BANK OF ENGLAND

# Money Markets Committee

## Minutes

9 January 2020

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| Time: | 10:00 – 11:30am |
| Location: | JP Morgan, Blackfriars, 60 Victoria Embankment, London EC4Y 0JP |

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|---|---|
| James Winterton | Association of Corporate Treasurers |
| Michael Manna | Barclays Bank UK |
| Luke Pledger | BGC Partners |
| Emma Cooper | Blackrock |
| Vicky Worsfold | Guildford Borough Council |
| Ina Budh-Raja | Bank of New York Mellon |
| Romain Dumas | Credit Suisse |
| Matthew McDermott | Goldman Sachs |
| Marije Verthelst | Euroclear |
| James Murphy | HSBC |
| Chris Brown | Insight Investment |
| Olivia Maguire | J.P. Morgan Asset Management |
| Ben Challice | J.P. Morgan |
| Elissa Holme | LCH |
| Peter Left | Lloyds |
| Nic Erevik | Newcastle Building Society |
| Nina Moylett | M&G |
| Donal Quaid | NatWest Bank |
| Paul Barnes | Santander UK |
| Lynda Heywood | Tesco PLC |
| Romain Sinclair | Soc Gen |
| Ross Barrett | The Investment Association |
| Mick Chadwick | Aviva Investors |
| Rob Thurlow | Mizuho |
| Jessica Pulay | DMO (Observer) |
| Nike Trost | FCA (Observer) |

**Bank of England**

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| Andrew Hauser | Rhys Phillips | Jon Pyzer |
| Rebecca Maher | Tom Jennings | Helena Patterson |

BANK OF ENGLAND

**Item 1. Bank of England introductory remarks**

The Chair thanked Olivia Maguire and JP Morgan Asset Management for hosting the meeting.

The Chair welcomed new members to the Committee: 1) Vicky Worsfold, Deputy Chief Finance Officer of Guildford Borough Council; 2) Elissa Holme, Head of Collateral Management and Liquidity and LCH; 3) Ina Budh-Raja, Director, Product and Strategy – Securities Finance at Bank of New York Mellon; 4) Emma Cooper, Head of Repo for the EMEA Region at Blackrock; 5) James Winterton, Associate Director at the Association of Corporate Treasurers; and 6) Marije Verhelst, Director at Euroclear.

The Chair confirmed that the September MMC minutes had been published on the Bank's website after agreement by written procedure following the last meeting.

The Chair drew the Committee's attention to the Bank's statement of 18 December 2019 regarding the misuse of an audio feed of certain of the Bank's press conferences by a third party. He noted that the matter had been referred to the FCA, and that – if they had not already done so – firms should be identifying whether they had been using these services. They should also be assuring themselves whether any such use was consistent both with their statutory responsibilities and with their voluntary undertakings under the UK Money Markets and FX Global Codes.

**Item 2. Report from MMC working groups**

The Chair noted that the Committee had previously agreed to establish three working groups to discuss key thematic developments in sterling money markets over the past three years. Those groups had covered, respectively: market participation and functioning; technology and innovation; and the impacts of regulatory reform. The purpose of forming these groups had been twofold: first, to inform the review of the UK Money Markets Code, which would take place in 2020; and, second, to identify future discussion themes for the MMC's agendas. The groups had met 3-4 times each throughout the autumn and winter, and had included a large number of MMC members, as well as some members of the Code Sub-Committee, and Securities Lending Committee (SLC). The Chair thanked members for their contributions to each discussion group.

Members noted that a key cross-cutting theme across discussion in all of the groups had been the high and growing importance of tackling Diversity & Inclusion (D&I) in the money markets, echoing the regular agenda items on the MMC's own agenda. The Groups suggested that D&I should now be positively encouraged within the Code, that the Code should not promote any gender bias, but should be sufficiently flexible to permit using new methods and ways of working. Rotating membership of the Committee may be one way to promote greater diversity. It was also suggested that the Code should be reviewed through a D&I prism to see if there were other provisions that might inadvertently militate against it. There was broad agreement throughout from members.

The first group covering the evolution in **Market Participation and Functioning** presented their findings. It was noted that, in the three years since the publication of the Code, total market volumes and activity had remained broadly unchanged. Within those totals, however, there had however been a noticeable shift in the composition of volumes in the unsecured overnight market, away from European banks, and towards non-European banks.

It was commented that a number of market participants were not yet well represented as signatories to the Code, including brokers, local authorities and corporates.

Central Counterparty Clearing Houses (CCPs) were playing an increasingly important infrastructural role in the market, but despite this, there was little specific mention of CCPs in the Code. The group therefore recommended that Code was updated to include specific reference to CCPs.

The group also presented findings on market transparency. Members noted the careful balance required between promoting the principles of transparency – which the working group felt was important for the Code to do – and the need to establish appropriate controls over confidentiality and information sharing. Members questioned whether greater focus was required on the former as part of the review. More practically, working group members flagged a desire for the Bank to make more of the Sterling Money Markets Data (SMMD) publicly available.

Working group members felt that feedback on the Code could usefully be sought from a somewhat wider group, including trade bodies and market participants not on the MMC, and those who had been unable to sign up to the Code. The Code should also be promoted to a wider audience.

Finally, several possible future agenda items for the Committee were proposed, including: a reflecting on the market impact of Structural Reform, and a discussion around the market impacts of the Bank's facilities.

**Item 3. Report from MMC working group: Technology and Innovation**

The discussion group which had investigated the impacts of technology and other innovations in the market over the past three year presented their findings. It noted that the proliferation of data being held in proprietary IT systems or in the Cloud was raising increasingly complex questions and challenges about where and how these data were stored and who owned them, including in the context of GDPR. Working group members felt the Code should address the need for firms to have a policy on storing and using market data. This material should not be overly prescriptive – but the Code could emphasise the need for this to be understood and for appropriate policies to be in place.

It was suggested that the Code could also address the need for market participants using algorithmic products to have in place processes to address potential adverse outcomes arising from the use of automated technology. In doing so, it might draw on the extensive thinking on these issues in supervisory and other circles. The use of platforms also raised issues of potential market concentration of the need to ensure contingencies were available in the event of a technology failure.

Technological advances in the dealing room had enhanced the potential for flexible working in the industry. In light of this it was proposed that where technology could assist with D&I objectives, firms should seek to enhance it, subject to ensuring appropriate oversight and control.

**Item 4. Report from MMC working group: Impacts of Regulatory Reform**

The group covering the impacts of regulatory reform over the past three years presented their findings. It noted that Environmental, Social and Governance factors had become increasingly prevalent in fixed income and money markets. It was suggested that the securities lending section of the Code might refer to UN Principles for Responsible Investing, Principles for Sustainable Securities Lending and Sustainable Development Goals.

It was also suggested that the Code could help promote transition away from LIBOR and towards the use of risk-free rates, something that could be helped by including standard calculations and conventions in the Glossary and Explanatory Note.

Market transparency was also highlighted as a key theme. It was noted that recent regulatory developments had been designed to make market data available to provide greater market transparency, however it was felt that more could be done to make greater use of these data.

Members also discussed the impact of regulation on movement of collateral in the financial system, in particular the impacts on market intermediation and liquidity. It was suggested having a further discussion on the impacts of regulatory reform on collateral at a future meeting of the MMC.

The Chair thanked working group members again for their thoughts and input. Many useful topics had been raised. In judging whether and how to include this material in a revised Code, the Committee and the wider membership would need to weigh the merits of broadening the Code, on the one hand, with the challenges that some members had reported in revalidating their compliance with new responsibilities. While there was support for many of the topics raised by the working groups, some members also noted that it was important to ensure that guidance in the Code should remain accessible to a broad range of market participants and should not inadvertently act as a barrier to signing up to the Code. Committee members agreed to reflect on what the Code update might include at the next meeting.

**Item 5. Update from the UK Money Markets Code Sub-Committee**

At its most recent meeting, the Sub-Committee had discussed the three-year review of the Code. It had been agreed that the timing of the review should be aligned with the three-year review of the FX Global Code, insofar as possible, beginning in earnest in 2020 Q1, with small working groups formed to look at each individual Chapter of the Code. Outputs from the three MMC discussion groups would provide one useful input for this process. On the cross-cutting issue of D&I, a session would be organised in early 2020 to look in detail at D&I and the Code. This would be a more informal meeting, and members of the Sub-Committee would bring along a colleague who would meet the diversity goals.

A brief update on the Public Register of Statements of Commitment and Statements of Support to the Code was provided. It was noted that since the Public Register launched just over a year previously, the number of firms that appeared on it had more than doubled. Split by firm type, there were 128 banks, 36 building societies, 14 broker-dealers, 3 CCPs, 17 asset managers, 3 brokers, 1 corporate, 6 local authorities, and 9 Statements of Support from organisations such as trade associations.

In light of these findings, the Sub-Committee had discussed the need to strengthen sign up to the Code amongst the corporate sector. One action agreed at the last meeting was for the Association of Corporate Treasurers (ACT) and Bank to create a short summary document to explain to corporate treasurers succinctly, clearly and effectively why their companies should sign up to the Code. That document had now been finalised, published on the Bank's and ACT's websites, and distributed by the ACT to its members. The effectiveness of these tools would need to be monitored over time.

**Item 6. Discussion on Market Conditions**

A short discussion was held covering recent developments in market conditions since the last meeting.

The discussion began with a review of recent developments in US money markets. It was noted that in mid-September 2019, repo rates in the US had spiked significantly. The spike had been catalysed by a combination of an increased demand to borrow cash, decreased supply and decreased intermediation capacity. Set against the backdrop of quantitative tightening, mid-September reserves had been the lowest for seven years, increasing the sensitivity of short term market rates to the level of reserves in the system. The Federal Reserve had subsequently injected significant amounts of reserves through bill purchases and repo operations. Members of the Committee noted that the action taken by the Fed had been effective in stabilising rates, but the market was waiting for further clarity on what action the Fed may take in the medium to long term, for example whether a permanent Standing Repo facility may be launched, or furthermore how long T-bill purchases may continue for, and in what size. The implications of the spike in repo rates for risk-free rate transition were also discussed.

Members noted that they had seen no spillovers from the US money market dysfunction into sterling markets. Conditions had been orderly and markets had generally been liquid and well-functioning, although some movement in the cross currency basis had been observed. Some members noted that in the UK a broader range of money market participants had direct access to central bank facilities than in the US. That was viewed as one factor supporting sterling market conditions.

Conditions over 2019 year end were also discussed. It was agreed that year end had been orderly both in the UK and globally. In the US, repo rates had traded at only a small premium to the Fed funds rate, with a premium comparable to November's month end, and well below that seen at the time of the 2018 year end. This was largely put down to action taken by the Fed in the preceding weeks. In sterling markets, year-end conditions had also been orderly and comparable to 2018. DBV repo rates had been elevated slightly on 30 and 31 December, as firms responded to regulatory incentives – but this had been largely expected, and followed the trend of previous quarter-ends. The secured RONIA index had seen low volumes around year end and perhaps unsurprisingly the brokered part of the market had seen the highest rates. Moves in the Sterling Repo index rate had been very contained, again indicating that what year end pressures there had been, were a function of cash management rather than any particular collateral stress. Members stressed that market had been well prepared heading into the turn, with most activity in the lead up taking place through mid-end December. It was commented that Money Market Funds tend to prepare for year-end throughout the year. Several members noted that through preparing for the General Election, much of the market had built up large amounts of liquidity. Several noted that in the local authority sector that had been an increase in inter-authority lending, which was largely a function of the recent increase in the Public Works Loan Board (PWLB) rate.

**Item 7. Update from the Securities Lending Committee**

At their last meeting, the Securities Lending Committee had discussed a number of topical issues, namely: recent market trends; D&I; and ESG.

Revenues from Securities Lending activities had reportedly fallen by 15% YoY in H1 2019. A lack of hedge fund activity was said to be a key driver on the equity side, with members observing compressed fixed income spreads. It was noted that post-trade regulatory changes (e.g. SFTR & CSDR) had continued to be a key theme for the sector. On CSDR some members had noted a continued lack of understanding about how it would impact the securities lending industry. On SFTR, members were still awaiting further clarification from ESMA as a number of protocols were still being finalised.

D&I had been a key topic for the SLC and had featured heavily in both 2019 meetings, and it was noted that the SLC would continue to return to this topic regularly.

On ESG, members had discussed the various ways their firms were approaching the issue, with most noting that investors would now look at the ESG criteria of a business and their operations in order to inform investment decision-making. It had been noted that Europe and the UK were global leaders with respect to ESG investing. It was expected that focus on ESG matters would increase in the future as end-users became more focused on responsible investing. A number of key issues had been highlighted by SLC members for their forward agenda, including the importance of accountability and how legislation and regulation had evolved to acknowledge this; how ESG factors were being integrated among asset managers and asset owners; and the difficulties in determining the share of ESG investing as these securities were not classified in a binary way but in a sliding scale.

**Item 8. AOB**

The Chair noted that the next meeting would take place at the Bank on 4 March 2020.

The Chair invited members of the Committee to contact the Secretariat should they wish to host future meetings.