



BANK OF ENGLAND

Minutes

Money Markets Committee – 4 June 2019

Time: 2:30 – 4:00pm

Location: Aviva Investors, St Helen's, 1 Undershaft, London, EC3P 3DQ

Gordon Lowson	Aberdeen Standard Investments	<i>Dialling in</i>
Michelle Price	Association of Corporate Treasurers	
Mick Chadwick	Aviva Investors	
Cameron Dunn	Bank of America Merrill Lynch	
Michael Manna	Barclays Bank UK	
Luke Pledger	BGC Partners	
Emma Cooper*	Blackrock	
Romain Dumas	Credit Suisse	
John Trundle	Euroclear	
Matthew McDermott	Goldman Sachs	
James Murphy	HSBC	
Chris Brown	Insight Investment	
Olivia Maguire	JP Morgan Asset Management	
Ben Challice	JP Morgan	
Elissa Holme*	LCH	
Peter Left*	Lloyds	
Robert Thurlow	Mizuho	
Nic Erevik	Newcastle Building Society	
Nina Moylett	Prudential	
Donal Quaid	RBS	
Paul Barnes	Santander UK	
Romain Sinclair	Societe Generale	
Ross Barrett	The Investment Association	
Jessica Pulay	DMO (Observer)	
Toby Williams	FCA (Observer)	

Apologies

Stephen Grainger	Aldermore
Lynda Heywood	Tesco plc

Bank of England

Andrew Hauser	Rhys Phillips	Jon Pyzer
Rebecca Maher	Tom Jennings	

*Alternate as agreed with MMC Secretariat

Item 1. Bank of England introductory remarks

The Chair thanked Mick Chadwick (Aviva Investors) for hosting the meeting.

The Chair thanked outgoing Committee members John Trundle (Euroclear) and Paul Elkins (LCH) for their contributions to the Committee.

The Chair welcomed Nic Erevik - Group Treasurer, Newcastle Building Society - to the Committee.

The Chair confirmed that the March Committee minutes had been published on the Bank's website after agreement by written procedure following the last meeting.

Item 2. Discussion on market conditions

Members discussed market conditions and relevant financial market developments since the MMC's last meeting.

The UK's prospective departure from the EU continued to be a key theme. Since the last MMC, the Article 50 deadline had been extended to October 2019. Market based measures of uncertainty had fallen back somewhat at shorter horizons. But a broader sense of uncertainty had persisted following the Prime Minister's resignation; and many market participants felt the likelihood of an early general election had increased.

Notwithstanding domestic developments, the global picture had been somewhat more influential on rates markets since the last MMC meeting, with the US/China trade dispute being singled out by many members as having had a particularly strong influence on the recent rally in gilt yields.

Members of the Committee commented on the mixed macro picture, contrasting the inversion of the US Treasury yield curve and ongoing US/China trade concerns, with low unemployment and steady wage growth both in the UK and USA. With regards to monetary policy expectations, members noted the perceived dovish stance of central banks globally, which had also been having a growing influence on MPC pricing.

Members had a general discussion on recent money market conditions, including on drivers of the increased spread between Bank Rate and volume-weighted overnight gilt repo rates which had been observed earlier in the year. Members of the Committee commented that RONIA was a relatively low-volume benchmark, and hence might naturally be prone to some degree of volatility. A large Asset Purchase Facility gilt maturity and reinvestment in March had also drained a significant amount cash from the market, which might have impacted rates.

Finally, Bank of England market operations were discussed, with a focus on the temporary step-up in frequency of the Indexed Long Term Repo since February. Members of the Committee were broadly in agreement that additional ILTRs provided the market with an important liquidity backstop at a time of heightened uncertainty, and were not in themselves adversely impacting on intermediation. ILTR activity was noted to account for only a small proportion of total central bank reserves; and the tenor of the ILTR (6 months) meant that firms did not view it as a primary source of term funding.

Item 3. Forward agenda item: Impact of Securities Financing Transaction regulation (SFTR) on trading behaviour

A short presentation on the impact of the forthcoming Securities Financing Transaction Regulation (SFTR) was provided by Ben Challice (JP Morgan). It was noted that:

- The European Commission had published the Securities Financing Transactions Regulation in 2016 following the recommendation by the Financial Stability Board (FSB) and European Systemic Risk Board (ESRB) to mitigate risks in shadow banking and increase transparency in securities lending and repo.
- The regulation would require firms to report their SFTs to a trade repository registered by ESMA.
- One key provision of SFTR was that agent lenders were not considered as principals to the trade, meaning that the underlying client would need to be

identified as the counterparty through a Legal Entity Identifier (LEI). It was noted that liquidity issues could arise in the unlikely event that the counterparty did not have an LEI, or if the counterparty was outside the EU and thus didn't have a reporting obligation, it could cause confidentiality concerns about non-EU counterparties trading into the EU going forward.

- Analysis by ISLA and Bloomberg suggested that currently 30% of issuers globally had an LEI. That number would rise over time, but given the timetables involved, unless it accelerated rapidly, if LEI remained a mandatory field, a large percentage of collateral could be deemed ineligible to be used in any securities financing transactions, potentially reducing the volume of business. And trading with some counterparties could be stopped through lack of an LEI.
- The securities lending sector benefitted from its extensive use of both multi-lateral trading facilities, and post-trade service providers, which would be accommodative of SFTR reporting requirements. In contrast, a majority of the repo market traded bilaterally, with little current use of post-trade services. This existing lack of automation could result in additional operational implications to supporting SFTR reporting requirements.

A short discussion followed in which members were broadly in agreement with the content and conclusions of the presentation. In particular, the most significant concern for Committee members was the ineligibility of collateral where the underlying client lacked an LEI. Furthermore, some members noted that the reporting aspects of SFTR would be more onerous for smaller building societies and corporates.

The Committee noted that these challenges were being worked through. Members agreed to discuss SFTR again in Q1 2020, before it went live in April.

Item 4. Update from 29 May Securities Lending Committee (SLC)

The Committee had had an encouraging discussion on diversity and inclusion within the securities lending market, and relevant initiatives in place at individual institutions were outlined. The SLC would also be incorporating diversity and inclusion in its Terms of Reference as part of its regular review. This prompted a broader discussion amongst MMC members on diversity and inclusion more generally in the UK money markets followed. Members noted the progress that had been made in this regard, but agreed that there were further improvements to be made, and highlighted the importance of this. It was agreed to discuss diversity and inclusion as an agenda item at a future meeting, and to add it to the Terms of Reference

Other topics discussed at the May SLC included best execution, and how this should be defined and measured in securities lending markets. The Committee had also discussed settlement fails, which in the gilt repo market were at a relatively low level. SLC members thought that the Central Securities Depositories Regulation (CSDR) would have a positive impact on reducing the number of fails. (CSDR was on the MMC forward agenda).

Item 5. Update from 16 May Code Sub-Committee

At the last meeting, the ACI Financial Markets Association had delivered a short presentation on their online education platform; one aspect of the platform was that it could provide training on industry codes, including the UK Money Markets Code. The presentation had focussed on feedback on the Code, garnered from users of the education platform.

The Sub-Committee had also further discussed buy-side take-up of the Code, primarily to consider what further action could be taken to encourage and promote wider buy-side and corporate sector sign up. Notably, the Committee felt that FCA Recognition of the Code would be a significant catalyst to help encourage sign-up. After FCA Recognition was secured, the Sub-Committee would produce a one page summary document tailored towards the asset management and corporate sectors.

The FCA noted that they were completing their final governance processes with regards to the decision to recognise the Code. All responses to the public consultation had been positive.

The three-year review of the Code – which was part of the process for keeping the code relevant and up to date – had been discussed. The Code Sub-Committee had reached the view that if no substantive changes were required to be made to the Code then it would be sensible to target completion of the review by the three year anniversary of the introduction of the Code, i.e. by April 2020. But the first step in this process should be undertaking work to establish how the market and the wider context in which it operated had changed, and whether any of those changes meant any element of the code had become either outdated or incomplete.

Further to this, it was agreed to bring forward a piece of work by the wider MMC which could provide a key input into a more detailed line by line review of the Code by the sub-committee later this year. With this in mind the MMC agreed to undertake a top-down stock take of high level trends and changes in the UK money markets over the past three years. Volunteers from the Committee would lead this review, with views on particular themes to be tabled at the next MMC. The Secretariat would then produce a document summarising findings and view of the Committee.

The Bank agreed to follow up with an email to members seeking volunteers and suggestions for which themes the review should cover.

Item 6. AOB

The next meeting will take place at M&G Prudential's offices on Tuesday 3 September 3:00-4:30pm.