



BANK OF ENGLAND

# Minutes

## Money Markets Committee

6 March 2018

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Location: Bank of England, 20 Moorgate

Attendees: **Aberdeen Standard Investments:** Gordon Lowson

**ACT:** Michelle Price

**BAML:** Cameron Dunn

**Barclays:** Michael Manna

**Blackrock:** James Templeman

**Credit Suisse:** Romain Dumas

**DMO (Observer):** Jo Whelan

**Euroclear:** John Trundle

**FCA (Observer):** Harriet Hunnable\*

**Goldman Sachs:** James Whittingham

**GLA:** Luke Webster

**HSBC:** James Murphy

**Insight:** Chris Brown

**LCH:** Paul Elkins

**Lloyds Bank:** Ian Fox

**Mizuho Bank:** Robert Thurlow

**Nationwide:** Andy Townsend

**PruCap:** Nina Moylett

**RBS:** Donal Quaid

**Santander:** Paul Barnes

**Societe Generale:** Richard Tipper\*

**Tesco PLC:** Alistair Clark\*

**Virgin Money:** John Rowan\*

**Bank of England:** Sarah John (Acting Chair, Head of Sterling Markets Division), Iain Ramsay (Secretary), Rebecca Maher (Secretary), Jon Pyzer, Catherine Taylor, Rob Harris (Item 3)

Apologies: **Aviva Investors:** Mick Chadwick

**The Investment Association:** Ross Barrett

**TPICAP:** Andrew Berry

**Bank of England:** Chris Salmon

\*Alternate agreed via the MMC Secretariat

## 1. Developments in Money Markets since the December MMC meeting

The Chair confirmed that the minutes from the December meeting and the final report of MMC Market Participants Discussion Group on the Wholesale Market response to the Extended RTGS Outage simulated in SIMEX16 had been published on the Bank's website.<sup>1</sup> The Chair announced both Jon Wood and Jennifer Gillespie have stepped down from the Committee and wished to thank them for their valued contributions. James Murphy and Chris Brown were welcomed as new members.

Members noted that increased US T-Bill supply had contributed to higher US Dollar Libor-OIS spreads albeit with limited spillover to sterling Libor-OIS spreads or the functioning of sterling funding markets. Some Committee members suggested market participants with cash to place may look to keep their investments short dated given the outlook for US rates and uncertainty over the longevity of the excess cash balances..

Members agreed that there had been no notable impact so far from the implementation of Uncleared Margin Requirements.

Looking ahead to March quarter-end Committee members expressed mixed views. Whilst implied repo rates would suggest an orderly quarter-end, implied FX forward rates are elevated. But members did not anticipate the same pressure in FX forward markets as at 2017 year-end.

## 2. Forward agenda

There was a consensus amongst the Committee that Structural Reform should be included on the Forward agenda. Members suggested it be discussed in Q3/Q4 given the timeline of implementation amongst institutions and the current uncertainty or lack of clarity around likely impact. However, it will be kept on a watching brief in the meantime; some members suggested that it could lead to reduced opportunity to conduct cleared nettable repo and impacts could potentially be magnified if coinciding with other potential balance sheet pressures, for example around reporting dates.

Members agreed the forward agenda should include European Money Market Fund (MMF) Reform which will take effect in July 2018 for new MMFs and January 2019 for existing MMFs. One consideration raised was the potential for a differentiation in impact amongst corporates, with larger corporates expected to be relatively more comfortable in moving to LVNAV funds.

There will be discussion on the potential creation of an intraday unsecured market for liquidity similar to developments in the FX market which would allow an intraday gross payment versus payment settlement system on a bilateral basis.- Some suggested this topic could be considered in light of the RTGS renewal with a more domestic focus. The secretariat agreed to seek the views of members bilaterally regarding this issue before it is discussed by the Committee.

ECB branch network application could be included on the forward agenda as a potential market impact; one consideration raised by some members was the potential for capital to move to continental Europe.

Gilt repo fails will also be considered as some members felt this was an issue of increasing concern.

As discussed at the December 2017 Committee meeting the Securities Lending Committee will return to the Committee in December 2018 to provide an update on developments in pledge structures in securities lending.

The committee will keep a number of items on a watching brief, at present these include: Payment Services (PSD2)/Open Banking and in particular the potential impact on liquidity management; Securities Financing Transactions Regulation (SFTR) and its possible impact on collateral transfer; US tax reform and cash repatriation and possible broader impact on money markets.

## 3. Update on RFR/Reformed SONIA

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<sup>1</sup> MMC minutes available on the Bank's website [here](#); Final report of MMC Market Participants Discussion Group on the Bank's website [here](#)

The Bank provided a reminder on implementation of reforms to the SONIA benchmark. Friday 20 April 2018 will be the final day for which SONIA will be calculated and published by the WMBA using the current methodology. For the rate pertaining to Monday 23 April, SONIA will be calculated by the Bank using the reformed methodology and published at 9.00am on Tuesday 24 April; no data will be published on Monday 23 April. Calculation of interest for the value date 23 April will need to occur on the 24 April, after the publication of SONIA. And the same approach should be taken for interest calculation from then on.<sup>2</sup>

Members were also asked for expressions of interest to participate in the sub-groups of the Working Group on Sterling Risk-Free Rates. The Bank confirmed that it will provide periodic updates on SONIA reform and Risk-Free Rate transition to the MMC.

#### **4. Update from UK Code sub-committee**

The Chair welcomed Gordon Lawson as the new Chair of the UK Money Markets Code Sub-Committee. The Chair of the Sub-committee provided an update from the committee meeting of 19 January 2018.<sup>3</sup> The Sub-Committee has agreed that the text of the Code should not change in H1 2018 given that many market participants were still in the process of signing up to the Code. However, the Sub-Committee has approved two additions to the *UK Money Markets Code Explanatory Notes* (see Annex 1) and the Committee approved these additions. The Sub-committee intends to conduct a survey on adoption and understanding of the Code in summer.

The Chair confirmed that the Bank is content to host a central register of institutions which have signed a statement of commitment to the UK Money Markets Code. The launch of the micro-site will be confirmed at a later date.

The Committee discussed the FCA's consultation on recognition of industry codes of best practice and were supportive of the Chair at the appropriate time writing to the FCA to ask that the UK Money Markets Code be included on the FCA's list of recognised industry codes.

#### **5. MMC Contingency Call**

Members' attention was brought to the Terms of Reference with respect to arrangements in the event of a crisis of significant market instability.<sup>4</sup> The Bank is currently setting up a contingency call test in order to ensure the proper functioning of the related facilities.

#### **6. AOB**

The Chair brought to the Committee's attention the recent evaluation of the Bank of England's approach to providing sterling liquidity, conducted by the Bank's Independent Evaluation Office, and the Bank's response to the evaluation.<sup>5</sup> The Committee discussed the importance of external communication in ensuring a consistent view of the Bank's facilities.

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<sup>2</sup> See Bank of England [News Release on 16 October 2017](#) and the [SONIA Key features and policies](#) document.

<sup>3</sup> UK Money Markets Code Sub-Committee minutes available on the Bank's website [here](#).

<sup>4</sup> Paragraphs 20-23 of the Money Markets Committee Terms of Reference, available on the Bank's website [here](#).

<sup>5</sup> Available on the Bank's website [here](#).

## **Annex 1: Approved additions to the UK Code *Explanatory Notes***

Approved addition to *Frequently Asked Questions* (Explanatory notes pp.4-8):

**Q** Does the Code apply to transactions which are transacted by non-UK based market participants?

**A** A transaction is only in scope if at least one side of the trade is executed in the UK. So even a non-UK based market participant that transacts with at least one side executed in the UK is a UK Money Market participant and should commit to the principles of the Code in a manner that is commensurate with the size and nature of its UK Money Market activities.

Moreover, the standards set by the UK Money Market Code reflect the very best practice and standards to which all market participants should wish to attain wherever they are based.

Approved addition to *UK Money Markets Code Examples* (Explanatory notes pp.9-11):

### **Applicability — Geographic Scope**

#### **Code does not apply**

A non-UK based subsidiary of a UK headquartered bank transacts a sterling unsecured deposit with another non-UK based bank counterparty. The trade is booked to the UK based legal entity of the UK headquartered bank.

This transaction is not in scope and the Code does not apply as both sides of the trade are transacted outside of the UK.

However, whilst in this case the Code does not apply, participants should aspire to the very best practice and standards as set out in the Code.

#### **Code applies**

A non-UK based asset manager transacts a gilt repo trade from their Swiss office with the repo desk of a non-UK bank in London.

This transaction is in scope as one side of an in-scope trade is transacted in the UK. The location of the asset manager's client and of the headquarters of the asset manager does not affect whether the transaction falls within the scope of the Code.