



BANK OF ENGLAND

News release

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New Framework will Modernise Sterling Money Markets

The Bank is today confirming that it will launch its new framework for official operations to implement interest rate decisions in the sterling money markets on 18 May.

The new framework will represent a fundamental change in the way interest rate decisions made by the Monetary Policy Committee are channelled into the financial system, and in the framework within which banking system liquidity is managed.

The reforms will modernise the nature of the market operations undertaken between the Bank of England and the banking system. For the first time in its history, the Bank will pay interest on balances held by the banks and building societies participating in the arrangements; banks will hold target balances with the Bank on average over a month rather than having to 'square up' every day; deposit and collateralised lending facilities will be widely available; and the Bank will move from daily to weekly open market operations.

The changes are designed primarily to limit volatility in very short-term market interest rates and to enhance UK banking system liquidity management in the sterling money markets. By reducing volatility, offering more facilities and bringing many more banks into the system, the new framework will create a more efficient and flexible framework for UK banks to manage their day-to-day liquidity – a central part of the financial system.

Commenting on the forthcoming launch of the new framework, Paul Tucker – Executive Director for Markets at the Bank of England – said:

“These reforms to our operations are a major step forward for the sterling money markets. We hope they will put the Bank at the forefront internationally in the implementation of monetary policy decisions and managing liquidity within the financial system.”

Notes to Editors

1 The overall reformed framework for the Bank's operations in the sterling money markets was set out in a paper 'Reform of the Bank of England's Operations in the Sterling Money Markets' published on 4 April 2005 (see link below).

The objectives of the reforms are:

- Overnight market interest rates to be in line with the MPC's repo rate, so that there is a flat money market yield curve, consistent with the official policy rate, out to the next MPC decision date, with very limited day-to-day or intra-day volatility in market interest rates at maturities out to that horizon.
- An efficient, safe and flexible framework for banking system liquidity management – both in competitive money markets and, where appropriate, using central bank money – in routine and stressed or otherwise extraordinary conditions.
- A simple, straightforward and transparent operational framework.
- Competitive and fair sterling money markets.

In pursuit of these objectives, the Bank is introducing a new framework based on a system of voluntary remunerated reserves with a period-average maintenance requirement. In addition, standing borrowing and deposit facilities will be available on demand to a wide range of banks and building societies. The Bank's short term open market operations will move to weekly operations of one-week maturity, with a routine overnight fine-tuning operation on the final day of the maintenance period.

2 In March, the Bank announced that it expected to introduce the new framework on 18 May, subject to the successful completion of a dress rehearsal involving external participants; it also set out the key operational milestones leading up to launch (see link below).

3 Ahead of the launch of the reformed framework, the Bank will finally confirm the launch date and issue a new version of the 'Red Book', the publication in which the Bank's operational framework is described. The Bank's current operational framework is described in the May 2002 paper 'The Bank of England's Operations in the Sterling Money Markets' (see link below).

Key Resources

Reform of the Bank of England's Operations in the Sterling Money Markets, 4 April 2005

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/smmreform050404.pdf>

Market Notice to Participants, 29 March 2006

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/marketreform/060329notice.pdf>

Bank of England's Operations in Sterling Money Markets, May 2002

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/stermm3.pdf>