



**BANK OF ENGLAND**

# News release

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## **Reform of the Bank of England's Operations in the Sterling Money Markets**

The Bank of England has today published a consultative paper on the reform of its operations in the sterling money markets (pdf file 492k).

The paper sets out the Bank's objectives and discusses where improvements to its operational framework could be made, with the aim of ensuring that the Bank's system is at the cutting edge internationally.

The purpose of the Bank's operations in the sterling money markets is to implement the Monetary Policy Committee's (MPC) interest rate decision while meeting the liquidity needs of the banking system as a whole. This will not change. But the Bank is specifying its objectives more fully.

The current operational framework leaves sterling overnight rates considerably more volatile than in other countries. The Bank wants to control overnight market interest rates more closely in order to reduce day-to-day and intra-day volatility and so help, through greater stability of financing costs, to promote broad participation and liquidity in sterling money markets.

The Bank also wants to ensure an efficient, safe and flexible framework for banking system liquidity management; a simple, straightforward and transparent operational framework; and competitive and fair sterling money markets.

The Bank is now seeking views from interested parties on a variety of technical issues to help it determine the details of the operational framework it will employ in future.

Commenting on the review and consultative paper, Paul Tucker - Executive Director, Markets - said,

"We are very grateful for the time many in the market have already committed to this review. We are now publishing our objectives, and are embarking on consulting on a range of issues that will help us to determine the details of the reformed framework we will be moving to."

## **Notes to Editors**

On 14 October 2003 the Governor announced a review of the Bank's operations in the sterling money markets in a speech and accompanying news release.

The Bank currently conducts daily open market operations at a maturity of around two weeks to supply the market with the funds needed by the banking system to meet the requirement for settlement banks to maintain a minimum balance of zero on their accounts at the Bank of England at the end of each day. The May 2002 paper

"The Bank of England's operations in the sterling money markets" provides a full description of the Bank's money market operations.

The Bank is seeking responses to the consultative paper by 11 June.

In the light of comments received and following further consultation if necessary, the Bank will in due course issue a paper setting out the changes it intends to make and will consult, as necessary, on questions of detail and implementation.

Further information on the Bank's open market operations can be found on the Sterling Money Market pages.

## **Key Resources**

Reform of the Bank of England's Operations in the Sterling Money Markets  
Consultative Paper, 7 May 2004

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/smmreform040507.pdf>