

BANK OF ENGLAND STERLING MONEY MARKETS LIAISON GROUP

Meeting at 10.30 on Friday 24 October 2003

Paul Tucker (Chairman)	Bank of England
David Rule	Bank of England
Paul Mikhailoff (Secretary)	Bank of England

Mike Beales	Wholesale Markets Brokers' Association
John Burke	London Clearing House
Nigel Dawes	Prebon Marshall Yamane
Ian Dowglass	CRESTCo
Robert Fair	CRESTCo
Peter Fingland	Association of Foreign Banks
Ian Firth	LloydsTSB Bank
Nick Fisher	UK Debt Management Office
Adrian Gray	Citibank
Euan Harkness	GEMMA
David Hynes	IMMFA
Peter Knight	IMMFA
Antony Littleton	Association for Payment Clearing Services
Lindsay Mackay	HBOS
Ian Mair	London Money Market Association
Brian Morrison	Abbey National Treasury Services
Mark Painting	Goldman Sachs
Claire Poots	Financial Services Authority
Jason van Praagh	Rabobank
Amanda Sudworth	LIFFE
Angela Teke	British Bankers Association
Les Winnister	Association of Corporate Treasurers
Jonathan Wood	HSBC

Also present:

Roger Clews	Bank of England
Sarah Breeden	Bank of England
Nicola Anderson	Bank of England
John Rippon	Bank of England
Tim Porter	Bank of England
Elizabeth Kent	Bank of England
Andrew Grice	Bank of England

Apologies

Simon Hills	British Bankers Association
Barry Holland	London Investment Banking Association
David Morrison	Royal Bank of Scotland
Richard Pattinson	Barclays Bank
Robert Stheeman	UK Debt Management Office

Agenda Item 1 – Migration of Money Market Instruments into CREST

David Rule (Bank of England) said that the migration of money market instruments into CREST had proceeded smoothly and was completed on 13 October. All paper money market instruments (MMIs) had been withdrawn from the CMO, which had been closed on 16 October. CRESTCo and the market should be congratulated on the process; he paid particular tribute to the role played by the Association of Foreign Banks in organising at short notice the legal opinions required by CREST from foreign-incorporated issuers of MMIs.

The successful migration completed the implementation of the main recommendations of the Bank's 1998 Securities Settlement Priorities Review and indeed the programme of work to reduce risk in UK payment and settlement systems initiated by the Bank in the late 1980s. Money market securities were now settled in real time with Delivery-versus-Payment in central bank money in common with gilts, other bonds and equities. Paul Tucker added that the Bank would consider whether there were other residual risks in the system which needed to be addressed.

Robert Fair (CRESTCo) reported that over four weekends some £165 billion of assets had migrated from CMO into CREST. On the final weekend, when £87 billion CDs had migrated, systems had remained open allowing the process to be completed by 11.00 on Monday 13 October. Some US \$3 billion dollar-denominated MMIs had been issued into CREST already – CMO had not been able to accommodate US dollar securities. Values of euro MMIs had doubled from those settled in CMO-euro.

Ian Dowglass (CRESTCo) noted that in contrast to CMO, CREST required order matching with buyers having to input the correct ISIN before purchases of newly issued MMIs could be completed. Market practice could be improved to the extent that IPAs shared ISINs and other data with potential buyers in good time. Purchasers, for their part, could use CREST functionality to get details of newly issued MMIs. But this, he said, was the only real issue arising from the migration and CREST planned to issue guidelines.

John Rippon (Bank of England) reported that it appeared that the issuers found the MMLG's *pro forma* terms of issuance easy to use and adapt.

Agenda Item 2 – MMLG CD notice

David Rule noted that the Bank published on 29 August, on behalf of MMLG, the new Notice on CDs and asked if members had any comments on how it had been received. There were none. Mr Rippon said that the Bank had received only a few questions about the new Notice and no-one had raised any difficulties about its provisions. The CD notice would need to be kept under review in the light of market experience and practice with EDS. There might, for example, be a need to consider the market conventions for *Unit Values* and *Minimum Transferable Amounts* for non-sterling CDs.

Agenda Item 3 – Proposed BBA Guide to Money Market Securities

Mr Rippon said that the BBA had intended to produce a single set of market guidelines for money market securities, which would be a successor to the BBA market guidelines on CDs (November 1996) and on commercial paper (April 2000). The aim would be to have the new guidelines ready in spring 2004. Angela Teke (BBA) said that the BBA had produced some interim guidelines on money market securities in preparation for the issuance of EDSs and that it would be re-convening a group of market practitioners and others to consider the new guidelines.

Agenda Item 4 – Contingency Planning

Elizabeth Kent (Bank of England) updated MMLG on the work of the Task Force, chaired by Sir Andrew Large, addressing the need for legislative powers in response to the threat of major operational disruption in the UK financial system. The Task Force is expected to publish an interim report in December and a final report in February.

MMLG decided that another rehearsal of a conference call among members should take place soon: it was subsequently arranged for 14 November. David Rule reminded members to inform the Bank of any changes to their contact details.

Agenda Item 5 – Review of the Non-Investment Products (NIPs) Code

The NIPs Code had been published in 2001 to succeed the London Code, jointly sponsored by MMLG, the Foreign Exchange Joint Standing Committee and the London Bullion Market Association. David Rule said that it seemed timely to review the Code and consider the need for any updates.

Andrew Grice told the group that the Foreign Exchange Joint Standing Committee proposed that an annex be attached to the NIPs Code providing background on the operation of CLS, identifying CLS best practices and setting out the impact of CLS on liquidity management. The annex was being circulated to those organisations and committees which endorsed the Code, including MMLG. (The annex has been circulated to members with these minutes and comments to Sumita Ghosh, Bank of England 020 7601 5982, are invited by 28 November).

Agenda Item 6 – Review of the Bank of England’s Operations in the Sterling Money Markets

In the light of the Governor’s announcement on 15 October that the Bank was reviewing its operations in the sterling money markets, David Rule presented charts illustrating the volatility of sterling overnight interbank rates in comparison with overnight rates in the US dollar, euro, Canadian dollar, Australian dollar and New Zealand dollar markets. The charts illustrated that the reforms launched in the late 1990s had considerably reduced the volatility of sterling overnight rates, and that the introduction of the deposit facility in 2001 had provided an effective floor. But volatility remained higher than elsewhere, although the pattern of volatility in other markets varied. In the euro market, for example, there were periods of volatility at the end of maintenance periods which were less apparent in the US dollar market.

Paul Tucker reminded MMLG that the underlying causes of the extreme volatility in the early 1990s had been a shortage of eligible collateral (banks acceptance then being the primary instrument used in the Bank’s operations) and the declining capital base of the discount houses, then the Bank’s only OMO counterparties. The reforms of the 1990s had, therefore, contained two main elements – introducing a gilt repo market and using gilt repo in the Bank’s sterling money market operations, and widening the range of the Bank’s counterparties to include banks and dealers. Those reforms had intentionally preserved an important feature of the framework: that the Bank supplied the system’s daily net liquidity need. The current review would review the architecture of the Bank’s

operations more broadly. The Bank had no preconceived view or agenda. The review would consider all the options, including amendments to a system that kept a daily maintenance requirement as well as different reserve averaging schemes.

The Bank wanted to hear views from a wide range of market participants. This process had begun. David Rule and colleagues would be meeting each of the settlement banks and the Bank's counterparties and, crucially, also other participants and users of the market. A consultative paper would be produced in due course. The timetable would depend on the scale and nature of any changes that emerged from the review. At this stage the Bank had no preferred model. Any proposed change would be aimed at enhancing the efficiency of sterling money markets, taking account of the interaction with the payments system. The Bank would proceed by consulting widely at each stage to try to ensure that this was achieved.

Agenda Item 7 – Any Other Business

None.