



# Minutes

## Money Markets Committee

3<sup>rd</sup> September 2018

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Location: RBS, 280 Bishopsgate

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

**ACT:** Michelle Price

**Aviva Investors:** Mick Chadwick

**BAML:** Cameron Dunn

**Barclays:** Michael Manna

**Blackrock:** James Templeman

**Credit Suisse:** Romain Dumas

**DMO (Observer):** Jessica Pulay

**Euroclear:** John Trundle

**FCA (Observer):** Helen Boyd

**HSBC:** James Murphy

**Insight Investment:** Chris Brown

**J.P. Morgan:** Ben Challice

**LCH:** Paul Elkins

**Lloyds Bank:** Peter Left\*

**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), Rhys Phillips (Head of Sterling Markets Division), Jon Pyzer (Senior Adviser, Sterling Markets Division), Iain Ramsay (Secretariat), Rebecca Maher (Secretariat), Catherine Taylor (Secretariat), Imane Bakkar (Item 4), Rafael Kinston (Item 6)

Apologies: **Goldman Sachs:** Matthew McDermott

**Greater London Authority:** Luke Webster

**Investment Association:** Ross Barrett

**Lloyds Bank:** Ian Fox

\*Alternate agreed via the MMC Secretariat

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

The Chair thanked RBS for hosting this meeting and introduced the new Head of Sterling Markets Division at the Bank, Rhys Phillips.

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

**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 Bank noted that the August MPC decision to raise Bank Rate to 0.75% had been largely priced into financial markets in advance. The summer months had seen significant volatility in Italian and Emerging Economy financial markets, but term rates in the core advanced economies had been relatively stable, trading in tight ranges.

Market participants felt that Brexit-related uncertainty might be one potential factor behind the current flatness of the UK gilt yield curve. But perceptions about the timing, sign and impact of any such effect remained highly dispersed, and there were few clear consensus trades in the market. And flat or flattening curves were also evident across other G3 economy curves, reflecting perceptions of medium-term global growth prospects, the ongoing effect of QE programmes, and possible flight-to-quality effects.

More broadly, members agreed that financial market signals were hard to read. A number of events including Emerging Market economy and geopolitical developments appointed to a continuation, or even intensification, of the risk-averse tone that had been evident in several financial markets for some time. At the same time, US equity prices had continued to rise strongly and implied volatilities in many markets remained close to historic lows. That suggested the potential for further adjustments in asset prices if one or more significant downside risks crystallised.

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

The Chair of the UK Money Markets Code Sub-Committee provided an update on developments relating to the Code:

- Sign up to the Code had been proceeding well, with the Bank confirming that to date it had received more than 100 signed statements of commitment.
- A public register of statements of commitment to the Code, hosted on the Bank's website, was expected to go live in September.
- The Bank was in the process of applying on behalf of the Committee for the UK Money Markets Code to be recognised by the FCA<sup>2</sup>.
- As a result of review of its Terms of Reference, the Sub-Committee would be broadening its remit, adding to its existing objectives of reviewing the content of the Code and ensuring continued market-wide awareness, to additionally include the intention to discuss specific market issues that might impact upon the relevance or coverage of the Code in order to ensure it remained relevant and up to date.
- The Sub-Committee would be circulating an annual survey, focusing on understanding the extent of commitment to the Code across market participants.

The MMC Chair welcomed these developments, which underscored the importance attached to adoption and adherence to the Code in the sterling markets. Although signup overall had been very strong, it had become apparent from the latest review that a small number of prominent

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

<sup>2</sup> See [here](#)

organisations still needed to finalise their own internal signoff processes. Given the time that had elapsed since agreement of the Code, members agreed that it was important that these processes were expedited as rapidly as possible. The public register and prospective FCA recognition of the Code would act as a further catalyst to adherence, and the former would identify by omission those who had not yet signed up.

Members discussed how education and awareness of the Code could be further improved, particularly outside of the banking sector. The Chair of the Sub-Committee agreed that the Sub-Committee would consider this at its next meeting.

#### **4. Discussion on Risk Free Rate Working Group initiatives and transition**

The Bank provided a summary of the RFR Working Group meeting of 20 August<sup>3</sup>. In doing so the Bank encouraged MMC members to respond to both the ISDA consultation<sup>4</sup> on LIBOR fallbacks in derivative contracts (consultation closes on 12 October) and the RFR Working Group consultation on term rates<sup>5</sup> (consultation closes 30 September). The Bank mentioned that MMC members who wish to do may send their considerations and views on the criteria by which the credit spread adjustments set out in the ISDA consultation should be assessed to the RFR Secretariat.

The Bank noted the creation of an infrastructure sub-group which would focus on the infrastructure developments required in sterling markets to enable transition.

Members were encouraged by the small but growing number of SONIA-linked sterling issuance by banks and others in recent weeks, alongside a number of SOFR-linked issuance in US markets. This issuance, coupled with the term rate and ISDA consultations, and the reiteration by the FCA's CEO of the target date of end-2021 for LIBOR transition, had pushed the need to plan for transition up the agendas of many market participants. But further education and engagement was required with corporate and other end-users of sterling markets, as well as banks' own client-facing issuance teams in some cases. The Chair welcomed the ongoing engagement of the Committee in this important area, encouraged members to do what they could to aid the increased momentum of recent months. Members agreed that the Committee could usefully consider what more it could do collectively at a future meeting.

#### **5. Forward Agenda: European Money Market Fund Reform**

One member provided an update to the Committee regarding the EU Money Market Fund Reform which would come into effect for existing Money Market Funds (MMFs) in January 2019.

The update set out that the main change as a result of the Reform would be the introduction of a new Low Volatility Net Asset Value (LVNAV) fund type (in addition to the existing Variable Net Asset Value (VNAV) and Constant Net Asset Value (CNAV) fund types). Prime CNAV funds would cease to exist under the Reform, though public debt CNAVs would remain in existence. There will also be new liquidity and investment rules. Market participants awaited a formal legal decision on whether the reverse distribution mechanism in particular was inconsistent with the Reform, so some funds were understood to be developing alternative structures to accommodate all possible eventualities.

One member noted that there was uncertainty about whether corporate holdings of LVNAV funds would qualify as 'cash and cash equivalent' for accounting purposes, an issue that was awaiting clarification with auditors.

It was noted that the Reforms' requirement for shorter-dated investments contrasted with requirements for banks to extend the WAM of their liabilities, a tension that could be particularly evident at period-ends. Data over the past year showed that the Weighted Average Maturities (WAMs) across the largest sterling-denominated funds had decreased by approximately 10 days on average.

<sup>3</sup> RFR Working Group minutes available on the Bank's website [here](#).

<sup>4</sup> [ISDA consultation on Interbank Offered Rate Fallbacks](#)

<sup>5</sup> [Consultation paper on Term SONIA Reference Rates](#)

Overall though members agreed that market-based indicators (such as the expected sterling Libor-OIS spread as implied by forward rate agreements, and sterling FX forward contracts) so far showed few signs of material stress over the coming months to January 2019. And overall there was little sense so far that the material adjustment seen in US markets following similar reforms would be repeated in sterling markets.

The Committee would continue monitoring conditions for any signs of material system-wide effects.

**6. Update on ‘*Discussion Paper on the Bank’s future balance sheet and framework for controlling interest rates*’**

The Bank noted the publication of a Discussion Paper<sup>6</sup> on the future shape of the Bank’s balance sheet, which amongst other things posed a number of questions on the factors affecting the demand for central bank reserves.

The Bank would be reaching out to market participants, central banking peers and academics in the coming months, including most if not all Committee members. It was also seeking written comments on any aspect of the paper. Members noted that the topics raised in the paper were fundamental to the future shape of the sterling money markets, and looked forward to future Committee discussions.

**7. AOB**

The Bank confirmed that the next meeting of the MMC would take place on 14 December.

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<sup>6</sup> *Discussion Paper on the Bank of England’s future balance sheet and framework for controlling interest rates* available on the Bank’s website [here](#)

**Acronyms**

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| ACT   | Association of Corporate Treasurers             |
| BAML  | Bank of America Merrill Lynch                   |
| DMO   | Debt Management Office                          |
| FCA   | Financial Conduct Authority                     |
| ISDA  | International Swaps and Derivatives Association |
| MiFID | Markets in Financial Instruments Directive      |
| MMC   | Money Markets Committee                         |
| MMF   | Money Market Fund                               |
| MPC   | Monetary Policy Committee                       |
| RBS   | Royal Bank of Scotland                          |
| RFR   | Risk-Free Rate                                  |
| SMF   | Sterling Monetary Framework                     |