



Minutes

Money Markets Committee

14th December 2018

Location: Bank of England, 20 Moorgate

Attendees:

Aberdeen Standard Investments Gordon Lawson
Association of Corporate Treasurers Michelle Price
BAML Cameron Dunn
Barclays Michael Manna
Blackrock James Templeman
Credit Suisse Romain Dumas
DMO (Observer) Jessica Pulay
Euroclear John Trundle
FCA (Observer) Toby Williams*
HSBC James Murphy
J.P. Morgan Ben Challice
LCH Paul Elkins
Lloyds Ian Fox
Mizuho Robert Thurlow
Nationwide Stephen Temple
Prudential Nina Moylett
RBS Donal Quaid
Santander UK Alan Williams*
Soc Gen Romain Sinclair
Tesco PLC Lynda Heywood
The IA Ross Barrett

Bank of England: Andrew Hauser (Chair), Rhys Phillips (Head of Sterling Markets Division), Rebecca Maher (Secretariat), Catherine Taylor (Secretariat), Rafael Kinston (Item 3), Tom Jennings (Item 5), Imane Bakkar (Item 6), Alastair Hughes (Head of Risk Free Rates Division) (Item 6), Iain Ramsay (Item 7)

Apologies: **Aviva Investors** Mick Chadwick
Goldman Sachs Matthew McDermott
GLA Luke Webster
Insight Investment Chris Brown
TPICAP Andrew Berry

*Alternate agreed via the MMC Secretariat

**Minute
no.****Minute****1. Bank of England introductory remarks**

The Chair noted that Peter Bole (Virgin Money) had stepped down from the Committee and thanked Peter for his contribution to the MMC.

The Chair confirmed that the minutes from the September meeting had been published on the Bank's website¹.

2. Discussion on market conditions

The Bank provided an update on market conditions and relevant financial market developments since the MMC's last meeting.

The process of the UK leaving the European Union had continued to create uncertainty in financial markets. Volatility in sterling currency markets had been elevated, and there had been sizeable but on the whole relatively short lived moves in gilt yields. Monetary policy expectations remained contingent on Brexit developments: overnight index swaps implied 1.6 Bank Rate rises over the next three years.

Despite this uncertainty, money markets had typically continued to function well. Unsecured and secured rates continued to trade in relatively narrow ranges, albeit with some steepening in repo-OIS spreads. Market intelligence suggested mixed expectations for repo market functioning at year-end, and a range of views had been heard on the relative availability of balance sheet compared to end-2017. Over the past month, the spread between Libor and OIS rates had widened, with several commentators pointing to US dollar commercial paper issuance by banks as one factor pushing up on Libor rates. The implied dollar funding rate over the year-end via FX swaps had fallen to 9% vs a high of 15% in mid-November, and the 3-month cross currency basis swap had narrowed 10bps in the week running up to the MMC meeting, reversing the turn effect seen at end-September. Bank funding conditions had also tightened across debt markets: UK bank HoldCo spreads had accelerated higher, diverging from European peers over the past month. AT1 spreads and CDS for some UK banks had also widened. This tightening in conditions was understood to be driven by a range of factors including the ongoing political uncertainty.

Sovereign bond yields had fallen globally over the past few months, alongside the falls in equity prices. In the euro-area, sentiment remained subdued. While market participants' concerns around Italy's fiscal position had seemingly abated somewhat, mixed data releases paired with slowing global growth pointed to falling inflationary pressures in the euro- area.

Turning to discussion from members, there was agreement that funding conditions had tightened for banks, and particularly UK-focussed institutions. To some extent that had been anticipated: most banks were thought to have pre-funded upcoming maturities in order to mitigate exposure to uncertainty in the first half of 2019. But some members noted the potential for a prolonged period of spread widening to present a headwind to profitability, and a potential challenge for those firms with the most significant wholesale issuance plans. There was some discussion on expected market conditions over year end, where some felt that banks' relatively strong funding meant there should be better balance sheet capacity later in the year relative to previous years. However some members noted year end pressures could still materialise. For example, some corporates would need to place higher-than-usual cash balances which they were holding as a hedge against increased Brexit risk.

There was some discussion regarding European money market reform, which came into force on 21 July 2018 for new funds, and will come into force on 21 January 2019 for existing funds. In principle, the changes to liquidity requirements could potentially lead to an increase in demand for short dated investments. Overall, however, market participants did not expect the transitions to cause any market disruption, as discussed at previous MMC meetings.

Overall, members felt that market conditions were particularly quiet even for December; there

¹ MMC Minutes available on the Bank's website [here](#).

was a sense that the recent equity sell-off, coming on top of already heightened uncertainty, had discouraged market participants from adding new risk.

3. **Future Sterling Monetary Framework**

The Bank provided an update on its work on the future of the Sterling Monetary Framework (SMF), building on the discussion at the September meeting.

Bank staff noted that since the Bank's August 2018 discussion paper² had been published they had been speaking with a range of market participants to discuss their views of the key questions posed, including the factors that might impact SMF members' future demand for reserves. As part of this work, Bank staff were also considering how money markets might develop as and when the Bank's balance sheet reduced, including the implications for interbank markets.

Members praised the Bank's discussion paper as an effective way to kick off the debate on how the framework might evolve. It was agreed that the future design of the SMF would be a significant influence on how interbank markets operated. It was also noted that various aspects of post-crisis bank regulation – including Basel 3 and the UK's implementation of structural reform – would have an effect on the market's demand for reserves. Members discussed the impact such developments might have on the unsecured overnight market.

The Chair confirmed that the Bank would feed back on the results of the consultation to the committee in due course.

4. **Forward agenda**

Discussion turned to potential topics to be included in the committee's forward agenda for 2019. Suggestions put forward by members included:

- The evolving structure of the SONIA market – perhaps co-ordinated with the Bank's periodic review of the SONIA benchmark methodology;
- The outlook for RONIA;
- Feedback on the impact of recent EU money market fund regulation, and whether it had changed behaviour in the money markets;
- Intraday liquidity;
- The effect of the Securities Financing Transaction and Central Securities Depositories Regulations on trading behaviour;
- The impact of the timing of reporting periods on bank and money market behaviour; and
- The impact of the introduction of new technologies such as Artificial Intelligence tools on market behaviour and cyber security.

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

The Chair of the UK Money Markets Code sub-committee provided an update on the development of the Money Market Code, including a report from the Sub-committee's October meeting:

- The Bank, in its role as MMC Chair, had applied on behalf of the Committee to the FCA for recognition of the UK Money Market Code. The next stage of the process (now that the FCA were minded to recognise the Code) would be a public consultation period of ~2 months. The consultation period began on 7 December 2018 and would close on 6 February 2019. The Chair encouraged MMC members to engage with this

² Discussion paper can be found [here](#)

consultation.³

- The public register of Statements of Commitment and Statements of Support had been launched in September, at the time with around 100 institutions' statements published. There were now 177 institutions to be listed, with the number rising steadily.
- The role of the Sub-Committee and its members was discussed, specifically in the case of any potential instances of non-adherence to the Code by a money market participant who had signed the Statement of Commitment be reported. Neither the Code nor the MMC (or its Sub-Committees) had any statutory power. It was nevertheless important that signatories built appropriate responses into their counterparty management frameworks. It was further agreed that the Sub-Committee could usefully discuss examples of anonymised breaches in order to build understanding, and if necessary escalate to the MMC. The Chair suggested that the MMC should return to this topic at a future meeting once the Sub-Committee had done its own review.
- It was agreed that after discussion with the MMC, there would be a full review of the Code in the second half of 2019. This would then be presented to the MMC in 2020, in line with the published intention to update the Code every three years.

The Bank provided the results from the UK Money Markets Code annual survey:

- The survey had run from mid-September to mid-October, and was distributed to SMF participants, MMC and Sub-committee members, and relevant Trade Associations.
- There were 49 respondents in total, including banks and building societies, asset managers and a brokerage firm.
- The vast majority of respondents had signed the statement of commitment to the Code, or were planning to in the future.
- The responses showed that decisions to implement the Code had typically been taken at the Board/Senior level, and in many instances proactive steps had been taken to raise awareness of the Code through internal communications, provision of training for appropriate staff, and incorporation of the Code into internal compliance codes.
- Respondents' comments overall were very positive regarding the Code, particularly in respect of it providing a good benchmark for institutions to adhere to. Many expressed a desire to see the Code further embedded in the market.
- The UK Money Markets Code Sub-Committee would discuss the results in more detail at its February meeting.

6. Risk free rate transition

The Bank introduced Alastair Hughes as the newly appointed Head of the Risk Free Rate (RFR) team, and provided an update on recent progress in driving RFR adoption:

- There was growing evidence of adoption of SONIA in key markets. In particular, there had been a steady stream of new SONIA bond issuances and some evidence of increased SONIA swap usage.
- ISDA had published preliminary results from its market consultation on new benchmark fallbacks for derivatives contracts referencing IBORs. The consultation found strong support for a compounded in arrears term adjustment and a historic mean credit

³ Consultation can be found [here](#)

spread. The next steps would be outlined by ISDA in due course.

- Barclays' CFO, Tushar Morzaria, had been appointed as the new chair of the market-led Working Group (WG) on Sterling Risk-Free Reference Rates, and as an early priority would be leading work to develop key delivery milestones for 2019.
- The WG had published a summary of responses to its consultation on term SONIA Reference Rates, and would be discussing next steps shortly.
- Awareness of the RFR transition programme was now strong in key parts of the sterling markets, but had yet to reach parts of the buy-side and end-user community. Improved understanding in these sectors was a key priority for 2019. The WG had published a range of materials that could be used for this process, and it would be helpful if MMC members could assist promulgating them. The material would be forwarded to MMC members⁴. MMC members were also encouraged to sign up to a new monthly newsletter being produced by the authorities' RFR team, and would be given an email address to contact the team if they had questions or suggestions.

The Committee discussed the priorities for the next stage of transition. Amongst other points raised, one member noted the importance of ensuring appropriate alignment of accounting standards. The Bank noted work was being done on this by the IASB, and the Bank would circulate a paper from IASB that summarised their progress.

The Chair noted the important role that the MMC could play in helping to monitor and drive RFR transition, including through helping to develop and deepen new transactions linked to the RFR. Future meetings should discuss whether there were further practical steps the Committee as a whole could take as the markets moved towards the 2021 deadline.

7. Update from Securities Lending Committee (SLC)

The Chair of the SLC provided an update from the Committee's meeting in November 2018:

- Documentation prepared by ISLA for securities lending on a pledge basis (ie. a pledge version of the GMSLA) had now been published.
- CSDR remained an ongoing discussion and area of concern to the market, as some sectors' aversion to increased transparency may affect the make-up of the market, though some noted the increased transparency may have benefits, such as encouraging market participants to focus on the ongoing issue of fails in the securities lending market.
- In September the SLC held its 'external presentations meeting' and heard from three firms. One firm focused on the matching of supply and demand of securities for lending, with the aim to improve execution. And two firms used distributed ledger technology with the aim of improving settlement efficiency and simplifying post-trade processes.

8. AOB

The Bank confirmed that the next scheduled meeting of the MMC would take place on 5th March.

⁴ See [Transition to sterling risk-free rates from Libor | Bank of England](#)

Acronyms

AT1	Additional Tier1
BAML	Bank of America Merrill Lynch
CDS	Credit Default Swap
CSDR	Central Securities Depositories Regulation
DMO	Debt Management Office
FCA	Financial Conduct Authority
FX	Foreign exchange
GMSLA	Global Master Securities Lending Agreement
IASB	International Accounting Standards Board
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
LDI	Liability-driven investment
Libor	London Interbank Offered Rate
MMC	Money Markets Committee
OIS	Overnight Index Swap
RBS	Royal Bank of Scotland
RFR	Risk-Free Rate
RONIA	Repo Overnight Index Average
SLC	Securities Lending Committee
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average