the suggestions made. He reminded the group that the Bank was committed to maintaining overnight interest rates close to Bank Rate with limited volatility. If demand for short-term liquidity increased, banks could raise their reserves targets and the Bank would supply any necessary liquidity. And the Bank would maintain wider ranges around targets as long as it was helping banks manage their liquidity. But the Governor had also made clear that the Bank kept wider measures under review too. The group's discussion had been very helpful.

## 2 Interbank market and Libor fixings

2.1 Several group members thought that Libor fixings had been lower than actual traded interbank rates through the period of stress. Libor indices needed to be of the highest quality given their important role as a benchmark for corporate lending and hedging, and as a reference rate for derivatives contracts.

2.2 John Ewan (BBA) outlined the quality control and safeguard measures used by the BBA to ensure the quality of Libor. Dispersion between panel banks' submissions had increased during August but had since fallen back, in part reflecting clarification from the BBA on Libor definitions.

## 3 OMOs for outright bond purchases and electronic bidding

3.1 Graham Young said that the first weekly OMO using the Bank's electronic tendering system, BTender, would take place on 22 November 2007. That would be followed, on 18 December, by the first electronic long-term repo OMO. The Bank planned to hold the first gilt purchase OMO early in the new year. Purchases of asset-swapped foreign currency bonds would start later in 2008.

3.2 Before the weekly OMO on 22 November, the Bank would be asking its counterparties to reconfirm that they can connect to the Btender system. Refresher training would be provided. The Bank was also requesting that banks check their connections to the BTender system from their disaster recovery sites.

## 4 Bank's use of ICSD 'links'

4.1 Al Wilson updated the group on the Bank's progress towards accepting delivery of euro-denominated government bond collateral using International Central Securities Depositories (ICSD) links. The Bank had made changes to its internal processes and systems and hoped to permit the use of links towards the end of Q1 2008.

4.2 At least initially, the Bank be likely to accept collateral via Euroclear only. It will only accept securities delivered to its Euroclear account from other Euroclear accounts, rather than direct from domestic settlement systems.

4.3 The changes were not expected to cause any operational impact, other than to broaden the means by which the Bank's counterparties can deliver collateral.

## 5 Settlement of self-collateralising repos in the event of disruption

5.1 Al Wilson described ongoing work by Euroclear UK and Ireland (EUI) and the Bank analysing how the market and infrastructure would cope with EUI disruption during late trading. In particular, if EUI disruption prevented the completion of DBV transactions, a large amount of liquidity would be in the wrong place and not all self-collateralising repos (SCRs) would unwind. In such circumstances, any banks affected would be expected to use the standing facilities to borrow the funds required overnight to repay outstanding SCRs, with the securities held against that standing facility transaction being those already held by the Bank in respect of its existing IDL and/or SCR transactions.

5.2 In addition, EUI and the Bank would be exploring with settlement banks and other users what changes to Euroclear's procedures and systems would be needed to facilitate smooth reintegration the following day, specifically by allowing outstanding SCRs to remain in place the following morning. Richard Turrell confirmed that EUI had started talking to settlement banks and other users about the issue.

## 6 Sterling market contingency test and operations sub-group

6.1 At the previous MMLG meeting, the group had approved plans for a further live tests of increasing scope in terms of numbers of participants and instruments involved. David Hopton said that following the test conducted on 24 May, a second, more challenging test, had originally been planned for 2007Q4. However, having taken soundings from colleagues in the steering group, the consensus was now that, given the demands on market participants from the recent and continuing difficult market environment, there was no appetite for a test in November. Rather, they thought it would be preferable to aim for Q1 for both the 'live' test and for a facilitated desk-top exercise that had also been in preparation (mainly by business continuity officers at the banks).

6.2 David Hopton said that the objective of the desk-top exercise was to provide MMLG with a more informed understanding of how a major operational disruption could affect the sterling markets. It

would also give participants an opportunity to test their own planning assumptions and may identify practical issues that may not be identified by a live test. The exercise could also highlight or void specific concerns that have been raised in the past.

6.3 The first exercise would be a scenario workshop and participants would be provided with information about the scenario in advance. It was proposed to use external facilitators to run the exercise, the cost of which would be met by five clearing banks. The facilitators would provide a report back to MMLG. David Hopton also proposed that the exercise should focus primarily on sterling markets and should continue to be driven by a small steering group made up of representatives from key institutions.

6.4 The group agreed with the proposals to use external facilitators and to keep the focus on sterling markets. Members continued to see value in discussing testing plans and noted that communication channels would be key in any major operational disruption.

Bank of England

27 November 2007