File FEA/0000000099, Part B – Monetary Base Control

Original reference FEA\C\650\1440\02 B

PART 7

15/4/1981 – 30/6/1981

Pages 116-135

Points to Make

1. The Government is committed to £M3 as the basis of the medium term strategy. The Prime Minister agrees with this. (Remember her comments on Walters minute). It would be a mistake to let it be thought that this question was to be re-opened.

2. MBC is therefore virtually ruled out as a means of medium term monetary control. In any case we would not now wish to contemplate, as would some pure monetarists, fixing the growth in the monetary base at a particular figure as the sole means of bringing inflation down, and keeping it down, some time over the next century or so. Policies with this cosmic time dimension are of very limited value.

3. But there is an issue concerning the value of monetary base control as a way of improving short term control. Walters still starts from the assumption that MBC is an obviously superior metho of control. But we are a long way from establishing that. In this connection:

a. we have already agreed with Walters that controlling the base over periods of less than 6 months would be undesirable.

b. There is also agreement that the techniques to be used to control the base would be those we are presently developing.

c. So the base is really being looked at as an alternative monetary aggregate.

d. But work so far suggests that it has some serious drawbacks. It is in many ways inferior to other narrow aggregates such as M1. Only the currency component of the base appears to show any systematic relationship to money incomes or prices, but since this is entirely demand determine it provides no firm evidence of a causal link. It is also currently a good deal higher than Walters would wish. 5% is the figure he mentions compared with a 6 monthly rate of 8% at present.

e. The relationship of the base to interest rates is not well determined and looks to be pretty unstable; in any case

there would be far reaching implications for building societies and mortgage rates.

f. And it is certainly not possible to use MBC on its own as a means of controlling £M3 or any other wide aggregate.

4. This certainly does not rule out taking the base into account amongh the other factors which determine interest rates. We now have a series and shall wish to monitor the base and its components. It might be of particular value this year as other aggregates are distorted by the strike. All this is being discussed currently with the Bank and Mr Walters. But this is not the same as basing policy exclusively on targeting the base

5. The line we took in the Budget was in this sense a step away from MBC. It was a move away from excessive reliance on any one aggregate and an attempt to bring other factors - including a range of monetary aggregates - to bear on the determination of interest rates.

6. The discussions taking place at present (Bank, Walters, Treasury) are an attempt to reconcile these various factors and turn them into operational rules. Best to let them go further without prejudging the issue at this stage.

73/6

... M add Mr Fforde's letter of 10(?) April to Mr Middleton + return to me. ACS 5/6

MINUTES OF A MEETING HELD IN ROOM 82, GROUND FLOOR TREASURY CHAMBERS ON WEDNESDAY 3 JUNE AT 10AM

Those Present	Mr N J Monck	Treasury (Chairman)
	Mr A Turnbull	"
	Mrs J R Lomax	"
	Mr A C Pirie	" (part-time)
	Mr E A J George	Bank of England
	Mr A L Coleby	"
	Mr C A E Goodhart	"
	Mr D Nendick	"
	Mr M D K W Foot	"
	Mr H J Davies	Treasury (Secretary)

MONETARY CONTROL

i) Prudential Requirements

1. Mr Nendick briefly described the second liquidity paper which the Bank hoped to issue shortly. It would be a monitoring paper, setting out the questions without describing the detailed requirements for individual banks. The timetable for agreeing new requirements was not yet settled. It would depend largely on the pace of discussions with the banks (collectively). Mr Monck said that we would need to include a short description of the new system in the summer report to the Prime Minister. The Treasury would want to see the next draft paper in good time so as to be able to propose this, and to have the opportunity of commenting before it was issued to the banks. Subject to Mr Page's views, Mr Nendick agreed to send it later this week. Mr Monck asked also how flexible the various norms would be. Mr Nendick explained that the banks would be able to respond to seasonal and other temporary pressures by changing their levels of liquidity. In the past these pressures have been accommodated by movements in holdings of assets outside the RAR. It was likely that the Bank would agree

/it

..ite wide ranges eg a norm of 10% with an acceptable range from 5-15%. There would, of course, be different requirements for different institutions and different hopes of liquidity.

2. Mr Monck said that the paper for the PM should also include a couple of paragraphs explaining the relationship between the prudential requirements, and the need of monetary control. It would be important to emphasise that prudential decisions should be quite distinct. The Bank agreed to draft this section.

ii) Presentation of Interest Rates

3. Mr Monck thought that although what we say publicly about interest rate changes will depend on what is decided about the factors we shall use to determine the appropriate level we could nonetheless make some progress in developing our response to the difficult questions we would no doubt be asked about the extent of the authorities' involvement. Mr Goodhart saw difficulties. He thought Mr Turnbull's paper should be an integral part of Mr Britton's note on the determination of interest rates. But it was agreed that a paper of this kind, though somewhat shortened, could usefully be put to the Middleton/Fforde group to focus attention on some of the difficult presentational issues we were likely to face. The Bank (Mr George) would draft a piece for the next meeting of the group explaining the way in which they would explain our decision not to announce changes in the band, its width, or the operating instructions under which they operated. This would be incorporated in a revision of Mr Turnbull's note. At a later stage we should also consider what might be said retrospectively, in the Quarterly Bulletin.

iii) Penal Lending Rates

4. Mr Coleby set out briefly the circumstances in which the imposition of penal lending rates might be appropriate. If the market expected interest rates to decline and was unwilling to offer paper at prevailin rates then, on the assumption that the Bank did not wish to validate the expected decline there would be grounds for imposing penal rates for discount window lending. There could be other occasions, however, when genuine uncertainty about cash requirements forced the discount houses to the discount windows - this might occur, for example, when

The market was uncertain about the degree of take-up of a new tap. In these circumstances the best option would be to lend without imposing penal rates. Mr Monck said that we would need a description of the circumstances in which penal and non-penal discount window lending would be appropriate in the latter case especially if it were to be done for longer than one day. The Bank (Mr Coleby) agreed to draft.

iv) Special Deposits

5. Mr George said the Bank were content with Mrs Lomax's paper. They did not see much of a role for Special Deposits, which might well push up interest rates in the same way as open market operations. But they could be left in place, and could perhaps sensibly be used when we could see a short-term increase in liquidity in the banking system which, though temporary, should be neutralised. Mr Goodhart drew attention to the announcement effects of a call for Special Deposits, rather than additional sales of Treasury Bills (which otherwise had similar effects). There was the advantage of issuing a public warning to the banks, but there had been a corresponding tendency to misuse SDs and to overestimate their impact. Mr Monck invited Mrs Lomax to distill the essence of her paper into a short section for the final report.

v) Next Meeting

6. Mr Monck said he would call a further meeting of the group in the week beginning 8 June. A draft agenda had already been circulated (Mr Davies' minute of 2 June). The items on it were confirmed. The MLR paper would be available in time. One further item should be added - the new short gilt. Mr George said that since they did not see a role for it in the immediate future, the full paper on the subject might not be ready for some time. But he would prepare a progress report for the monetary control report. This would be ready for the next meeting.

AT

PP H J DAVIES
3 June 1981

cc Those present
Mr Britton
Mr Grice

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 5627

P E Middleton
Deputy Secretary

ccs Mr Boore
Mr Pickford
and retd
cc Mr Burns
Mr Monck
Mr Britton
Mr Ryrie
Mrs Gilmore
Mr Turnbull
Mr H Davies

11 March 1981

J Fforde Esq
Bank of England
Threadneedle Street
LONDON EC2

Dear John,

As Sir Douglas Wass has told the Deputy Governor we have some comments on the two papers which reached us just before the meeting with the Prime Minister on Friday evening. I understand you are now planning to put these papers out on Thursday and that the Press will cover them on Friday morning. The papers are, of course, to be issued by the Bank and not by "the authorities" jointly. The Treasury is not therefore associated with the wording, but it is important that there should be no conflict or misunderstanding on current or future policy matters which are important for the Government. We can see three points on which there are or could be risks of this kind, though I do not think any of them will be difficult to deal with.

The first concerns the arrangements for underpinning the discount houses in order to ensure that the Bill market is large enough for your operations. The monetary paper does not mention the greater variability of short term interest rates which is one of the main characteristics of the agreed new arrangements. It is important that in your discussions it should be made clear to the discount houses that some increase in variability is expected and that the new arrangements do not give them any guarantees of survival. You may remember that on 6 February, when the Chancellor agreed to consutlations going ahead, he made this point. The record of the meeting includes the following passage:

> " ... the Chancellor indicated that he would wish to present the changes foreshadowed in his 24 November statement as consistent with a subsequent move to MBC, although not necessarily requiring this. He would be content for the Bank to undertake their consultations on this basis; he noted that the proposals for ensuring the effective operation of the discount market would not exclude substantially greater variability of short-term interest rates."

I should like to be sure that you will get the force of this over to the discount houses in your discussions.

Secondly, there is no mention in your papers of the intention to keep very short interest rates within an unpublished band or of the aim of

suspending the practice of having an announced MLR. Both are mentioned in the Budget Speech and also appeared in your background note in November. The divergence looks strange and it would be helpful if you could put it right. At the very least you will need to make it clear to the press that there is no conflict with the policy outlined in the Budget Speech.

Thirdly, there is the question of the proposal in paragraph 11 of your first paper. This is a new thought. As I understand it you will be proposing that call money lent to gilt-edged jobbers and Stock Exchange money brokers will be included within the 5% for eligible liabilities mentioned in paragraph 9 of your paper, but that there will be no special sub-requirement for these institutions. The last point is helpful. I am not too sure about the reasoning behind this. But, as with the discount houses, it is from our point of view important that the new arrangements should not prevent institutional changes from taking place if that seemed desirable either as a result of market forces or as a result of some policy change in our method of selling gilts. Perhaps you could reassure us on this point.

I have one question of a different kind which arises on your liquidity paper. Could you give us a description of the nature of the further paper mentioned in paragraph 9 of this note and of the timetable for bringing discussions of the detailed prudential arrangements to a conclusion. This is a point on which Ministers have expressed concern, because until that is done, as I understand it, the Reserve Asset Ratio will survive as a prudential norm for some or all of the financial institutions.

Finally, perhaps I could take this opportunity of recording that it has been agreed between Eddie George and Nick Monck that the reference to "developments in the economy more generally" in the MLR press notice will not be given any interpretation that goes wider than the factors relevant to short term interest rates mentioned in the Budget Speech. In particular there should be no reference to output or employment.

Yours ever,

Peter

P E MIDDLETON

cc Lomax Burton
Turnbull Monck

10 DOWNING STREET

4 June 1981

Dear Charles

Thank you for your letter of 3 June sending me Mr. Temperton's calculations on the forecasts.

On the whole I think you do yourself an injustice. After all we are thinking of controlling the monetary base over a period longer than six months. And if you compare the forecast increase of £353 million with the actual increase of £328 million, I think the correspondence over the six months period is not all that bad. The equation without the rate of interest forecasts an increase of £706 million over the six months period, and as you would expect, the rate of interest does improve things quite markedly. On the whole I would not expect the level of notes and coin to be forecast all that accurately. After all we are primarily interested anyway in the growth rate of these magnitudes.

Best wishes.

Yours
Alan

C.A.E. Goodhart, Esq.

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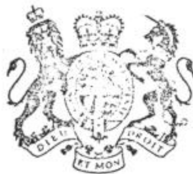

10 DOWNING STREET

Mr Hancock
Mr Monck
Mr Kemp
Mr Lomax
Mr Turnbull
Mr Ridley

CH/EXCHEQUER
REC. - 4 JUN 1981
ACTION Mr Middleton
COPIES TO CST
EST
MST C
MST L
Sir D Wass
Mr Burns
Sir K Couzens
Mr Ryrie

Mr Lankester suggested that we need not send a substantive reply to this.
JW 5/6

THE PRIME MINISTER

Personal Minute

No. M 8/81

CHANCELLOR OF THE EXCHEQUER

MONETARY CONTROL

It is now more than six months since the new measures for monetary control were announced in the November 1980 statement. The last progress report was in January. I understand that, since then, considerable progress has been made; but my impression is that it has not been quite as rapid as you had originally envisaged.

For example, in the first place, it seems that the Reserve Asset Requirement still remains in place. It was envisaged in the progress report that it would be abolished by the Budget.

Secondly, I understand that the Bank still have not been able to abolish the 1½ per cent cash ratio and introduce the new ½ per cent reserve requirement which was announced at the time of the Budget.

Thirdly, it was envisaged in the progress report that the various changes in money market management and in the Bank's role as lender of last resort (including, I thought, the abolition of MLR) could be implemented at Budget time. I understand that progress has been made in that the Bank has

/substantially

substantially reduced its discount window lending and is now operating primarily through open market operations; but the interest rate band apparently still remains to be put into effect, and MLR is still with us.

Fourthly, possible new funding techniques were being studied by a Treasury/Bank committee. I am not clear what has emerged from this work.

I am told that you now envisage making the new measures fully operational by August. I understand that we would then be in a position to move to Monetary Base Control if we so wished. I can only say that I very much hope that the programme does not slip any further. Although I know you have misgivings about a fu move to MBC, I am more than ever convinced - especially after my conversations with Dr. Zijlstra - that we must change over to some such system of quantitative control and sooner rather than later. I believe MBC could be introduced and implemented provided it includes a suitable discretionary element.

I would like to hold a stock-taking seminar before the Recess, and my office will be in touch with yours to arrange this

I am sending a copy of this minute to the Governor.

4 June, 1981

- 147/6.

Mr Middleton

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

A8

4 June 1981

N Monck Esq
H M Treasury
Parliament Street
London SW1P 3AG

pl copy to P.M. and members of Gp - for Wednesday. We need to consider within the Treasury what the arguments are & how strong they are for a quick suspension. eg in terms of Bank's views after working of new system. MM 5 June

Dear Nick,

In your letter of 10 April you ask about the Bank's current thinking on the future of MLR.

As a result of the modifications in our technique of money market management over the last six months or so, MLR is no longer the rate at which we normally lend to the discount market. Our market assistance is provided overwhelmingly through open market operations in the bill market and on the comparatively rare occasions when we now have recourse to discount window lending we generally charge a market-related rate above MLR.

MLR nevertheless remains an important indicator of official views on the general level of rates in the money market and exercises a major influence over the timing of changes in banks' base rates. As such, its suspension can be considered desirable in the context of a move to a flexible band for short-term interest rates. But the precise timing of its suspension must be subject to the particular circumstances encountered, or foreseen; and we can identify two reasons why it might be right, this summer, to retain MLR in the short term.

First, the retention of MLR would permit the authorities to give a clear signal later this summer (if it should be appropriate) that a reduction across-the-board in short-term interest rates was consistent with the Government's monetary objectives and therefore officially encouraged. A signal could, of course, be given through the conduct of our open market operations in support of a change in an undisclosed interest rate band. But at least until we have some experience of operating under the new monetary control arrangements, we cannot without MLR offer the assurance of getting this signal across as precisely, quickly, or credibly as would be desired. In particular, base rates might take some time to respond, especially if we were trying to gain our objective through open market operations at a time when the effects of the Civil Service dispute were unwinding and money market conditions were consequently very difficult.

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The second argument is that, just as we ourselves will need to gain experience in working both with the newly-instituted bands and the new arrangements for operational cash balances and for the discount market, so will market participants be able to adapt faster and with less initial uncertainty if MLR is retained for the time being. Whatever degree of uncertainty (as to the cost of cash) it might be desirable to introduce in time under the new arrangements, it would not seem helpful to make the transition more difficult for market participants than it need be.

The exact weight to be attached to these arguments can only be judged nearer the time; but our current view is that it could well be unwise to abandon MLR at the same time as it is currently proposed to introduce the new arrangements (ie August 20th). We feel it would probably be better to allow MLR to be seen to be manifestly redundant before formally suspending it.

Yours sincerely,

Eddie

MINUTES OF MEETING HELD IN MR MIDDLETON'S ROOM ON 5 JUNE

Present:	Mr Middleton	-	Treasury
	Mr Britton		"
	Mr Monck		"
	Mrs Lomax		"
	Mr Turnbull		"
	Mr Fforde	-	Bank of England
	Mr Coleby		" "
	Mr George		" "
	Mr Goodhart		" "
	Mr Foot		" "

MONETARY CONTROL

Mr Middleton said there would be a seminar on monetary control with the Prime Minister which would take place in July. This would discuss the outcome of the institutional changes and the way policy was to be operated within the new framework. Ministers would need to come to a view on how interest rates should be determined.

2. The meeting them discussed Mr Britton's paper on Setting Short-Term Interest Rates circulated under cover of Mr Middleton's letter to Mr Fforde of 29 May. Mr Fforde felt that monetary policy inevitably entailed a large measure of discretion. It would be difficult to operate taking account of all the factors listed in Mr Britton's para 30, but he felt that that reflected reality. Mr Monck was concerned that taking all factors into account could lead to indeterminancy. It would be difficult to present the new arrangements and secure some depoliticisation of interest rates and little reduction in the bias for delay might be achieved. It was necessary to give primacy to some thing in order to establish a presumption, with other factors being brought in as qualifications. One clear option was to use £M3, which was already the target, as the principal factor in determining interest rates. Mr Walters argued for giving primacy to the narrow aggregates, with his own preference being for the monetary base. He would give little weight to the exchange rate unless it moved to very extreme values.

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3. Mr Middleton said that, in the forthcoming seminar, it would be necessary to recapitulate the discussion on monetary aggregates of January/February. To a large extent the analysis had already been done. One issue which would need to be addressed was whether it would be possible to retain £M3 as a target in the medium term if M1 were being used to set interest rates. Mr Britton felt that the likely inconsistencies between the two could make such a system unworkable.

4. Mr Middleton said Ministers could be presented with a number of options for the determination of interest rates:

(i) A highly discretionary system of the kind outlined in Mr Britton's paper.

(ii) Primacy to £M3.

(iii) Primacy to the narrow aggregates (M1 or the monetary base).

5. There was a discussion of the kind of operating rules which might govern a more mechanistic approach, whether related to £M3 or M1. Mr Britton said such rules would be very difficult to formulate as there was a wide range of estimates for the relevant interest elasticities.

6. It was agreed that there would be a further meeting in two weeks' time. Two further pieces of work were commissioned:

(i) Mr Goodhart would compare the relative contribution of past actuals and forecasts as predicters of future actuals, both for £M3 or M1.

(ii) Mr Britton would prepare a paper on the growth of M1 which would compatible with the target for £M3.

AT

A TURNBULL
5 June 1981

Circulation:
Those present
Mr Davies

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BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

5 June 1981

P E Middleton Esq
H M Treasury
Parliament Street
London SW1P 3AG

Dear Peter

MONETARY CONTROL

I enclose two copies of a paper containing detailed 'draft provisions' following from 'Monetary Control: Next Steps'.

The paper is itself still in draft form. Loose ends arise from uncompleted discussions with some of the banks (and with the regulatory authorities in the Channel Islands and the Isle of Man) and also from a number of 'internal', largely technical, statistical questions. Most of these loose ends, which we hope to get tied up next week, are indicated by means of slanted brackets.

Keeping to the timetable I sent you last week, and in order to get the paper out to the banks for comment on schedule, we would welcome your comments during the course of next week. Perhaps these could mostly be handled by the Monck-George Working Party when it meets next Wednesday.

I am sending a copy of the draft, together with the timetable, to Alan Walters at No.10.

Yours ever

John Fforde.

MONETARY CONTROL - DRAFT PROVISIONS

Introduction

1 On 24 November 1980, the Bank published a Background Note describing a number of improvements to be made to the existing framework of monetary control. On 12 March this year more detailed proposals on a number of the subjects covered in the Background Note were sent to all recognised banks and licensed deposit-takers (LDTs). The Bank has since discussed these proposals with the various associations, as well as with a number of individual institutions, and has reached agreement on the following provisions, which will begin to take effect on a date to be announced.

The cash ratio requirement

2 A substantial part of the Bank's resources and income in recent years has been provided by the average of 1 1/2% of Eligible Liabilities (ELs) maintained by the London clearing banks in non-interest-bearing accounts at the Bank. This sum has also served as a fulcrum for money market management. The Bank's paper in March proposed that this should in future be provided by the volume of operational funds which the London clearing banks would retain at the Bank for clearing purposes, and that the Bank's resources and income should be secured primarily by a uniform requirement on all banks and LDTs to hold non-operational, non-interest-bearing deposits with the Bank. The provisions set out in this section have been designed to provide broadly the same total of non-interest-bearing funds initially as did the previous arrangements with the London clearing banks.

3 This non-operational requirement will be 1/2% of an institution's ELs and will apply to recognised banks and LDTs (and National Girobank) having ELs which average £10 million or more in the latest period over which the requirement is calculated. The level of an institution's non-operational balance will be set twice a year in relation to its average ELs in the previous six months[1].

[1] A requirement due in, say, March would relate to the monthly average of ELs from September to February inclusive.

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4 The Bank accepts that, for institutions not on the present statistical list of banks whose business mainly comprises the provision of fixed rate finance for periods in excess of one year, the cash ratio requirement described above may create transitional problems. The Bank will be prepared to consider individual representations from such institutions for some temporary alleviation of the requirement.

5 ELs are to be redefined to reflect the changes set out in this paper, so that offsets will be allowed in the calculation of ELs in respect of:

(i) funds lent by an institution in the newly defined monetary sector[1] to any other;

(ii) secured money at call placed with money brokers and jobbers in the Stock Exchange;

(iii) clearing balances and Special Deposits held at the Bank.

6 ELs will be calculated in uniform fashion for all reporting institutions[2] except members of the London Discount Market Association (LDMA). Reflecting the particular structure of the balance sheets of LDMA members, their ELs will be calculated as the total of deposits other than from institutions within the Monetary Sector.

7 It would be contrary to the objective of these agreed arrangements for any institution to reduce its ELs deliberately or artificially on reporting dates. The Bank accordingly reserves the right to make a spot check on the level of an institution's ELs on days when it would not normally report. /Should these checks or any other evidence suggest deliberate or systematic avoidance, consideration would need to be given to resetting the cash ratio requirement on a more frequently reported average of ELs (say weekly), despite the increased statistical burden involved./

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(1) See para 16 below.

(2) The present reporting arrangements for finance houses which have observed a 10% reserve asset ratio since 1971 will lapse accordingly.

Special Deposits

8 The Special Deposits scheme remains in place and is to apply to all institutions with ELs - calculated on the basis set out in para 3 above - of £10 million or more[1]. As hitherto, calls will be set as a percentage of ELs. The scheme for Differential Special Deposits[2] [will lapse when.....]

Eligibility

9 As set out in its March paper, the Bank has judged applications by recognised banks wishing their acceptances to become eligible for sale to - or discount at - the Bank according to the following criteria:

(i) does the applicant have and maintain a broadly based and substantial acceptance business in the United Kingdom?

(ii) Does it command the finest rates in the market for ineligible bills?

(iii) In the case of foreign-owned banks, do British banks enjoy reciprocal arrangements in the foreign owners' domestic markets?

[A provisional list of eligible banks is attached.][3]

10 A bank may apply for eligibility at any time. An eligible bank which wishes to renounce its eligibility is free to do so on giving notice to the Bank.

Undertakings by eligible banks

11 From a date to be announced, each eligible bank undertakes to maintain secured money with members of the LDMA and secured call

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(1) Hitherto only banks on the statistical list (other than members of the LDMA) have been subject to Special Deposits.

(2) The scheme was devised and agreed with banks in 1972 but never used It would have permitted the authorities to call, as Special Deposit different proportions of any increase from a specified base in (i) domestic residents' and (ii) overseas residents' sterling deposits. Details can be found in the Bank's Quarterly Bulletin for March 1973.

(3) ie will be attached to the final provisions.

money with money brokers and gilt-edged jobbers[1] - all at market rates appropriate to the nature of the lending - such that:

(i) the total funds so held average /6%/ of that bank's ELs;

(ii) the amount held in the form of secured money with members of the LDMA does not normally fall below /4%/ of ELs on any day.

12 Reflecting the possibility that its liquidity may be subject to considerable seasonal fluctuation, each eligible bank will undertake

(i) to aim to meet the daily average requirement over six or twelve month periods;

and

(ii) to provide monthly returns of its daily figures, which the Bank will use to assess the bank's performance relative to its long-term commitment.

A bank will go below the minimum only in exceptional circumstances and will discuss such action with the Bank when the relevant monthly return is made.

13 The Bank is prepared to review these undertakings, in consultation with eligible banks and the LDMA, when sufficient experience - covering at least a year - has been gained. The Bank is also prepared to discuss particular difficulties, as they arise, with any party to the arrangements.

Prudential considerations

14 The Bank has received the assurances requested in its paper of 12 March, "The liquidity of banks", that those institutions to whom the reserve asset ratio has applied will discuss with the Bank in advance changes in their policies for the management of their liquidity and its composition.

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[1] There are six recognised money-brokers: James Capel & Co, Cazenove & Co, Hoare Govett Ltd, Laurie Milbank & Co, Rowe & Pitman and Sheppards & Chase. Money-brokers are - and will continue to be - limited by the Bank in the amount of secured money at call which they can take. Security may be provided by money-brokers or jobbers in the form of gilt-edged stock, Treasury bills, local authority bills and eligibile bank bills.