



Money Markets Committee

Minutes

3 December 2020

Time: 15:30-17:00
Location: Teleconference

Committee Attendees

Gordon Lawson	Aberdeen Standard
Stephen Grainger	Aldermore
James Winterton	Association of Corporate Treasurers
Mick Chadwick	Aviva Investors
Michael Manna	Barclays Bank UK
Emma Cooper	BlackRock
Ina Budh-Raja	BNY Mellon
Romain Dumas	Credit Suisse
Marije Verhelst	Euroclear
Paul Miles	Euroclear
Inna Shaykevich	Goldman Sachs
Vicky Worsfold	Guildford Borough Council
James Murphy	HSBC
Chris Brown	Insight Investment
Olivia Maguire	J.P. Morgan Asset Management
Ben Challice	J.P. Morgan
Elissa Holme	LCH
Scott Creed	Lloyds (alternate)
Nina Moylett	M&G
Robert Thurlow	Mizuho
Rachel Lane	Natwest
Nic Erevik	Newcastle Building Society
Paul Barnes	Santander UK
Romain Sinclair	Societe Generale
Lynda Heywood	Tesco
John Argent	Tradition
Jessica Pulay	DMO (Observer)
Alan Barnes	FCA (Observer)

Apologies

Peter Left Lloyds

Bank of England

Andrew Hauser (Chair)
Rhys Phillips
Jon Pyzer
Rebecca Jones
Azuolas Alisauskas
Thomas Jennings
Michael Jones



Item 1. Bank of England Introductory remarks and minutes from last meeting

1. The Chair thanked members of the Committee for their time and welcomed Inna Shaykevich, Head of EMEA and Asia Treasury Execution Services Trading at Goldman Sachs, to the Money Markets Committee. The Chair also welcomed Paul Miles from Euroclear and Michael Jones from the Banking and Payments Division of the Bank of England as guest attendees to discuss the item relating to the CREST outage.
2. The Committee had no comments to raise on the minutes from September's meeting which had been posted on the Bank's website.

Item 2. Approval of Update to the UK Money Market Code

3. Gordon Lawson, Chair of the UK Money Markets Code Sub-Committee, gave an overview of the proposed updates to the UK Money Market Code, a process that had been led by market participants and executed through a number of working groups. He reminded the Committee that the purpose of the Code was to establish high-level principles of best practice in UK markets, and sterling money market participants were encouraged to register their commitment to these principles on the Bank's website. Over 200 had so far done so.
4. The Committee unanimously agreed to these updates, agreeing that they were both progressive and relevant, and noting that they helpfully did not necessitate firms to re-register their commitment to the Code. An updated version of the Code would be published in a timely way in the New Year.

Item 3. CREST outage

5. Paul Miles from Euroclear gave an overview of the CREST issues that had occurred on 11 September 2020. Settlement had been disrupted on Friday 11 September and early Monday 14 September, only resuming full functionality on Monday afternoon. The underlying cause had been identified as an issue with third party middleware, for which a permanent fix had since been implemented on 1 November. Both an internal and external independent assessment into the incident were ongoing, and Euroclear would publish a report with the findings of the assessment in February 2021.
6. Euroclear had learned several lessons from the incident, including: the need to facilitate better two-way crisis communication to clients; the need to clarify the market procedures around a Non-Standard CREST Closure (NSCC), as set out in the "White Book"; and the need to undertake less technical testing with a broader range of market participants. Euroclear had set up a Client Resilience Group in order to maintain ongoing communication with the market regarding the procedures. The independent assessments would provide more instruction and guidance on the format of this communication.
7. Michael Jones from the Banking and Payments Division of the Bank of England confirmed that the Bank was also reflecting on the experience, and agreed that the White Book should be updated so that the processes for market participants were clearer.
8. Committee members agreed with the diagnosis, noting that the outage had posed a number of material business challenges. They asked Euroclear to implement the remedial steps with vigour and speed.

Item 4. Market conditions

9. The Bank introduced a discussion on market conditions. It was noted that since the previous MMC meeting in September 2020 market participants' views of the longer term global



economic outlook had improved somewhat due to positive vaccine developments and greater clarity on the outcome of the US election. In the shorter term, however, significant headwinds the outlook remained, including second waves of infections and renewed restrictions being introduced in many countries.

10. Sterling money market conditions had remained relatively benign, characterised by ample liquidity, low rates, a flat yield curve and low volatility. Gilt repo had continued to function well, with a low number of settlement failures; and the use of the Bank's Indexed Long Term Repo (ILTR) facility had fallen below the levels seen prior to Covid-19. Market participants typically expected year-end to pass without significant dysfunction given the levels of liquidity in markets, a continuing expectation of central bank intervention in the event of any severe market stress, and reduced expected balance sheet constraints on banks.
11. Committee members agreed the market was currently very liquid and stable, although there was a tail risk that assets, especially in the equity market, could be re-priced quickly if economies struggled to recover. It was also noted that the proportion of gilts held on the Bank's balance sheet, combined with a pessimistic short-term outlook, had resulted in increased specialness in some repo rates for gilts of tenors below 10 years.
12. There were mixed views on market functioning at year-end. Some Committee members believed that the greater volumes of cash held overnight by money market funds and the decrease to the GBP/USD cross-currency basis would exert a large downwards pressure on rates at year-end. It was noted that some participants were already experiencing difficulties placing funds, whereas others viewed the situation as more benign coming into this year-end than previously, given an expectation that central banks would intervene quickly and decisively if severe funding stress emerged in the market. Either way, there was broad agreement that normal functioning would likely resume in early January.

Item 5. Update from the Securities Lending Committee

13. The Chair of the Securities Lending Committee (SLC) said that conditions in securities lending markets had remained very stable in comparison to the high volatility in March and April. That said, there had been continued pressure on stock lending revenues driven by a lack of acquisitions and other corporate actions.
14. The Securities Financing Transactions Regulation (SFTR), which had now come into effect, had largely been adhered to on the buy side. There remained a small number of participants who were still not able to provide the required reporting but these issues were being dealt with.
15. Detailed discussions were continuing in the SLC to identify how to improve diversity and inclusion within firms that participated in this market. Extensive discussion on the effects of taking appropriate account of ESG factors was also underway in the industry. Some felt it was possible that this might lead to a reduction in liquidity due to avoidance of certain stocks – but this was being addressed through market education.

Item 6. Update on contingency planning regarding settlement day

16. The Committee was given an update on Voluntary Sterling Settlement Postponement and Shortened Settlement hours. The market's preference was for an extended warning, of five business days, prior to a settlement postponement – but it was recognised this might not always prove possible in a live event. The Cross Market Business Continuity Group (CMBCG) would inform the market of any decision to activate a VSSP or a change in settlement hours, with the Bank of England notifying Real Time Gross Settlement (RTGS) users.



BANK OF ENGLAND

Item 7. AOB

17. The Chair confirmed that the next Committee meeting was scheduled for 3rd March and was provisionally expected to be a conference call. Whether it could be held in person would be reviewed at a later date.
18. The Chair also requested that Committee members email their forward agenda items for MMC meetings in 2021 by January.