

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

Friday 20 October 2008 -Bank of England

MINUTES

Attendees

David Hopton	Abbey
Ian Hares	Alliance and Leicester
Antony Littleton	APACS
John Ewan	BBA
Steve Nichols	Britannia
Jeremy Wilson	CHAPS
Olly Benkert	Goldman Sachs
Ian Fox	HBOS
Jon Wood	HSBC
Jonathan Curry	IMFA/BGI
Frederic Mouchel	JP Morgan
John Burke	LCH
Scott Nygaard	RBS
David Bailey	FSA
David Nicholls	Deutsche
Ian Collett	ICAP
Stewart Lloyd-Jones	WMBA
Joanne Perez*	DMO
Ian Dowglass*	Euroclear UK & Ireland
Adam McCormack*	GEMMA/BarCap
Paul McGregor*	LIFFE
Peter Best*	LIFFE
Mark Thomasson*	LMMA/RBS
Mark Sinfield *	Lloyds
Nick van Overstraeten*	AFB/Citi

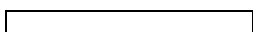
* *Alternates*

Apologies

Simon Chatterton	Barclays
Richard Smith	ACT

Bank of England

Paul Tucker (Chairman)
Christian Hawkesby (Secretary)
Peter Andrews
Sarah Breeden
Roger Clews
Michael Cross
Stephen Collins
Toby Davies
Paul Fisher
John Rippon
Graham Young



1 Introductions

- 1.1 Paul Tucker introduced Christian Hawkesby (Bank) as the new secretary of the group and welcomed others that were attending their first meeting.

2 Market conditions

- 2.1 Olly Benkert (Goldman Sachs) opened a discussion of money market conditions.
- 2.2 Following a period of severe stress, there had been an improvement in money market conditions in recent days, driven in part by official sector actions and term rates becoming attractive to some large US banks. Dollar 3-month Libor/OIS spreads had narrowed by 30-40 basis points on the morning of the meeting.
- 2.3 Money markets, however, had not returned to normal functioning. There was still a reliance on central bank facilities, little market activity beyond short maturities, and many non-bank institutions remained hesitant to reduce their cash balances till the end of the day. Sentiment remained fragile following the period of severe stress, and the risk remained that strains in money markets could re-emerge.
- 2.4 A number of members also noted that tighter credit limits, imposed in the extreme circumstances of the past few weeks, remained in place and would take time to be relaxed. In the meantime these would act as a brake on a recovery in interbank lending.
- 2.5 With regards to the HMG guarantee plan, some members noted that they had already issued short-term guaranteed paper and were planning to issue longer-term guaranteed paper. Others noted that at current pricing, they preferred to aim to issue debt in their own-name.
- 2.6 The main buyers of guaranteed bank debt so far were thought to have been central banks and other long-term savings institutions. The DMO's Credit

Guarantee Scheme Group was working to refine the detailed operation of the Scheme, in the light of comments received from banks and potential investors.

3 Consultation on reform of the Bank of England's provision of liquidity insurance facilities

3.1 The Bank team outlined, and responded to questions on, the three main elements of the Bank's consultation document on its money market operations, which had been published on 16 October.

3.2 First, the previous Standing Facilities would be replaced with two separate facilities. Operational Standing Facilities (OSFs) would have the clear purpose of absorbing technical problems and imbalances in the operation of money markets and payments, and so help to stabilise the overnight rate. For that reason, they were priced at plus and minus 25 basis points relative to Bank Rate. Overnight market rates approaching the plus and minus 25 basis points range to Bank Rate would reflect a market friction and so would obviously be a legitimate rationale for using OSFs. To avoid stigma, the Bank had taken the immediate step of reducing disclosure so that the average use of OSF would be disclosed after the end of the relevant maintenance period.

3.3 Second, a Discount Window Facility (DWF) would be established, enabling banks to borrow gilts against a wide range of eligible collateral in order to provide liquidity insurance. The average use of the DWF over a quarter would be disclosed at the end of the subsequent quarter. The Bank intended to broaden and refine the list of collateral accepted in the DWF in light of further work and experience.

3.5 Finally, after further consultation, the Bank was also minded to introduce permanent long-term repo operations against broader classes of collateral, to be auctioned under a mechanism where counterparties bid separately against different types of collateral. The proportion of each auction allocated to borrowing against different types of collateral would depend on the spread between the relevant bids. So the auctions would enable banks, by paying extra,

to borrow against less liquid collateral in periods of stress, while still providing the incentive to hold the most liquid forms of collateral.

- 3.6 Michael Cross would be in touch with the Bank's counterparties and MMLG members to discuss their feedback to the consultation document over the course of November.

4 AOB

- 4.1 Paul Tucker thanked members for their participation in the recent daily teleconferences on market conditions. If conditions remained slightly calmer, the Bank team proposed that these teleconferences be undertaken twice a week, with the option of moving back to daily if warranted by conditions. Members were encouraged to contact Peter Andrews with their views on the frequency of teleconferences.

Bank of England

October 2008