



BANK OF ENGLAND

News release

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Reforms to the Bank of England's Operations in the Sterling Money Markets: Target Launch Date for the New Framework

The Bank is today announcing that, subject to conducting a successful dress rehearsal, it is aiming to introduce the new reserve-averaging scheme and standing facilities on 18 May 2006. This reflects continued good progress in the Bank's own preparations and those of the prospective reserve scheme members and counterparties.

As announced in December, the Bank will finally decide the launch date following a rehearsal involving external participants in April. The contingency launch date is 15 June.

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.

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

scheduled 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 December, the Bank announced that it expected to introduce the new framework in May or June 2006 and that it would announce the planned date in the spring; it also set out the key milestones leading up to launch.

A contingency launch date has been set for Thursday 15 June should any issues arise that prevent launch on 18 May. As set out in the December timetable paper, the Bank will confirm these dates following the dress rehearsal on 5 and 8 April.

3. The Bank has published today a Market Notice to participants in the new framework setting out the operational arrangements for introducing it.

Key Resources

Market Notice to Participants - 29 March 2006

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

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>

Key Milestones Leading up to Launch

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/markets/money/marketreform/051222timetable.pdf>