

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

Wednesday 16 September 2009 -Bank of England

MINUTES

External Attendees

David Hopton	Abbey
Antony Littleton	APACS
Peter Lightfoot	APACS LMG/ MMLG Ops Group
Nick van Overstraeten	AFB/ Citi
Simon Chatterton (A)	Barclays
Alex Merriman	BBA
David Nicolls	Deutsche
Joanne Perez	DMO
Ian Dowglass	Euroclear
Navin Hingorani (A)	FSA
Euan Harkness	GEMMA
Alan Ireland (A)	Goldman Sachs
Jon Wood	HSBC
James Adam (A)	ICAP
Jonathan Curry	IMMFA
Frederic Mouchel	JP Morgan
John Burke	LCH
Peter Best	LIFFE
Ian Firth	Lloyds
Rob Verrillo (A)	LMMA
Justin Fox	Nationwide
Scott Nygaard	RBS
Alex McDonald	WMBA

A = alternate

Apologies

David Whelan	ACT
David McFarlane	CHAPS

Bank of England

Paul Fisher (Chairman)
Ben Wensley (Secretary)
Roger Clews
Chris Salmon
Christian Hawkesby
Graham Young
Michael Jones
Michael O'Loughlin, (Banking Services)
Lisa Zammit (BCD)

1 Introductions

- 1.1 Chris Salmon welcomed Justin Fox (Nationwide) as a new member. He maintained representation on MMLG from the building society sector given Steve Nichol's departure after Britannia became a bank as part of the Co-op merger.

2 Market conditions

- 2.1 Frederic Mouchel (JPM) opened a discussion of money market conditions and others joined in.
- 2.2 Risk appetite among investors had increased since the May MMLG meeting and this had pushed up asset prices. For example, the 5-year ITRAXX Europe index had contracted from 123bps to 80bps, and some investors had expressed interest for the first time in a while in ABCP paper.
- 2.3 This had contributed to ongoing improvement in money markets, as evidenced by falls in the cost of borrowing. Since the May meeting, three-month Libor fixings had fallen sharply and this had resulted in three-month Libor-OIS spreads contracting in sterling by 60bps (to 26bps), in dollars by 36bps (to 10bps), and euros by 15bps (to 31bps).
- 2.4 There had been some extension of term lending, particularly from three-month to six-month tenors, including by money market funds. But the falls in Libors were also thought to reflect reduced demand for term funding partly due to the ongoing support from the authorities, as well as longer-term funding markets beginning to reopen. Another factor was thought to be corporates increasingly financing themselves through bond markets rather than via banks.
- 2.5 Nevertheless, unsecured lending was still thought to be much more name sensitive than before the crisis, and distortions remained in FX basis swap markets, where dollars still traded at a premium and were mainly only available on a short-dated basis. While usage of central bank dollar swap facilities had reduced, ongoing use by some perhaps suggested that some smaller entities still did not have full access to market funding.

- 2.6 Members thought declining use of central bank liquidity facilities was a positive (eg, the US AMLF was close to zero), but they cautioned that much of the improvement in sentiment had been underpinned by the implicit support of the authorities. It was also observed that the composition of central banks' balance sheets was altering, rather than necessarily reducing in size. For the Bank and the Fed this meant an increase in asset purchases and a fall in repo lending.
- 3) Sterling monetary framework (SMF)
- 3.1 Paul Fisher (Bank) noted that the MPC had judged at the August meeting that further QE asset purchases were necessary given the medium-term outlook for inflation. The output gap that needed bridging was thought wider than envisaged early this year and the provision of credit by banks remained subdued.
- 3.2 He noted that the Governor had publicly confirmed that the Bank was looking at aspects of how the SMF was operating under QE, as might be expected at this stage.
- 3.3 Chris Salmon (Bank) provided an overview of the Bank's sterling market liquidity operations over recent months. After the introduction of QE, the Bank had continued providing long-term liquidity through its long-term repo operations, draining any excess liquidity on a weekly basis. As the take-up in long-term repo operations had reduced, so had the size of the drain operations before being stopped in June. The Bank then offered variable short-term repos on a weekly basis to gauge demand for further reserves, but these were suspended in August given the low level of demand for reserves revealed by bidding behaviour.
- 3.4 The Bank's three-month long-term repo operations would continue fortnightly across the year-end. Indeed, Paul Fisher noted that the Bank, as in previous years, stood ready to provide the necessary support over year-end, which would hopefully minimise any pressure. A member noted that end of year movements generally related to banks finessing balance sheets ahead of reporting.
- 3.5 Chris Salmon (Bank) noted that the Bank was now returning to some of the issues raised in the consultative document on the development of the Bank's sterling

market operations published in October 2008. This was likely to involve further meetings with counterparties, in particular about the detailed design of the new long-term repo operations. .

4) Bank-DMO joint gilt lending facility

- 4.1 Since the May MMLG meeting, the Bank-DMO gilt lending facility had been introduced, whereby the DMO could lend out some of the gilts held in the Bank's (QE) portfolio in return for other gilts. As intended, the premium that some gilts were trading at relative to others had subsequently been reduced.
- 4.2 Joanne Perez (DMO) noted that the facility had improved function in the markets both for repo and outright purchases/sales. The greater certainty of funding costs had increased market liquidity, with the DMO's standing and special facility (at penal rates) not having subsequently been used. Joanne and Graham Young (Bank) reported positive feedback from a variety of quarters.
- 4.3 Euan Harkness (GEMMA) and Rob Verillo (RBS) thought the facility had been successful. While they would welcome a lengthening of its one-week term, Rob noted that the beneficial impact on liquidity had somewhat filtered down the curve. Joanne remarked that the term had been set in line with the Bank's wider policy objectives and noted that gilts could be borrowed from the DMO for longer periods.
- 4.4 Paul Fisher noted that he wanted publicly to thank the DMO for all their work in helping to set up the gilt lending facility.

5) Testing of facilities

- 5.1 Graham Young (Bank) noted that the Bank continued to encourage counterparties to complete the administrative preliminaries required to access the Discount Window Facility and to test their capacity to use it.

6) MMLG operations subgroup

- 6.1 Testing of Operational Standing Facilities (OSFs). Peter Lightfoot (Chair of the Operations sub group) noted that the banks on the sub-group were keen to test the use of OSFs, perhaps every six months. They proposed that a group of banks agree

a day/week in which the test could be initiated in the next few months and then approach the Bank to facilitate. None of the MMLG members raised any objections. Paul Fisher encouraged testing of operational facilities whenever beneficial to do so.

- 6.2 Sterling money market contingency exercise. The sub-group were also keen to do a basic contingency test in 2010 Q1 given the gap since the last test. They proposed a simple test whereby market participants go to back-up sites and test communication with the Bank and counterparties/customers. Counterparties would be free to test more functions if they wanted to (eg, carrying out trading). Peter said the group would map out such a test ahead of December MMLG.
- 6.3 Swine Flu. The contingency planning for Swine flu had thus far proved adequate and government estimates of the likely number of cases had been scaled back, said Lisa Zammit (BCD, Bank). Nevertheless, the Cross Market Business Contingency Group had been discussing potential staffing issues associated with swine flu. Whilst comfort was taken from the increased ability of people to work from home, the implications of heavy internet traffic were being discussed with internet service providers. There was an awareness that some functions would only be carried out remotely as a last resort, given operational risks and regulatory issues, with this including aspects of trading.
- 6.4 Non-standard CREST settlement closure exercise. The operations sub-group will be participating in a CREST data collection exercise mimicking a non-standard closure. It was hoped that it would reveal any issues that might arise in such an event. Interested parties would reconvene to discuss findings and a paper summarising the issues would be provided to the wider market in due course.
7. AOB
- 7.1 Euroclear single platform. Ian Dowglass (Euroclear) noted that the latest plans for the collateral management aspects of the new system had been published in June, and Euroclear were still open to feedback. The planned go live date was still Q4 2010.

- 7.2 BBA Libor fixings. Alex Merriman (BBA) noted that the BBA board was finalising a new governance structure for Libors. It would involve the formation of a separate but wholly owned subsidiary, BBA Libor Ltd. It would have its own board of directors helping further enhance the governance of Libors.
- 7.3 Alex also noted that there had been some isolated errors in the inputting of Libor submissions by banks recently. The fixings would not be recomputed unless the process as a whole had been compromised, which had not been the case recently.
- 7.4 Lisa Zammit (BCD, Bank) noted that the dates of the next Market-wide exercise would be the 17 and 20 November, with some involvement of the MMLG possible. The first communiqué on the exercise went out on 11 September to all participating institutions. It had been decided at the annual CMBCG meeting that the demands on members' resources were still high, so progressing the design of the infrastructure workaround exercise had been delayed until next year.
- 7.5 Pete Best noted that LIFFE had launched Gilt Options at the end of June and they had enjoyed a positive start, with eight market makers signed up. They were now planning to launch Gilt Futures contracts at the end of November, for two- and five-year maturities. They had received positive feedback on this proposal, but were happy to talk to any other interested parties.
- 7.6 LIFFE had been considering a future contract priced off SONIA fixings. However, these plans have been put on hold, while the progress of the EONIA equivalent introduced last year continued to be monitored.