BANK OF ENGLAND

Money
Markets
Committee

Minutes

Money Markets Committee

5th March 2019

Location: Lloyds Banking Group, 10 Gresham Street

Attendees:

Gordon Lowson **Aberdeen Standard Investments**
Stephen Grainger **Aldermore**
Mick Chadwick **Aviva Investors**
Cameron Dunn **BAML**
Luke Pledger **BGC Capital Partners**
James Templeman **Blackrock**
Romain Dumas **Credit Suisse**
Jo Whelan **DMO (Observer)**
John Trundle **Euroclear**
Helen Boyd **FCA (Observer)**
James Whittingham* **Goldman Sachs**
Chris Brown **Insight Investment**
Olivia Maguire **J.P Morgan Asset Management**
Ian Fox **Lloyds**
Robert Thurlow **Mizuho**
Donal Quaid **NatWest Bank**
Nina Moylett **Prudential**
Alan Williams* **Santander UK**
Romain Sinclair **Société Generale**
Lynda Heywood **Tesco PLC**
Ross Barrett **The Investment Association**

Bank of England: Andrew Hauser (Chair), Rhys Phillips (Head of Sterling Markets Division), Rebecca Maher (Secretariat), Catherine Taylor (Secretariat), Iain Ramsay, Jon Pyzer
Alastair Hughes (Item 3),

Apologies: Michelle Price **Association of Corporate Treasurers**
Michael Manna **Barclays Bank UK**
Matthew McDermott **Goldman Sachs**
Luke Webster **Greater London Authority**
James Murphy **HSBC**
Ben Challice **J.P. Morgan**
Paul Elkins **LCH**
Paul Barnes **Santander UK**

*Alternate agreed via the MMC Secretariat

Minute no.

1. Bank of England introductory remarks

The Chair noted Andrew Berry (TP ICAP) had stepped down from the Committee and thanked Andrew for his contribution to the MMC.

The Chair welcomed Luke Pledger (BGC Capital Partners), Olivia Maguire (JP Morgan Asset Management) and Steve Grainger (Aldermore) onto the Committee.

The Chair confirmed the minutes of the December MMC meeting had been published on the Bank's website[1] following agreement by members.

2. Discussion on market conditions

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

The process of the UK leaving the EU had continued to create uncertainty in financial markets, although political events in the run-up to the meeting had been perceived by the market to have reduced the likelihood of a "no-deal" outcome. Improving market sentiment had led to some upside pressure for both sterling and gilt yields; implied volatility in sterling had also reduced since December.

Alongside this, a number of indicators had suggested risks to global growth had increased: economic data for major economies had surprised to the downside, and expectations of future monetary policy had eased materially.

The market had interpreted the February *Inflation Report* as indicating somewhat looser monetary conditions, although the sterling forward OIS curve remained broadly unchanged from December. Sterling money markets had continued to function well, with secured and unsecured rates trading in tight ranges.

UK bank credit spreads had tightened, both in absolute terms and relative to those of European peers after diverging in December. This tightening was linked to strengthened demand (driven by more accommodative global financial conditions and market perceptions of improved Brexit-related sentiment) coupled with still-limited issuance from UK banks. Of the issuance that had occurred, SONIA continued to be the preferred benchmark: there had now been 14 SONIA-linked issuances so far in 2019.

The Bank had recently announced enhancements to market-wide liquidity facilities via an increase in the frequency of Indexed Long Term Repo (ILTR) operations from monthly to weekly until at least the end of April; and – on the morning of the meeting - the launch of a liquidity facility in euros (LiFE). This new facility was supported by the activation of the existing standing swap line between the Bank and the ECB. The announcements were not reacting to any specific sign of stress in the market, but had instead been designed as precautionary measures to reassure firms that they would be able to access the liquidity they might require during a period of uncertainty.

Members noted that positioning remained light because market participants continued to have a low risk appetite for UK markets given perceived risks related to Brexit. Participants who had no choice but to hold sterling exposure were typically well-hedged against volatility, while those with more flexibility had reduced sterling exposure to some extent. Although the perceived likelihood of a "no-deal" Brexit had fallen, significant uncertainty remained and political event risk was heightened. On the other hand, one member noted that, against the backdrop of a global pickup in search for yield, investor appetite for UK names in debt markets had improved since the end of 2018; something that was apparent in decreasing new issue premia.

Members welcomed the announcement of the Liquidity Facility in Euros as providing a helpful extra backstop against conditions of heightened uncertainty, over and above the significant

[1] MMC minutes available on the Bank's website here.

liquidity buffers being held by UK banks.

3. Risk Free Rate transition

The Bank provided an update on recent progress in driving RFR adoption:

- The first meeting of the Sterling Risk Free Rates Working Group (RFRWG) under the new Chair – Tushar Morzaria - had taken place on 7 February. The meeting had focused on setting priorities for the Working Group for 2019, with an overarching focus on removing barriers to transition.
- Further work was also planned during 2019 on market standards, in areas such as compounding conventions and spread adjustments, to ensure consistency between the cash and derivatives markets.
- January had seen strong SONIA linked bond issuances and there was increasing evidence of increased usage of SONIA swaps.
- The IASB had put out a statement following its Board meeting on the 8 February (IBOR Reform and the Effects on Financial Reporting) stating its intention to amend IFRS Standards to address concerns related to the uncertainties arising from IBOR reform[2].
- The RFR transition team had been working with the PRA and FCA to assess the responses to their 'Dear CEO' letter on transition preparedness.

Members agreed the appointment of the RFRWG's new chair had been positive for the transition, and there was general positivity over the progress already made in sterling markets. There was agreement that basis and time risks of transition could be managed, but concerns remain over the legal aspect of transition. There were also some concerns regarding the need for, and development of, a term rate for SONIA, and the extent to which might be holding back transition in important markets.

4. Update from the UK Code Sub-Committee

The FCA provided an update following the closure of the consultation on recognition of the UK Money Markets Code. Responses had been relatively small in number and were broadly supportive of recognition of the Code. The proposal would go through FCA internal governance in Q2 2019.

The chair of the UK code Sub-Committee provided an update from the February meeting:

- In light of the responses received to the UK Money Markets Code Annual Survey, the Sub-Committee had a discussion regarding encouraging further adoption of the Code across a wider variety of institutions. One suggestion made had been for the Sub-Committee to considered publishing some sort of a summary document on the Code in conjunction with relevant trade associations.
- The Sub-Committee was required to consider possible updates to the Code every three years, and had begun to consider how to run this process. Care would be needed to ensure consistency with other reviews underway, including of the Global Code for FX, but members had agreed to have a preliminary discussions of potential high level areas for change at the next Sub-Committee meeting on 16 May.
- Finally, the Sub-Committee had agreed the forward agenda for the year ahead, covering: education on communication on the Code; the impact of the Code on bank disintermediation; whether period-end behaviour was in line with the standards expected in the Code; CSDR impact and finally RFR and the Code.

Members had a brief discussion on how to increase market participants' adoption of the Code, in particular whether the length of the Code was a problem and whether there was any possibility for simplification. It was agreed encouraging firms to offer training on the Code would be beneficial to increasing adoption.

5. AOB

The Bank confirmed the next scheduled Committee of the MMC would take place on 4 June.

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[2] See here

Acronyms

CSDR	Central securities depositories regulation
ECB	European Central Bank
FCA	Financial Conduct Authority
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
PRA	Prudential Regulation Authority
RFR	Risk Free Rate
SONIA	Sterling Overnight Index Average