



BANK OF ENGLAND

Money  
Markets  
Committee

# Minutes

## Money Markets Committee

14 December 2017

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Location: Bank of England, 20 Moorgate

Attendees: **Aviva Investors:** Mick Chadwick  
**BAML:** Cameron Dunn  
**Barclays:** Michael Manna  
**Blackrock:** Tim Mcleod\*  
**Credit Suisse:** Romain Dumas  
**DMO (Observer):** Jo Whelan  
**FCA (Observer):** Helen Boyd  
**Goldman Sachs:** Mathew McDermott  
**HSBC:** Jon Wood  
**The Investment Association:** Ross Barrett  
**LCH:** Paul Elkins  
**LGIM:** Jennifer Gillespie  
**Lloyds Bank:** Ian Fox  
**Mizuho Bank:** Robert Thurlow  
**Nationwide:** Andy Townsend  
**PruCap:** Nina Moylett  
**RBS:** Donal Quaid  
**Santander:** Paul Barnes  
**Société Generale:** Romain Sinclair  
**Tesco PLC:** Alistair Clark\*

**Bank of England:** Chris Salmon (Chair), Sarah John (Head of Sterling Markets Division), Iain Ramsay (Secretary), Rebecca Maher, Jon Pyzer, Rob Harris (Item 1), Paul Burton (Item 1), Mike Jones (Item 4)

Apologies: **Aberdeen Standard Investments:** Gordon Lowson  
**ACT:** Michelle Price  
**Blackrock:** James Templeman  
**Euroclear:** John Trundle  
**Tesco PLC:** Lynda Heywood  
**TPICAP:** Andrew Berry  
**Virgin Money:** Peter Bole

\*Alternate agreed via the MMC Secretariat

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**Minute  
no.****Minute****1. Bank of England update on market conditions & presentation of SMMD data**

The Chair confirmed that the minutes from the September meeting had been published on the Bank's website<sup>1</sup>.

The Bank provided an update on market conditions since the September meeting. Since the last meeting market participants had largely focussed on news flow related to the UK's withdrawal from the EU and the MPC decision to raise Bank Rate to 0.5%.

Initial findings from the SMMD data were presented. The very early indications provided by the data suggest the immediate transmission mechanism worked as expected following the Bank Rate rise. And repo market pricing suggested at this time little premium for year-end. SMMD data will become available on the Bank's website in 2018 and MMC members were asked to contact the MMC Secretariat in advance of the publication with suggestions for presentation of the data. The floor was opened for members' discussion.

Members expect money markets to function better this year-end than 2016 year-end due largely to better preparation by market participants. Some members reported slightly increased bank balance sheet availability and one member noted significant recent euro-area issuance helped to absorb cash over year-end. However, members noted that many of the factors which contributed to a difficult 2016 year end remain this year. Such factors are demand for high quality liquid assets (HQLA), GSIB regulatory requirements, and balance sheet taxes.

In contrast to the relatively benign expectations for year-end in sterling money markets, members noted the sharp increase in the US dollar cross-currency basis.

Members also noted some concerns around MiFID II which takes effect on 3 January 2018. In particular, contacts expect unsecured money market liquidity to fall in January. The Chair suggested a telephone call in January for MMC members (on an opt-in basis) to share views on market functioning. The minutes of the call will be circulated to all MMC members.

**2. Update from the Securities Lending Committee**

The Chair of the Securities Lending Committee provided an update from the Securities Lending Committee meeting of 13 November<sup>2</sup>, which focussed on developments in CCP clearing, pledge structures and the European Commission's proposed changes to moratorium powers under BRRD3.

The Securities Lending Committee noted that there had been no significant developments in non-cash collateral clearing in recent months and discussed the challenges posed by incorporating clearing into securities lending, including risk mutualisation and legal hurdles for non-bank entities. The Committee noted that central clearing through a sponsor model relieved some of these issues, which were particularly obstructive for peer-to-peer activity. MMC Members agreed that whilst the CCP share of the clearing market may increase in the coming years, they do not expect this to reach more than ~15% of market share. There was broad agreement on the Securities Lending Committee that the move towards pledge structures in security financing was being prioritised above developing sponsored clearing.

The Securities Lending Committee agreed to meet a minimum of 3 times next year in May, July and October.

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<sup>1</sup> MMC minutes available on the Bank's website [here](#).

<sup>2</sup> SLC minutes available on the Bank's website [here](#).

### 3. **Forward Agenda: Pledge structures in securities lending**

The Bank provided an update on developments in pledge structures as compared to title transfer in securities lending, following which there was a discussion on the relative merits of the different structures. Arguments were balanced between those primarily on the borrowing side that emphasised the merits of the change, including increased market liquidity, and those on the lending side that saw increased risks.

Members noted that a pledge structure reduces the capital cost to the borrower and may be attractive to a broader range of market participants which could lead to improved liquidity. However, members had observed differences in interpretation as to which clients could be permitted to use pledge structures; potential difficulties for UCITS and insurance funds were noted. Other concerns highlighted included the perceived difficulty of managing a pledge structure in a default given the floating charge-like structure, compared to the fixed charge in title transfer transactions which apparently gave easier, clearer and speedier access to the collateral.

Potential problems for the securities lending market created by the upcoming German Investment Tax Act were highlighted by one member.

The Chair asked for pledge structures in securities lending to be on the December 2018 MMC agenda so that members may review any developments in the market.

### 4. **Update from the *SIMEX16 Discussion Group***

The Chair of the Discussion Group presented the high level conclusions from the SIMEX working group (see **Annex 1** for summary and conclusions from the final report) and noted the contributions of all those involved. The Group concluded that FPS could be a suitable vehicle for re-routing payments in an extended RTGS outage, and as a result encourages all market participants where appropriate and proportionate to have access to FPS (or some other appropriate alternative pathway); CHAPS Direct Participants are encouraged in particular to have direct access to FPS as an alternative pathway. But the Group noted that some international banks who were not members of FPS would face some costs and operational difficulties and so this solution might not be appropriate for them. The Group also agreed that FPS would be viable as a re-routing solution for a maximum of 5 days, but in all likelihood only a shorter period than this.

The Group recognised that customer retail payments would usually be prioritised by banks over wholesale payments in an RTGS outage, subject to any over-riding financial stability considerations. The Group has not made any definitive statement on charges and compensation given the important consideration of competition law. However the Group endorsed the principle that there should be no undue enrichment as a result of an RTGS outage.

The MMC Chair agreed to share the working group's final report with relevant Bank staff in order to follow up on the Group's conclusions.

### 5. **Update from *UK Money Markets Code Sub-Committee***

The Chair of the Sub-Committee provided an update from the committee meeting of 13 October. The ACI had presented on their training model at the October meeting. The Sub-Committee had agreed that the current Chair should continue as sole Chair. This decision was endorsed by the Money Markets Committee. The sub-committee had also discussed at the 13 October meeting the possible introduction of a 'central register' of institutions which had signed up to the UK Money Markets Code.

Members of the MMC felt that a central register would be beneficial in illustrating institutions' commitment to the principles of the Code and would encourage more institutions to do likewise. Members did re-iterate that institutions' commitment to the principles should be proportionate to their activity in UK money markets. Members felt that this central register would best sit with the Bank of England, but noted there would be associated resource requirements.

The Chair agreed to consider whether the Bank could be responsible for holding the central register and will provide an update at the March 2018 MMC meeting.

**6. AOB**

The Secretary set out that a 'contingency call' would be arranged for Q1 2018. Members would be contacted in advance of that call to confirm each contact details and those of an alternate for their organisation.

## **Annex 1: Summary and conclusions from the final report of the SIMEX16 Discussion Group**

- a. FPS could be a suitable vehicle for re-routing payments in an RTGS extended outage.
- b. All market participants should consider the benefits of having access to FPS (or a similar alternative pathway), given that the advantages of retaining the capability to make payments would seem to outweigh the likely costs. Without appropriate access to alternative pathways for payments, some market participants and their clients may be disadvantaged in the event of an extended RTGS outage.
- c. Where appropriate, internal operational capability to increase the FPS cap should be addressed as soon as feasible.
- d. Direct FPS Participants should establish an automated process for the conversion of CHAPS payments into FPS format. An appropriate timeframe for this to be completed could be in line with the ISO20022 standard being adopted for CHAPS and FPS payments.
- e. It was noted that having the same CHAPS and FPS provider may help to ensure sufficient cash/collateral is available to support use of FPS instead of CHAPS in any outage.
- f. Participants that are indirect members of CHAPS as well as FPS should seek to ensure sufficient cash/collateral is held at their FPS provider to cover re-routing.
- g. FPS as a re-routing solution would be viable for an absolute maximum of 5 days and in all probability only for a shorter period.
- h. It would be helpful if the Bank of England could lead communications on the benefits of re-routing using an alternative pathway and related best practice could be included in an update to the UK Money Market Code in 2018
- i. The current market practice of prioritising customer retail payments ahead of wholesale own-account payments was endorsed subject to any over-riding financial stability considerations.
- j. It was acknowledged that bilateral movement of collateral in such an event would be cumbersome. There was a preference for cash collateral, which for larger and international banks could be non-sterling.
  - i. The best use of collateral for organisations with direct access to the prefunded retail system was at the Bank of England to generate liquidity. (For CREST settlement banks, the repo functionality built into CREST would suffice.)
  - ii. It was recognised that direct participants in the retail system should transfer more Level A collateral at the Bank in order to facilitate liquidity creation in such an event.
- k. The Group was unable to make any definitive statement on charges and compensation. However the Group endorsed the principle that there should be no undue enrichment as a result of an RTGS outage. It was agreed that it would be helpful if the UK Money Market Code could include wording to reflect this current best practice principle.

### **Next Steps**

- a. The Group has no objection to the publication and external sharing of the conclusions of this report.
- b. The UK Money Market Code is updated appropriately.

**Acronyms**

ACT	Association of Corporate Treasurers
BAML	Bank of America Merrill Lynch
BRRD	Bank Recovery and Resolution Directive
CCP	Central Counterparty Clearing House
DMO	Debt Management Office
FCA	Financial Conduct Authority
FPS	Faster Payments Service
GLA	Greater London Authority
GSIB	Global Systemically Important Banks
ISLA	International Securities Lending Association
LGIM	Legal & General Investment Management
MiFID	Markets in Financial Instruments Directive
MMC	Money Markets Committee
RTGS	Real-Time Gross Settlement
SLC	Securities Lending Committee