



BANK OF ENGLAND

News release

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Interim Reforms to the Bank of England's Operations in the Sterling Money Markets

The Bank of England is today announcing a number of technical changes to its official operations in the sterling money markets. These interim measures are being introduced with the aim of stabilising overnight market interest rates further ahead of the launch of the new fully-reformed framework, as discussed in the second consultative paper on the Bank's reforms published on 25 November 2004.

Following consultation with its counterparties and other market participants, the Bank has decided to make the following changes. From 14 March 2005:

1) The rate on the Bank's overnight (3.30 pm) and late repo (4.20 pm) facilities will be the MPC repo rate plus 25 basis points. The rate on the Bank's overnight (3.30 pm) deposit facility will be the MPC repo rate minus 25 basis points.

2) The rate charged on the Bank's two-week reverse repo operations will be indexed to the MPC repo rate.

Two further changes flow from this decision. At present, the Bank conducts its open market operations not only via repo operations but also via outright purchases of short-dated bills. However, it is not possible to index the rate applying to outright bill purchases, and so from 14 March 2005:

3) The Bank will no longer include outright purchases of Treasury bills and eligible bankers' acceptances in its open market operations.

4) In addition, given their recent declining role, bankers' acceptances will cease to be eligible as collateral in the Bank's open market operations and for intra-day liquidity in the Bank's RTGS payments system.

The Bank will continue to take currently outstanding eligible bankers' acceptances as collateral for a six-month period, up to and including 17 August 2005, to allow existing acceptances to mature. To permit a smooth transition to other forms of finance, any eligible bankers' acceptances issued before 14 March 2005 will also be taken as collateral up to and including 17 August 2005.

Notes to Editors

1. The Bank published a second consultative paper 'Reform of the Bank of England's Operations in the Sterling Money Markets' on 25 November 2004 setting out for consultation its proposed new fully-reformed framework for the Bank's money market operations. The Bank explained then that it was considering interim measures.

2. As outlined in the November consultative paper, indexing repos to the MPC rate will remove a specific source of market rate volatility, known as 'pivoting', that arises currently when repos span the date of a MPC meeting at which the MPC is expected to change its repo rate.

3. A bankers' acceptance is a two-name debt security which is a primary obligation of the accepting bank and a secondary obligation of the firm which borrows money from the bank under the acceptance facility. The role of eligible bankers' acceptances in the Bank's open market operations has declined to an insignificant level. In late 2004, the size of the eligible acceptance market fell below £1 bn compared with £18 bn in 1998.

4. The transitional arrangements for eligible bankers' acceptances are set out in more detail in an addendum published today to the notice on eligible banks and eligible bankers' acceptances issued on 27 August 2003 (pdf file 12k).

5. An amended Operational Notice (pdf file 230k) that will be effective from 14 March 2005, reflecting the changes to the Bank's open market operations, has been published today.

6. These changes are set out in more detail in a Notice issued by the Bank of England today, (pdf file 18k).

Key Resources

Addendum to the Notice on Eligible Banks and Eligible Bankers' Acceptances issued on 27 August 2003
<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/eligbkopnot0003addendum.pdf>

Amended Operational Notice that will be effective from 14 March 2005 Reflecting the changes to the Bank's open market operations
<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/opnotice050211.pdf>

Interim Reforms to the Bank of England's Operations in the Sterling Money Markets - Notice issued by the Bank of England
<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/notice050211.pdf>