



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 second consultative paper on the reform of its operations in the sterling money markets. The paper sets out the Bank's detailed proposals for the new framework.

The Bank is seeking responses by 7 January 2005. In the light of comments received, the Bank will in due course issue a further paper describing the reformed framework and setting out a timetable for implementation.

Notes to Editors

On 22 July 2004 the Bank announced the high-level results of its review of its operations in the sterling money markets, and in particular that the reformed framework will have the following features:

(i) A wide range of banks and building societies may choose a target level of positive balances (voluntary reserves) that they will undertake to hold with the Bank on average over a maintenance period lasting from one scheduled MPC announcement date to another.

(ii) These reserves will be remunerated at the MPC's repo rate (with ceilings on the amount each bank/building society can hold).

(iii) Separately, there will be standing lending and deposit facilities, available on demand to a wide range of banks and building societies. The rates on these standing facilities will be the MPC's repo rate +25 basis points on the final day of the maintenance period, and will be at a wider spread to the repo rate on all other days.

(iv) The Bank will conduct weekly open market operations at a maturity of one week at the MPC's repo rate. As a matter of routine, the Bank will undertake an overnight fine-tuning open market operation on the final day of the maintenance period, also at the MPC's repo rate.

The reasons for the changes to the operational framework, along with the objectives of the review were set out in the first consultative paper, published on 7 May 2004.

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.

Further information is available on the Bank's current open market operations.

Key Resources

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

A second consultative paper by the Bank of England

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<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/smmreform041125.pdf>