BANK OF ENGLAND STERLING MONEY MARKETS LIAISON GROUP

Meeting at 3.00pm on 1 September 2004

Bank of England
Paul Tucker (Chairman)
David Rule
Alastair Wilson
Alison Emblow
Sarah Breeden (Secretary)

Name	**Company**
Mike Beales	WMBA
Nigel Dawes	Prebon
Rob Fair	CRESTCo
Peter Fingland	Bankgesellschaft/AFB
Ian Firth	Lloyds TSB
John Flint	HSBC (alternate for Jon Wood)
Ian Fox	HBOS
Adrian Gray	Citigroup
Euan Harkness	Barclays Capital/GEMMA
Philip Howard	FSA
Antony Littleton	APACS
Ronnie Maiti	LMMA
Graham Niblock	RBS
Richard Pattinson	Barclays
Conrad Santos	Lehman Brothers
Amanda Sudworth	LIFFE
Jo Whelan	DMO (alternate for Robert Stheeman)

Apologies

Nathan Bostock	Abbey
John Burke	LCH
Tim Hayter	Bunzl/ACT
Simon Hills	BBA
Barry Holland	LIBA
David Hynes	IMMFA
Robert Stheeman	DMO
Jason Van Praagh	Rabobank
Jon Wood	HSBC

Agenda Item 1 – The Bank's Review of its Official Operations in the Sterling Money Markets

Paul Tucker (Bank of England) said that the Bank's next consultative paper would, he hoped, be published in late October. It would contain a mixture of decisions and proposals for consultation; the Bank would consult in particular on whether the introduction of some of the reforms could be sequenced. In terms of the timing of the full introduction of the reforms, this was dependent on system changes at the Bank and in the banking systems. Subject to those constraints, which would be better assessed in the light of the consultation, the Bank was, though, keen to introduce the reformed system as soon as possible.

Agenda Item 2 – Timing of the SONIA Fixing

Graham Niblock (RBS) said that there was perhaps a case for considering bringing forward the timing of the SONIA fixing. In particular, to the extent that participants used the SONIA market to hedge known cashflows, an earlier cut-off for the fixing would ensure that those wishing to trade in the overnight market to match the fixing would need to deal only at the more liquid times. This could be attractive to corporates and money market funds. Mike Beales (WMBA) noted that a 12 noon cut-off would exclude a lot of trading - such a rate was therefore unlikely to be representative of all overnight trading done that day. Nigel Dawes (Prebon) suggested that a two-tier fixing might be appropriate, one for banks and one for non-banks who tended not to deal after 12 noon (although this might be confusing). Richard Pattinson (Barclays) noted that there was unlikely to be zero volatility even after the Bank's money market reforms and so excluding some trades could lead to perceptions of manipulation; and the fixing had only recently been extended to 4:15pm to ensure that all trades were captured. It was agreed to review this issue after the Bank's money market reforms had been introduced.

Agenda Item 3 – Trading in Fractions

David Rule (Bank of England) said that, given the smaller trading ranges seen recently and in the interests of modernising the market, the Bank wondered whether the short end of the money market might shift to trading and quoting in decimals rather than fractions. In discussion, there was wide agreement that this would be a sensible change for the market. The Group therefore proposed that the market shift to trading on the basis of decimals with effect from 1 January 2005: this could be ratified subject to any comments at the next MMLG meeting.

Agenda Item 4 – Compensation Arrangements for Failed Payments in Sterling

Adrian Gray (Citigroup/APACS) said that the APACS Liquidity Managers Group had begun to consider the possible introduction of compensation arrangements for failed payments in sterling. There was universal agreement that this would be beneficial and was practicable, contingent on the Bank's reforms being in place. LMG would put forward a draft proposal to the BBA and to MMLG for agreement.

Agenda Item 5 – Collateral taken in the Bank's Official Operations

David Rule (Bank of England) said that, following the expansion of the Bank's collateral pool in 1998/1999, there had been a gradual shift in the collateral received by the Bank towards euro-denominated paper, with an increasing share issued by a small number of governments. The Bank had decided therefore to introduce a concentration limit. OMO counterparties and settlement banks would need to ensure that the securities of a single issuer (other than the United Kingdom government and the Bank of England) comprised no more than a fixed percentage (25%), of the total collateral repoed to the Bank in OMOs and RTGS. The limits would begin to apply once the total collateral provided by an institution exceeded £1bn. The Bank planned to implement the change shortly, and would do so via issuing an amended Operational Notice; there would be a transitional period for institutions to adjust their portfolios if necessary.

Sarah Breeden (Bank of England) said that the Bank expected to be able at the same time to update its Operational Notice setting out the practical details associated with the contingency arrangements for taking US Treasury securities as collateral in OMOs and in RTGS in stressed circumstances.

Agenda Item 6 – Bank of England Forecast Errors and Remunerating Bankers Balances

David Rule (Bank of England) said that, under the Bank's current regime, it did not routinely remunerate bankers' balances. However the Bank had, on occasion, chosen to remunerate such balances following a large error in the Bank's forecast of the banking system's liquidity need. The Bank had therefore decided to introduce transparent guidelines. Where the system as a whole was left with balances of over £200mn (because of a Bank forecast error of over £155mn), the Bank would remunerate balances beyond the current £45 mn balances target. In addition, the Bank would always undertake a mopping operation to absorb liquidity if, during the day, it revised its forecast such that it was expecting bankers' balances to be above £100mn.

Agenda Item 7 – Business Continuity

Alison Emblow (Bank of England) said that the Bank had combined its external and internal business continuity areas in the Business Continuity Division in January. She highlighted the following issues:

- The division was currently working on a follow up to the report of the Task Force on Major Operational Disruption, chaired by Sir Andrew Large. This was intended to be released in October.

- The Financial Sector Continuity Website had been relaunched, both the public and the secure versions (the latter permitted sharing of contact details in the event of disruption).

- The FSA and Bank were benchmarking firms' business continuity plans in order to check that they targeted an appropriate level of resilience.

- A market-wide communications test was planned on 22 November involving private sector participants as well as HM Treasury, FSA and the Bank.

Sarah Breeden (Bank of England) asked whether MMLG wished to be involved in the November test. Members said that they thought it should be.

The Group discussed how, in a real crisis, members would balance preparing for and participating in an MMLG conference call with managing their own contingency processes and participating in other groups eg APACS. David Rule (Bank of England) said that the Bank would look at communication in the sterling money markets following a crisis in more detail ahead of the next MMLG meeting.

Sarah Breeden (Bank of England) said that MMLG would have a test conference call before its next meeting, with one week's notice.

Agenda Item 8 – Market Abuse Directive – Implications for Money Markets

Philip Howard (FSA) said that the FSA and HMT had published a consultation document on the Market Abuse Directive in June, with a deadline of 10 September for comments. Policy would be finalised in November with implementation by the end of February 2005. Cash money markets were largely unaffected as trading did not occur on a regulated market.

Agenda Item 9 – CREST/Euroclear Harmonisation

Rob Fair (CREST) said that Euroclear's aim was for a single application platform, a single set of business processes (for example covering rights issues) and a common communication interface, to ensure ease of access. The Single Settlement Engine (SSE), which concentrated processing in a single system, was expected to go live in 2006. As a next step in 2007, the Belgian and Dutch markets would be migrated onto the French RGV Settlement System (the ESES/RGV Project). This would be followed by the single application platform. Euroclear would consult on the details of the single application platform, delivery of which was likely to occur in 2009. A plan setting out what issues were for consultation and when would be released in September.

Agenda Item 10 – MMLG CD Notice: The Position of Structured CDs

John Rippon (Bank of England) said that further investigation into the extent of structured sterling CD issuance by the Bank following discussion at the previous MMLG had indicated that few such CDs had been issued. Most structured CDs were said to contain straightforward put or call options, which were consistent with the MMLG's current notice. While there appeared to be a number of structured CDs with more complex options in issue, these had been issued on a bilateral basis, to be held to maturity and without secondary market trading. Since the primary interest of the MMLG CD notice was in potential problems in market trading, there appeared to be no reason for it to be amended. Members agreed.

Agenda Item 11 – Guidelines for Issuance of ISINS for Sterling CDs in CREST

John Rippon (Bank of England) said that, following MMLG's previous discussion on delays in issuance of ISINs, the Bank had sought views on a set of proposed guidelines which aimed to ensure that ISINs were issued within one hour of trading. It was agreed that there would be a joint meeting with the IPAs, custodians, LMMA and interested parties to discuss this issue further. [This meeting was held on 29 September. Minutes will be available at www.bankofengland.co.uk/markets .]

Bank of England
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