HM TREASURY

# Review of the cash ratio deposit scheme:

## consultation on proposed changes

February 2013

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Any queries regarding this publication should be sent to us at: public.enquiries@hm-treasury.gov.uk.

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# Contents

# Executive summary

Under the cash ratio deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank of England ("the Bank"). The Bank invests these deposits and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit takers.

As part of the last review of the CRD scheme (which took place in 2008) the Government made a commitment to conduct a further formal review at the latest in five years' time. As part of the review, the Treasury has already consulted all institutions that are currently "eligible institutions" under the CRD scheme. A total of 22 responses were received.

In summary, the review reached the following conclusions:

- The CRD scheme continues to be a suitable method of funding the Bank's monetary policy and financial stability operations.
- The ratio should be changed to 0.18 per cent from 0.11 per cent (set in 2008).
- The minimum deposits threshold should be raised to £600 million, from £500 million (set in 2003).
- All other parameters should remain unchanged but be kept under review.
- The benchmark rate of interest for which eligible institutions are liable if they do not deposit the appropriate CRD amount, as specified by the Bank in a call notice, should be amended to Bank Rate.
- The Government will continue to monitor the effectiveness of the CRD scheme and will conduct a further formal review at the latest in five years' time.

## Recommendations of the review

This consultation affects eligible institutions throughout the UK. The purpose of publishing this consultation document is to enable any interested parties to make representations about the following recommendations:

- The proposal to increase the CRD from 0.11 per cent to 0.18 per cent;
- The proposal to raise the deposit threshold from £500 million to £600 million; and
- Whether there are any technical aspects of the operation of the scheme that could be improved.

## Consultation and how to respond

This consultation will be published on the Treasury website. Following receipt of responses, we will inform the interested parties of the results and the action that has been decided on, or contact them with further questions that have been raised as a result of this consultation.

Responses are invited by Friday 15 March. This shorter, four week consultation period reflects the fact that Government has already consulted on this issue as part of the review and that the impact of the changes recommended has been assessed as small.

Responses should be sent to:

James Fairburn
Head of Delivery Branch
Debt and Reserves Management Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Email: james.fairburn@hmtreasury.gsi.gov.uk

Reponses may be made public unless confidentiality is specifically requested.

# 1 Introduction

1.1 Under the CRD scheme, institutions place non-interest bearing deposits at the Bank of England. The Bank of England invests these deposits and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit takers.

1.2 The CRD scheme was placed on a statutory footing in the Bank of England Act 1998 (the "Act"), with effect from 1 June 1998. The scheme was reviewed in 2003 and 2008. As part of the CRD scheme review in 2008 the Government made a commitment to conduct a further formal review at the latest in five years' time. This paper sets out the conclusions of that review.

## The review

1.3 The review of the CRD scheme was announced by the Chief Secretary to the Treasury in a written statement to the House of Commons on 18 September 2012.

1.4 The review was led by a steering group, whose members were:

- James Richardson, Director of Fiscal Policy, HM Treasury;
- Lady (Susan) Rice, Non-Executive Director, Bank of England; and
- Warwick Jones, Finance Director, Bank of England.

1.5 As part of the review, the Treasury has already consulted all banks and building societies that are CRD payers under the scheme. A total of 22 responses were received.

## Background

1.6 The CRD scheme has the following main features. Financial institutions potentially liable to make deposits are defined as "eligible institutions" under the Act. These are, broadly:

- UK deposit-taking institutions (banks and building societies) authorised under the Financial Services and Markets Act 2000.[1]
- European institutions not authorised by the Financial Services Authority (FSA) but having permission under the Banking Consolidation Directive to operate a branch in the UK for the purposes of accepting deposits or other repayable funds from the public.

1.7 The size of an eligible institution's cash ratio deposit is calculated by applying two factors:

- the size of its eligible liabilities above a minimum threshold ; and
- a cash ratio, applied above this threshold.

[1] From 1 April 2013, the relevant deposit-taking institutions will be those authorised by the Prudential Regulation Authority and Financial Conduct Authority under the Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012.

# 2 Operation of the cash ratio deposit (CRD) scheme

2.1 The 2013 review found that the CRD scheme resulted in a shortfall of funding for the Bank of England's policy functions over the five-year period 2008-13.

2.2 The total cost of the Bank of England's monetary policy and financial stability functions over the 2008-13 period is expected to be £603 million (of which £132 million is expected to be incurred during the current financial year 2012/13). This is above the £563 million projected in the 2008 review. The difference in costs is attributable to the Bank of England taking on new responsibilities and introducing new facilities to support the financial system during that time. In real terms, the costs charged to the CRD scheme are no higher in 2012/13 than in 2003/04, despite the increase in responsibilities.

- The Banking Act 2009 created a Special Resolution Regime (SRR) to provide a permanent framework for dealing with failing UK banks and building societies and gave the Bank a key role in implementing a resolution using statutory resolution tools. It also introduced to the Bank a new statutory financial stability objective, a statutory oversight role in relation to payment systems and established the Financial Stability Committee.

- As a result of the financial crisis, the Bank has incurred costs in relation to the introduction of new facilities and the associated management of collateral and risk, e.g. the Discount Window Facility and making permanent wider collateral in long-term repos.

- In his Mansion House speech on 15 June 2010, the Chancellor of the Exchequer outlined the Government's plans for reforming the regulatory system, including giving the Bank of England macro-prudential responsibility for oversight of the financial system and the creation of an independent Financial Policy Committee (FPC). That has led to additional costs for the Bank, to build up resources required to support the FPC.

2.3 The CRD scheme is expected to yield a total income of £523 million (of which £92 million in 2012/13), lower than the £575 million forecast. The shortfall in CRD income has resulted in a deficit on the scheme, which the Bank has had to recoup from its capital and reserves, reducing the dividend transferred from the Bank to HM Treasury and the Bank's retained profits.

2.4 Lower-than-expected CRD income has arisen largely because the average investment yield expected to be achieved by the Bank on CRD deposits over the period from March 2008 to February 2013 is 4.25 per cent (including a forecast yield for 2012/13 of 3.8 per cent only), compared to an estimate of 5.0 per cent. This is due to the lower prevailing rate on new gilt investments and the lower Bank Rate.

2.5 In addition, cash ratio deposits have grown less quickly than forecast, from £2,275 million at 2 June 2008[1] to £2,483 million at 1 December 2012, an annualised rate of growth of 1.95 per cent. A rate of growth of 4.5 per cent had been assumed.

[1] This is the date at which the Cash Ratio Deposit (Value Bands and Ratios) Order relating to the 2008 CRD review became effective.

# 3 Projecting future costs and income

3.1 Looking to the future, the review examined whether the current assumptions were still valid, and the implications of this for the parameters of the scheme. The review found that:

- The projected total costs of the Bank of England's monetary policy and financial stability functions will be in the order of £670 million over the five-year period from March 2013 to February 2018. This estimate takes into account:
  - The additional cost of the supervision of central counterparties (CCPs) and securities settlement systems (SSSs) that will become the responsibility of the Bank from April 2013.
  - The Bank of England will achieve efficiency savings from operating a shared corporate services model across the Bank and the Prudential Regulation Authority (PRA), which have been accounted for in projected spending to be met by the cash ratio deposit scheme.
  - The ongoing effect on average salary levels of a two-year pay freeze that was in force from March 2011 to February 2013.
  - Following the adjustments above, the Bank's objective is to limit spending growth to 2 per cent nominal per annum (given constant responsibilities) so that over time there is no increase in the Bank's policy costs in real terms. This extends the approach taken over the past ten years.
- The investment yield achieved on the deposits is affected mainly by gilt yields and is forecast to average 3.2 per cent[1], assuming that investment and accounting policies remain unchanged.
- Growth in eligible liabilities is expected to return to 4.5 per cent per annum growth (in line with long-run nominal GDP) and average 3.3 per cent per annum over the CRD period.
- Scope for additional efficiency savings has also been identified in corporate services areas, which will be implemented during the next five-year period. HM Treasury (HMT) will review efficiency savings identified by the Bank once the PRA shared corporate services model has been established. HMT will consider the implications of identified efficiency savings for the Bank of England's monetary policy and financial stability funding requirements through the CRD scheme.

3.2 Given the assumptions above, and on the basis of the current parameters of a 0.11 per cent ratio, minimum threshold of £500 million and the existing definition of eligible liabilities, the CRD scheme would generate income of £436 million. The review considered the impact of different

[1] The Government does not forecast gilt yields. The assumptions of future yields in this document are based on market expectations as derived from the Gilt yield curve

scenarios for the re-investment yield on maturing investments and growth in eligible liabilities. These scenarios would result in the following additions or deductions to the income forecast:

**Table 3.A: Additions / (deductions) to five-year income forecast from different assumptions (given a minimum threshold of £500m and CRD ratio of 0.11 per cent)**

| £m | | Average annual growth in eligible liabilities (%) | | |
|---|---|---|---|---|
| | | 0.5 | 3.3 | 6.1 |
| Portfolio return (%) | 3.0 | -55 | -34 | -11 |
| | 3.2 | -28 | 0 | +30 |
| | 3.5 | 0 | +34 | +72 |

* Table shows average portfolio returns as a result of +/- 1 percentage point scenarios for re-investment yield on maturing investments.

3.3 Even at higher levels of investment yield and growth in eligible liabilities, income would be insufficient at the current parameters of the scheme to cover estimated costs.

3.4 The review found that if average growth of 3.3 per cent in eligible liabilities over the period were assumed, increasing the ratio to 0.18 per cent whilst increasing the minimum threshold to £600m would result in forecast income from the CRD scheme (£657 million) that was expected to be close to the forecast costs of the Bank's policy functions over the next five years (£670 million). Table 3.B shows the income under alternative scenarios of eligible liabilities growth and the investment yield in the future with a ratio of 0.18 per cent.

**Table 3.B: Additions / (deductions) to five-year income forecast from different assumptions (given a minimum threshold of £600m and CRD ratio of 0.18 per cent)**

| £m | | Average annual growth in eligible liabilities (%) | | |
|---|---|---|---|---|
| | | 0.5 | 3.3 | 6.1 |
| Portfolio return (%) | 2.6 | -127 | -95 | -61 |
| | 3.0 | -45 | 0 | +49 |
| | 3.5 | 38 | +95 | +157 |

3.5 Such an increase would take into account the lower average return on CRDs and lower growth in eligible liabilities that is forecast for the next five years. The additional deposits as a result of the increase in the CRD ratio will be invested at the prevailing gilt yield at the start of the new CRD scheme, at a forecast return of 2.2 per cent.[2] The return on the expanded CRD investment portfolio is forecast to average 3.0 per cent over the next five years. The impact of these changes is set out in Chapter 4 and Annex A. The parameters of the scheme will continue to be kept under review and will be altered as appropriate. A further formal review of the CRD scheme will be undertaken at the latest in five years' time.

[2] The portfolio return scenarios in Table 3.B assume a forecast return on new investments of 1.2 per cent and 3.2 per cent respectively. These are shown for illustrative purposes only, and do not indicate any probability of alternative scenarios materialising.

# 4 The impact on the financial sector

4.1 The 2008 CRD review maintained the minimum threshold for making deposits at £500 million. There were 157 eligible institutions holding cash ratio deposits on 1 June 2008, and in December 2012, this figure was 139.

4.2 The review considered the desirability of changing the minimum threshold and concluded that the minimum threshold should be increased to £600 million to preserve its value in real terms (it was last revised in 2003). It is expected that, as a result, 14 deposit-takers will be removed from the Scheme.

4.3 The level of cash ratio deposits for the majority of institutions is small. In December 2012, 86 per cent of the deposits were made by just 20 institutions, with eight institutions each contributing more than £50 million in CRDs. While the mean deposit was £17.9 million, the median was only £2.4 million. Thus the main incidence of the scheme is on larger banks and building societies. Table 4.A shows the proportions of deposits made by UK-owned and foreign-owned institutions. UK-owned institutions contribute 76 per cent of the deposits made. For reasons of confidentiality under the Act only aggregated information about deposits can be detailed here.

**Table 4.A: Proportions of deposits made by UK and non-UK institutions as at 1 December 2012**

| Group | Deposits (£m) | Deposits as % of total |
|---|---|---|
| **UK** | | |
| **Major British banking groups** | 1,560 | 63 |
| **Building societies** | 269 | 11 |
| **Other UK banks** | 57 | 2 |
| **Non-UK** | | |
| **Branches of EU institutions** | 154 | 6 |
| **Subsidiaries of foreign institutions in the UK** | 331 | 13 |
| **Branches of non-EU institutions** | 112 | 5 |
| **Total** | 2,483 | 100 |

4.4 The combination of the increase in ratio and threshold mean that, in addition to those deposit-takers removed from the Scheme, a further twelve will see the size of their cash ratio deposit fall. For those deposit-takers with eligible liabilities of over £750 million, the size of cash ratio deposits will increase. In aggregate, the one-off increase in the level of CRDs that this group of institutions is required to hold with the Bank of England is an estimated £1,558 million. Institutions will, however, also benefit from the widened range of Bank responsibilities and the new facilities that have been introduced since the previous CRD review. The Bank will continue to manage its costs so as to keep them constant in real terms.

4.5 A draft impact assessment is included at Annex A.

4.6 The review also considered the benchmark rate of interest that eligible institutions are liable for if they do not deposit the appropriate CRD amount as specified by the Bank in a call notice. Currently the benchmark rate of interest per day is determined as follows:

- Taking the average of the rates at which three month deposits in sterling are bid at 11.00 am on the day by the five eligible institutions having in the opinion of the Bank the largest eligible liabilities at the end of the reference period for the relevant call notice.

4.7 The benchmark rate of interest from 3 June onwards shall be Bank Rate, the official rate of interest set by the Bank of England's Monetary Policy Committee. A draft of the Statutory Instrument which would change the benchmark rate is at Annex B.

# 5 Comparison with alternative funding arrangements

5.1 The 2008 review reached the conclusion that the CRD scheme continued to be a suitable method of funding the Bank of England's monetary policy and financial stability operations. The review examined the financing arrangements of several other national central banks. It found that central banks, almost universally, fund their activities from general income including that arising from seigniorage and foreign exchange reserves. In the United Kingdom, the income from both these sources passes to the Government; the profits of the note issue are paid in full from the Bank of England to the Treasury, and the Exchange Equalisation Account belongs to the Government, not the Bank of England. There have not been significant developments in the funding methods of other central banks over the previous five years to warrant a new in-depth international comparison.

5.2 Since the previous CRD review, there have been significant changes to the Bank's structure, made by the Financial Services Act 2012. The Act establishes a macro-prudential authority, the Financial Policy Committee (FPC) within the Bank of England, to monitor and respond to systemic risks. It also transfers responsibility for the regulation of prudentially significant firms to a focused new regulator, the Prudential Regulation Authority (PRA) to be established as a subsidiary of the Bank of England and the regulation of recognised clearing houses and securities settlement systems to the Bank itself.[1] The Bank has announced that it will fund the ongoing supervision of financial market infrastructure from CRD income in line with the practice it has followed in meeting the costs of supervising recognised payment systems under the Banking Act 2009. The PRA will be funded separately from the rest of the Bank, through levies on firms that the PRA will regulate.

5.3 The PRA will be one of two new regulators that will replace the Financial Services Authority (FSA).[2] The legal basis of its funding model will be broadly the same as that of the FSA, in that it will make rules requiring firms to pay fees to fund the regulator. The structure of the levy will be a matter for the regulator, however to date the regulator has generally levied larger amounts on firms that pose a greater risk to its objectives. The 2008 review considered whether a similar 'fee-based approach' would be an appropriate way of funding the monetary policy and financial stability activities of the Bank. However it concluded that the benefits arising from these activities accrue to the whole banking sector, and that it is not possible to apportion the service being received to individual firms. This remains the case irrespective of the changes to the structure of the Bank discussed above, and the Government does not propose to make any changes in this area.

[1] Further information about the changes is available from http://www.hm-treasury.gov.uk/fin_financial_services_bill.htm

[2] The other is the Financial Conduct Authority (FCA), which will supervise all firms to ensure that business across financial services and markets is conducted in a way that advances the interests of all users and participants.

# 6 Consultation and how to respond

6.1 The purpose of publishing this consultation document is to enable any interested parties to make representations on the following issues:

- The proposal to increase the CRD from 0.11 per cent to 0.18 per cent;
- The proposal to raise the deposit threshold from £500 million to £600 million; and
- Whether there are any technical aspects of the operation of the scheme that could be improved.

6.2 The proposed changes will require a change to secondary legislation under the Bank of England Act 1998. Drafts of the necessary statutory instruments are attached as Annex B.

6.3 Responses are invited by Friday 15 March and should be sent to:

James Fairburn
Head of Delivery Branch
Debt and Reserves Management Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Email: james.fairburn@hmtreasury.gsi.gov.uk

6.4 Reponses may be made public unless confidentiality is specifically requested.

# A Consultation stage impact assessment

## Who is likely to be affected?

This measure affects eligible deposit-taking institutions, as defined in Schedule 2 of the Bank of England Act 1998.

## General description of the measure

Under the Bank of England Act 1998, banks and building societies with 'eligible liabilities' (broadly equivalent to sterling deposits) are required to place a certain percentage of the amount above a certain threshold at the Bank of England on a non-interest bearing basis. The income on these deposits is used to fund the Bank's monetary policy and financial stability functions, which benefits the whole banking sector and the public more widely. A review of the scheme in 2008 maintained the threshold at £500 million and set the ratio at 0.11 per cent, and the then Government committed to review the cash ratio deposit scheme by 2013 at the latest.

This review has found that changes in spending, due to new responsibilities taken on by the Bank and changes in income, due to market conditions including low gilt yields and lower than expected growth in eligible liabilities, mean that the scheme has been raising less income than required to finance the Bank of England's monetary policy and financial stability activities.

As set out in the remainder of this consultation document and impact assessment, the review therefore concluded that changes were needed to the parameters of the scheme.

## Policy objective

The cash ratio deposit scheme is intended to finance the Bank of England's monetary policy and financial stability activities. The intended effect of changing the parameters of the scheme is to ensure that the income received by the Bank of England is in line with its forecast expenditure.

The Bank of England will achieve efficiency savings from operating a shared corporate services model across the Bank and the Prudential Regulation Authority (PRA), which have been accounted for in projected spending to be met by the cash ratio deposit scheme.

Scope for additional efficiency savings has also been identified in corporate services areas, which will be implemented during the next five-year period. HMT will review efficiency savings identified by the Bank once the PRA shared corporate services model has been established. HMT will consider the implications of identified efficiency savings for the Bank of England's monetary policy and financial stability funding requirements through the CRD scheme.

## Background to the measure

The review of the CRD scheme was announced by the Chief Secretary to the Treasury in a written statement to the House of Commons on 18 September 2012.

The Treasury informally consulted all the current CRD payers in July 2012. This impact assessment is part of the full, formal consultation document setting out the proposed changes following a review of the scheme led by the Treasury and the Bank.

# Detailed proposal

## Operative date

The new parameters will come into force from 3 June 2013. The Bank of England will issue a call notice to the eligible institutions, specifying the new amounts each will need to deposit with effect from that date.

## Current law

The CRD scheme is governed by section 6 and Schedule 2 of the Bank of England Act 1998, with specific parameters made by secondary legislation under that Act.

Under the current legislation (the Act and the Cash Ratio Deposit (Value Bands and Ratio) Order 2008), eligible institutions must deposit 0.11 per cent of their eligible liabilities (as set by the Cash Ratio Deposits (Eligible Liabilities) Order 1998 and the Cash Ratio Deposits (Eligible Liabilities) (Amendment) Order 2005) over £500 million with the Bank of England.

## Proposed revisions

The changes to the parameters of the CRD scheme will be made by secondary legislation.

The regulations will change the value bands and the ratio applied to them (a ratio of 0 per cent will be applied to eligible liabilities up to £600 million, and a ratio of 0.18 per cent applied to eligible liabilities over £600 million).

## Summary of impacts

| Type of impact | Assessment |
|---|---|
| Exchequer impact (£m) | None |
| Economic impact | The benefits of the Bank's monetary policy and financial stability activities are to the whole banking sector and public more widely. |
| Impact on individuals and households | None |
| Equalities impacts | None |
| Impact on business including civil society organisations | <u>Changes to the value bands and ratio:</u><br><br>The level of cash ratio deposits for the majority of institutions is small. In December 2012, 86 per cent of the deposits were made by just 20 institutions, with eight institutions each contributing more than £50 million in CRDs. While the mean deposit was £17.9 million, the median was only £2.4 million. Thus the main incidence of the scheme is on larger banks and building societies.<br><br>Under the new parameters, some CRD payers (financial institutions) will need to hold higher deposits with the Bank of England. The increased costs as a result of these changes will fall to the larger banks and building societies (those with eligible liabilities of over £750 million) who will need to increase their deposits by a total of £1,558 million in 2013/14 (which will be in addition to £2,480 million of deposits held in 2012/13).<br><br>The income generated on these deposits will be retained by the Bank to fund its monetary policy and financial stability functions, which benefit the whole of the banking sector as well as the wider pubic. This forecast income is therefore used as a proxy measure for the cost - or interest foregone - to the financial institutions. This is calculated over each of the next five years on the basis of the assumptions set out in the remainder of this document. |

| Type of impact | Assessment |
|---|---|
| | Administrative (i.e. operational) costs to affected financial institutions of accommodating such a change are expected to be negligible. There will be no changes to reporting requirements to the Bank of England and hence no systems changes in affected institutions will be required.<br><br>The best estimated cost is £221 million (£208.4 million NPV), within a range of £149-£307 million (£141.1-£288.2 million NPV).<br><br>The best estimate is based on the assumption of an average return on CRDs of 3.0 per cent pa, based on market interest rate expectations, and an average rate of annual growth in eligible liabilities of 3.3 per cent, based on the Bank's forecast growth of M4 excluding intermediate other financial corporations, consistent with the central forecast contained in the Bank of England's November Inflation Report (available at: http://www.bankofengland.co.uk/publications/Pages/inflationreport/ir1204.aspx ). The range of costs is based on lower than expected returns and annual growth (2.6 per cent and 0.5 per cent respectively), and higher than expected returns and annual growth (3.5 per cent and 6.1 per cent respectively. A discount rate of 3.0 per cent is applied for the NPV.<br><br>The increase to the eligible liabilities threshold will remove 14 institutions from the scheme altogether, and will reduce the deposits being held by a further 12. These benefits have been calculated on the same basis as above, with a best estimate of approximately £1.5 million.<br><br><u>Changes to the benchmark rate of interest:</u><br><br>The change to the benchmark interest rate to become Bank Rate will provide greater clarity to eligible institutions regarding the rate to be charged for depositing an inappropriate amount of CRDs. Bank Rate can be higher as well as lower than the previous benchmark interest rate, depending on financial market conditions at a given point in time. |
| Operational impact (£m) | Negligible administrative costs to the Bank to accommodate the change in threshold and ratio. |
| Other impacts | None |

*Source: HM Treasury/Bank of England assessment*

## Note on income projections

The projected CRD income included in this consultation document reflects returns on investments using a ten working-day average of the ten-year forward gilt curve, calculated from the zero-coupon spot yields published by the Bank of England as of 8 February 2013 (http://www.bankofengland.co.uk/statistics/Pages/yieldcurve/default.aspx). It does not reflect any forecasting of gilt returns by HM Treasury.

## Monitoring and evaluation

The CRD scheme will be formally reviewed within five years at the latest.

## Further advice

If you have any questions about this change, please contact James Fairburn (james.fairburn@hmtreasury.gsi.gov.uk).

## Declaration

Danny Alexander MP, Chief Secretary to the Treasury, has read this impact assessment and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.

# B Draft statutory instruments

B.1 The following pages contain the draft statutory instruments for The Cash Ratio Deposits (Value Bands and Ratios) Order 2013 and The Bank of England (Call Notice) (Benchmark Rate of Interest) Order 2013.

DRAFT FOR CONSULTATION

*Draft Order laid before Parliament under section 40(2) of the Bank of England Act 1998 for approval by resolution of each House of Parliament.*

D R A F T   S T A T U T O R Y   I N S T R U M E N T S

# 2013 No.

# BANKS AND BANKING

## The Cash Ratio Deposits (Value Bands and Ratios) Order 2013

| | |
|---|---|
| *Made* - - - - | *** |
| *Coming into force* - - | 3rd June 2013 |

The Treasury, in exercise of the powers conferred by paragraph 5 of Schedule 2 to the Bank of England Act 1998(**a**), make the following Order.

In accordance with section 40(2) of the Bank of England Act 1998, a draft of this Order was laid before Parliament and approved by a resolution of each House of Parliament.

In accordance with paragraphs 10 and 11 of Schedule 2 to that Act, the Treasury have consulted the Bank of England, such persons as appear to them to be representative of persons likely to be materially affected by this Order and such other persons as they think fit, and in making this Order have regard to the financial needs of the Bank of England.

### Citation and commencement

**1.** This Order may be cited as the Cash Ratio Deposits (Value Bands and Ratios) Order 2013 and comes into force on 3rd June 2013.

### Revocation of the 2008 Regulations

**2.** The Cash Ratio Deposits (Value Bands and Ratios) Order 2008(**b**) is revoked.

### Value bands and ratios

**3.** For the purposes of paragraph 4 of Schedule 2 to the Bank of England Act 1998 (cash ratio deposits), the ratio applicable to each value band specified in the first column of the table below is specified, expressed as a percentage, in the second column of the table.

**Value bands and ratios**

| *Value band* | *Ratio* |
|---|---|
| £0-£600 million | 0% |
| Over £600 million | 0.18% |

(**a**) 1998 c.11.
(**b**) SI 2008/1344.

*Name*
*Name*

Date Two of the Lords Commissioners of Her Majesty's Treasury

## EXPLANATORY NOTE

*(This note is not part of the Order)*

Schedule 2 to the Bank of England Act 1998 (c. 11) makes provision concerning the maintenance by certain institutions of cash ratio deposits with the Bank of England ("the Bank"). The institutions covered by these arrangements are those defined as "deposit-takers" by section 17(7) of, and sub-paragraphs (1A) to (1C) of paragraph 1 in Schedule 2 to, that Act. The Bank is empowered by paragraph 3 of that Schedule to give such an institution a call notice specifying an amount it is expected to have on deposit with the Bank during a specified period. Under paragraph 4 of that Schedule, this depositable amount is to be calculated by multiplying so much of an institution's average liability base as falls into each of the different value bands by the ratio applicable to that band, and adding up these amounts.

This Order specifies the value bands and the ratios applicable to them and revokes the Order which specified previous value bands and ratios. The Order specifies two value bands and the applicable ratio, in the form of a percentage, to each.

A full impact assessment of the effect that this Order will have on the costs of business and the voluntary sector is available from Her Majesty's Treasury, 1 Horse Guards Road, London SW1A 2HQ or on www.hm-treasury.gov.uk and is published alongside the Order on www.legislation.gov.uk.

STATUTORY INSTRUMENTS

# 2013 No.

# BANKS AND BANKING

## The Bank of England (Call Notice) (Benchmark Rate of Interest) Order 2013

| | |
|---|---|
| *Made - - - -* | *** |
| *Laid before Parliament* | *** |
| *Coming into force - -* | *3rd June 2013* |

The Treasury, in exercise of the powers conferred by paragraph 8 of Schedule 2 to the Bank of England Act 1998(**a**), make the following Order.

### Citation and commencement

**1.** This Order may be cited as the Bank of England (Call Notice) (Benchmark Rate of Interest) Order 2013 and comes into force on 3rd June 2013.

### Benchmark rate of interest for call notices given by the Bank of England

**2.** For paragraph 7 of Schedule 2 to the Bank of England Act 1998, substitute—

**"Benchmark rate of interest**

**7.**—(1)The benchmark rate of interest for the purposes of paragraph 6(3) is the Bank rate.

(2) In this paragraph, "the Bank rate" means—

(a) the rate announced from time to time by the Monetary Policy Committee of the Bank as the official dealing rate, being the rate at which the Bank is willing to enter into transactions for providing short term liquidity in the money markets, or

(b) where an order under section 19 of this Act is in force, any equivalent rate determined by the Treasury under that section.".

*Name*
*Name*
Date Two of the Lords Commissioners of Her Majesty's Treasury

### EXPLANATORY NOTE

*(This note is not part of the Order)*

Schedule 2 to the Bank of England Act 1998 (c. 11) makes provision concerning the maintenance by certain institutions of cash ratio deposits with the Bank of England ("the Bank"). The

(**a**) 1998 c.11.

institutions covered by these arrangements are those defined as “deposit-takers” by section 17 of, and sub-paragraphs (1A) to (1C) of paragraph 1 in Schedule 2 to, that Act. The Bank is empowered by paragraph 3 of that Schedule to give such an institution a call notice specifying an amount it is expected to have on deposit with the Bank during a specified period. Under paragraph 6(3), the amount the Bank may require an institution to pay when eligible institutions are late in making deposits is an amount equal to interest for the period covered by the notice, at 4% over the benchmark rate.

This Order replaces paragraph 7 of Schedule 2 which currently specifies the benchmark rate for this purpose. This Order specifies that the Bank rate (as defined in new paragraph 7(2)) is the benchmark rate.

A full impact assessment of the effect that this Order will have on the costs of business and the voluntary sector is available from Her Majesty’s Treasury, 1 Horse Guards Road, London SW1A 2HQ or on www.hm-treasury.gov.uk and is published alongside the Order on www.legislation.gov.uk.

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This document can be found in full on our website: http://www.hm-treasury.gov.uk

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