BANK OF ENGLAND

Money Markets Committee

MONEY MARKETS COMMITTEE

Thursday 23 March, 2017

Bank of England

MINUTES

External Attendees*

Name	**Firm**
Michelle Price	Association of Corporate Treasurers
Mick Chadwick	Aviva Investors
Cameron Dunn	Bank of America Merrill Lynch
James Templeman	Blackrock
Romain Dumas	Credit Suisse
Jo Whelan	Debt Management Office
John Trundle	Euroclear
Harriet Hunnable**	Financial Conduct Authority
Matthew McDermott	Goldman Sachs
Luke Webster	Greater London Authority
Jon Wood	HSBC
Ross Barrett	Investment Association
Paul Elkins	LCH
Jennifer Gillespie	Legal and General Investment Management
Robert Thurlow	Mizuho
Andy Townsend	Nationwide
Nina Moylett	Prudential
Robert Begbie	Royal Bank of Scotland
Paul Barnes	Santander
Romain Sinclair	Societe Generale
Gordon Lowson	Standard Life Investments

***Apologies received from Paul Wilson (JP Morgan), Ronald Kent (BBA), Ian Fox (Lloyds), Michael Manna (Barclays), Andrew Berry (TPICAP), and Peter Bole (Virgin Money)
** Alternate

Bank of England Attendees

Chris Salmon (Chair)
Sarah John
Aakash Mankodi (Secretary)
Iain Ramsay
Jonathan Grant
Jonathan Pyzer

Introductions and Terms of Reference

1. The Bank asked members if they were content with the final draft of the Terms of Reference for this new committee. The committee had no further comments and agreed for this document to be published on the Bank of England website, along with the minutes from this meeting.

2. A representative from the Bank's legal team re-iterated the competition law aspects of the Terms of Reference for the Committee. It was highlighted that Committee members needed to ensure they understand their responsibilities under all applicable competition laws, including UK and EU competition law. To the extent any member is unclear of these, they should consult the legal and/or compliance teams at their respective institution for further guidance. If a member has concerns about the discussion from a competition law compliance perspective, they should make their concerns known and the discussion giving rise to such concerns should cease.

Market Conditions

3. The Bank highlighted broad financial market themes, including on-going developments in global monetary policy, the continuing digestion of the new US administration's proposed policy reforms, and the extent of spillover from these developments to the UK yield curve.

4. There had been some notable developments in short term money markets in the run up to March quarter-end. In the US, the debt ceiling deadline in March had led to a reduction in supply of US Treasury bills. This reduction in collateral was one factor that had been leading to a tightening in US repo rates, and was reportedly leading to some spillovers on to UK and European markets. In Europe, the upcoming French election was perceived to be driving 'safe haven' flows to short dated UK gilts and German bunds. These supply/demand factors were thought to be influencing market preparations in the run up to quarter-end.

5. The Bank also noted an observation from the new daily Sterling Money Markets Data (SMMD) collection. Daily data for unsecured money market activity suggested that there was a steady increase (an estimated 10%) in overnight unsecured deposits in volume over the last 6 months, and asked the committee for thoughts on possible drivers.

6. One member noted that there was currently a large structural short outright position in short dated gilts amongst certain market participants, and limited dealer balance sheet capacity to accommodate this flow. This excess of cash was likely leading to some of the increase in unsecured market activity. Other members noted that the basis between the Japanese Yen and US dollar had narrowed, which was also

leading investors to turn towards UK markets. Other members suggested that the relative attractiveness of positive SONIA rates compared to negative yields being offered in ultra-short dated UK T-bills was also a factor. The reduction in UK DMO T-bill issuance was likely leading to an excess demand for these instruments and in turn suppressing yields.

7. It was also noted that investment funds had been holding relatively more cash collateral in recent periods due to market volatility. The recently implemented Uncleared Margin Requirements (UMR) regulation was also leading fund managers to hold more cash, in light of uncertainty with regards to specific margin requirements in the transition phase. Members generally agreed that there had been little detrimental ex-post market impact from the UMR directive coming into force so far.

Quarter-end conditions in money markets

8. Members highlighted that quarter-ends (and period-ends more broadly) continued to be a significant challenge for participants in the UK money market. Buy-side members noted that they continue to face significant difficulties when placing short dated cash in the market. Other members noted that their respective custodians had been increasingly discouraging larger deposits over period-end dates by imposing more explicit penalties for temporary excess holdings. This was another factor highlighted as influencing greater short dated unsecured money market activity, as per the previous discussion. Some banks also noted that they had to turn new business away around period-end dates given limited balance sheet capacity.

9. Other members concurred that period ends were becoming difficult to prepare for, and the market continues to adjust to the 'new normal' levels of liquidity available around these dates. This was also having a spillover onto cross-currency basis markets. While the impact of existing regulation (such as the leverage ratio) was cited as a continuing driver for these dynamics, members also noted that new regulations such as the Net Stable Funding Ratio (NSFR) could have a further detrimental impact on market pricing and conditions going forward.

10. The Bank asked members if there were specific drivers leading to increasing pressures at period-end dates in recent periods. Members noted that there was increasing 'forensic' focus by firm senior management on period-ends and balance sheet allocations globally. These dynamics were leading banks to gradually pass on the impact of new regulations down to desk level balance sheet allocations. This was cited as a factor for the more visible impact in recent periods.

11. The Bank asked members if there were market initiatives that were being introduced to address period-end challenges. Some members noted that client repo clearing was a promising development, with a few members supporting repo clearing as a means to intermediate excess capacity in the repo market. One clearing house member noted that they continued to discuss the development of this initiative with cash investors and intermediary banks.

12. Other members noted that buy-side to buy-side ('peer-to-peer' (P2P)) trading was gaining some traction as a continuing development in market structure. Some members were sceptical with regards to the sustainability of peer-to-peer trading, noting that buy-side participants would find it challenging to appropriately manage the credit risks associated with this type of trading. This was cited as an impediment to bank disintermediation in this space.

13. One member also suggested that the Bank could consider intervening in markets to alleviate period-end pressures by issuing Bank of England Bills[1]. It was thought that this would help buy-side firms struggling to place cash, and drain excess reserves from the system.

Gilt Market Reference Pricing

14. The DMO updated the committee about upcoming changes to Gilt and T-bill reference price provision. In February 2017, FTSE Russell and Tradeweb announced that they will be in a position to produce a full set of end-of-day reference prices for gilts, strips and Treasury bills from late March 2017. On the basis that this successor pricing arrangement are available from late March 2017 and market participants are sufficiently prepared for the transition, the DMO expects to cease publishing end-of-day and intraday reference prices in July 2017.

15. It was agreed that the Bank will circulate this link to the relevant page on the DMO website to the Committee for more information following the meeting.

Forward Agenda

16. Committee members discussed potential items to be included in the forward agenda for upcoming meetings.

17. As per the previous discussion, the impact of regulation on period-end conditions was highlighted as an important continuing interest for committee members. The Bank noted that this committee is intended to

[1]Bank of England bills were first issued in 2008, to drain excess reserves following the increased size of long-term repo operations. For further information, please see http://www.bankofengland.co.uk/publications/Pages/speeches/2015/830.aspx

understand and monitor these issues from a market functioning rather than a necessarily regulatory perspective. The Bank is however able to pass on relevant feedback to teams working on respective regulatory policies when required.

18. P2P trading was also flagged as an issue of interest. Some members concurred that there were a number of constraints for some buy-side participants to engage in this type of activity – either in repo or securities lending markets. These included expertise, trading infrastructures, credit intermediation and ratings considerations. One member noted that that P2P activity amongst local authorities was thought to be growing rapidly.

19. Members noted an interest in exploring the implications of pledge structures. The move in securities lending markets towards these structures was gaining momentum. The International Securities Lending Association (ISLA) was thought to be leading some of the industry debate in this space. The Bank noted that this could be included as an item on the agenda for the Securities Lending Sub-Committee, who could report back to the Money Markets Committee (MMC) in due course.

20. Ring-fencing was also cited as another focus for members. There continues to be a dialogue with regards to where cash and collateral management will be placed post the implementation of this regulation, and it will likely have a significant market impact. Members also noted that the Securities Financing Transactions Regulation (SFTR) was of interest. This was due to be implemented in mid-2018, and will likely have an impact on securities financing markets more broadly.

21. Given the focus on some of these new regulatory initiatives it was suggested that there should be the opportunity for regular discussion of them, particularly during the period of their implementation. The Bank recognised the merit in discussion of various regulations during this period.

22. The Bank also suggested two annual standing items to be included: i) insights from the sterling money market data (SMMD), and ii) the Sterling Money Framework (SMF), to potentially tie in with the SMF annual reporting cycle. The Committee agreed with these proposals.

UK Money Markets Code

23. The Bank provided an update on progress from the UK Money Markets Code Sub-Committee. The final draft of the Code and Explanatory Note & Frequently Asked Questions (FAQs) was circulated to the committee ahead of the meeting, and the Bank asked members if they were content with these final drafts. One member queried a specific issue regarding the wording with regards to the coverage of the new Code,

and it was agreed that appropriate wording would be agreed bilaterally between the Bank and the member's institution over the next week. The committee would be notified of any changes in the drafts, and the final draft would be agreed by written procedure.

24. The Committee agreed to officially endorse the UK Money Markets Code. The Bank informed the committee that the Code would be published on 26 April 2017. It was noted that the ambition is for the Code to be embedded widely by the beginning of 2018.

25. One member asked about the process proposed for embedding code in the market. While it was noted that the Code sub-committee had agreed not to pursue a formal register of firm adherence, it was agreed that the sub-committee would report back to the MMC in due course on the level of market-wide adoption and appropriate next steps.

Securities Lending Committee

26. Nina Moylett notified the committee that she had accepted the Bank of England's invitation to chair this new sub-committee of the MMC. This sub-committee was intended to cover issues concerning the UK securities lending market, including regulatory, trading, settlement, infrastructure and other developments that are relevant to the market. Similar to the high-level purpose of the MMC, the objective is to aid the understanding and enhance monitoring of the functioning of this market, especially in light of structural changes.

27. It was noted that the first meeting of the committee was planned for 18 May, and the committee was expected to meet on a bi-annual basis. The Bank noted that the secretariat would be circulating the minutes of each meeting to the MMC, and they will subsequently be published on the Bank's website as per the Terms of Reference for this new committee.