BANK OF ENGLAND

Money Markets Committee

Minutes

Money Markets Committee

6 July 2018

Location: Bank of England, Threadneedle Street

Attendees: **ACT:** Michelle Price
Aviva Investors: Mick Chadwick
BAML: Cameron Dunn
Barclays: Michael Manna
Blackrock: James Templeman
DMO (Observer): Jessica Pulay
Euroclear: John Trundle
FCA (Observer): Devid Mazzonetto*
Goldman Sachs: James Whittingham*
HSBC: James Murphy
Insight Investment: Chris Brown
The Investment Association: Ross Barrett
J.P. Morgan: Ben Challice
LCH: Paul Elkins
Lloyds Bank: Ian Fox
Mizuho Bank: Robert Thurlow
Nationwide: Stephen Temple
PruCap: Nina Moylett
RBS: Donal Quaid
Santander: Paul Barnes
Société Generale: Romain Sinclair
Tesco PLC: Lynda Heywood
Virgin Money: Peter Bole

Bank of England: Andrew Hauser (Chair), Nick Butt (Acting Head of Sterling Markets Division), Iain Ramsay (Secretariat), Rebecca Maher (Secretariat), Khushal Thakur (Item 2), Joshua Jones (Item 3), Andrejus Pustelnikovas (Item 5)

Apologies: **Aberdeen Standard Investments:** Gordon Lowson
Credit Suisse: Romain Dumas
TPICAP: Andrew Berry

*Alternate agreed via the MMC Secretariat

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

The Bank's new Executive Director of Markets, Andrew Hauser, introduced himself as the new Committee Chair.

The Chair welcomed two new members of the committee, Stephen Temple (Nationwide) and Ben Challice (J.P. Morgan).

The Chair confirmed that the minutes from the March meeting had been published on the Bank's website[1].

2. Markets Forum 2018 summary

The Bank gave a short overview of discussion and outcomes from its *Markets Forum 2018*, which was held in London on 24 May 2018.

Key topics discussed at the *Forum* included risk-free rate transition, technology as an enabler for financial markets, evolution in sovereign bond markets, and the role of voluntary codes in raising market standards.

There was widespread agreement from Forum attendees that voluntary codes were helpful to markets in complementing regulation and being able to address current specific market issues. Consensus on the contents of codes and commitment to adherence were pre-requisites for their credible application.

These points were echoed by MMC members. It was important for market participants and the authorities to continue stressing the importance of widespread adherence to Codes, across the sell-side, buy-side and end-user communities, at a time when the large amount of regulatory change continued to take up a lot of senior bandwidth.

3. Risk Free Rates transition

The Bank gave an update on progress to date on the risk-free rates transition. Following the successful reform to SONIA, and equivalent exercises in other jurisdictions, the focus of work on interest rate benchmark reform was shifting to achieving an orderly transition away from Libor. This was a vital but complex exercise, of major importance to financial stability, which would require engagement right across the market. Andrew Bailey had made it clear that the authorities were working to a deadline of end-2021 for transition, and the market-led Working Group on Sterling Risk- Free Reference Rates (RFR Working Group) was working through the practical details across a range of products in both cash and derivatives markets.

A key milestone for that group in the coming weeks would be publication of a consultation paper setting out how a term version of SONIA might be constructed. Separately, ISDA would be publishing a consultation in the coming weeks on Libor fallbacks in derivative contracts. Technical sub-groups of the RFR Working Group would be considering conventions for how realised compounded SONIA could be referenced in bond and loan contracts.

A number of participants noted that Libor was clearly going to end, but stressed the importance of finding ways to help (particularly less sophisticated) market participants to tackle the range of technical and coordination issues associated with transition. This would need to involve continued close co-ordination between the authorities and the private sector. The Chair underscored the Bank's commitment to this process, noting the recent commentary from the Financial Policy Committee[2,3]. It was however important that transition proceeded in ways that worked with the grain of markets, not least because it relied upon the effective development of

[1] MMC minutes available on the Bank's website here.
[2] Financial Stability Report, June 2018, pp.57-58
[3] Financial Policy Committee Record, June 2018, pp.16-18

new market structures and instruments. In that regard, it was noted that the Bank's conversations with a range of market participants suggest that the adoption of SONIA on new contracts had increased a little, and the recent issuance by the European Investment Bank of a SONIA-linked floating rate note set an important precedent. Much more work would however be required to secure transition of the bulk of Libor-linked business.

4. Discussion on market conditions

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

The Bank highlighted recent developments in US, European and UK monetary policy. Regarding the latter, the Bank also highlighted the minutes of the Monetary Policy Committee (MPC) meeting ending on 20 June 2018[4], at which the MPC had both reviewed its guidance on the level of Bank Rate at which the MPC would consider whether to start to reduce the stock of purchased assets, and had been briefed on potential operational changes to the Sterling Monetary Framework (SMF) that could come into effect as the stock of purchased assets was reduced. Looking back over a somewhat longer horizon, the Bank noted spillovers from US markets to sterling money markets, particularly evident in the sterling Libor-OIS spread and activity underlying that, for example, relating to the issuance of commercial paper.

Members agreed with the Bank's assessment that the June 2018 quarter-end in sterling money markets had been orderly on the whole. However, they cautioned against over-interpreting this outcome, noting that additional balance sheet factors fell on other quarters which were also firms' year-ends.

5. Forward Agenda: Intraday Liquidity

One member gave a presentation to the Committee regarding intraday liquidity, and the future scope to exchange intraday liquidity between banks. The presentation included estimates of excess liquidity resulting from increases in central bank balance sheets since the financial crisis, regulations pertaining to intraday liquidity, and current sources of intraday liquidity. Possible mechanisms for exchanging intraday liquidity between banks were discussed, including one based on same-day FX transactions effectively borrowing intraday liquidity in one currency versus another.

Committee members felt that central banks' balance sheet would remain sizeable for some time, which could mean a level of excess liquidity remaining in the system in coming years, reducing the demand for intraday liquidity.

Committee members also discussed existing sources of intraday liquidity, and where the option to exchange intraday liquidity would feature in the 'waterfall' of potential options. Relevant factors in determining this were deemed to be the likely depth, liquidity and effectiveness of any market for intraday liquidity, as well as the regulatory treatment of such a source of intraday liquidity. Members noted that institutional differences between banks would change the timing and likelihood of this being a priority for further work by individual firms in coming years.

6. Update from *Securities Lending Committee (SLC)*

The SLC Chair provided an update from the Committee's May meeting.

The SLC had received an update on ISLA's progress with market standard documentation for pledge structures. Work was progressing on outstanding issues including the nature of legal charge against pledged collateral, tax and jurisdictional enforceability.

The SLC had discussed the legal implications of pledge structures including potential differences in default timelines and suitability for some third party creditors. The SLC had discussed the extent to which pledge structures were truly able to achieve lower risk for one side of the transaction without increasing risk for the other, and had reached a broad agreement that pledge structures generated similar economic outcomes but with a different risk

[4] Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 June 2018

profile to title transfer. As a result, pledge was considered likely to appeal to a subset of the most sophisticated lenders. The SLC would keep a watching brief on pledge structures.

The SLC had discussed market developments in securities lending. The supply of lendable securities was considered to currently be strong, helped by intense competition amongst asset managers. Utilisation rates might not however have fully kept pace with this increased willingness to lend.

The SLC had also discussed regulation. Securities Financing Transaction Regulation (SFTR) was sensed to be getting more attention following MiFID II implementation. SLC members had discussed the technological spend required, the difficulties in sharing costs between in/out of scope clients, and the likely utility of the newly available data. The SLC had agreed to discuss the business model implications of SFTR and trading implications of CSDR at future meetings.

7. Update from *UK Money Markets Code Sub-Committee*

Michelle Price provided an update from the May 2018 meeting of the UK Money Markets Code Sub-Committee, in the absence of the Chair of the Sub-Committee.

Proposed additions to the UK Money Markets Code Explanatory Notes had been signed off at the March MMC meeting. A new version of the Explanatory Notes was subsequently published on the Bank's website on 1 May 2018[5].

The Sub-Committee had discussed at its May meeting a refresh of its terms of reference, given that the Sub-Committee had fulfilled its original objective of drafting a new voluntary combined code of good practice to replace the NIPS Code, Securities Lending Code, and Gilt Repo Code. The refreshed Sub-Committee objectives will be agreed at the next MMC meeting in September, ahead of the UK Code Sub-Committee's October meeting.

The Bank of England has been developing a webpage to host a public register of statements of commitment to the Code, which should be prepared to 'go live' in the autumn.

The MMC Chair underlined to MMC members the importance of the Committee, as owners of the UK Money Markets Code, leading the market in publically demonstrating endorsement of and adherence to the Code. As such, members were encouraged to publish their organisations' statements of commitment on the public register when launched.

8. AOB

The forward agenda discussion on European Money Market Fund Reform would take place at the September meeting.

[5] The UK Money Markets Code Explanatory Notes, May 2018

Acronyms

ACT	Association of Corporate Treasurers
BAML	Bank of America Merrill Lynch
DMO	Debt Management Office
FCA	Financial Conduct Authority
GLA	Greater London Authority
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
MiFID	Markets in Financial Instruments Directive
MMC	Money Markets Committee
MPC	Monetary Policy Committee
RFR	Risk-Free Rate
SFTR	Securities Financing Transaction Regulation
SLC	Securities Lending Committee
SMF	Sterling Monetary Framework