

Review of the Cash Ratio Deposit Scheme

Consultation on proposed changes

August 2007



HM TREASURY



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ISBN 978-1-84532-326-4

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EXECUTIVE SUMMARY

Under the cash ratio deposit (CRD) scheme, certain institutions authorised under the Financial Services and Markets Act 2000 to accept deposits (such as banks and building societies) 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 functions, which benefit sterling deposit takers. As part of the last review of the cash ratio deposit scheme (which took place in 2003) 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.

As part of the review, the Treasury has already consulted all institutions that are currently “eligible institutions” under the CRD scheme. Two representative bodies and 66 institutions responded (44 of which currently hold a CRD).

In summary, the review reached the following conclusions:

- The cash ratio deposit scheme continues to be a suitable method of funding the Bank of England’s monetary policy and financial stability operations.
- The ratio should be changed from 0.15% to 0.11%, benefiting all institutions with eligible liabilities above the £500 million threshold by reducing the level of cash ratio deposits they must hold with the Bank of England. It is estimated that this one-off reduction will be approximately £700 million.
- All other parameters, including the minimum threshold for making deposits, should remain unchanged but be kept under review.
- In response to the conclusion in the 2003 review, the Bank of England has taken positive steps to enhance disclosure of the working of the CRD scheme.
- The Government will continue to monitor the effect 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 issues:

- The proposal to reduce the CRD ratio from 0.15% to 0.11% but leave all other parameters of the scheme unchanged.
- Whether there are any technical aspects of the operation of the scheme that could be improved.
- How the transparency of the CRD scheme could be further improved, either through the release of further information or through the release of information through different communication channels.

This consultation will be sent to all eligible institutions under the scheme and their representative bodies, and 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 2nd November 2007 and should be sent to:

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to whom any questions or comments about the consultation should also be addressed. Representative bodies are requested to make clear on whose behalf they are making their submission. Responses may be made public unless confidentiality is specifically requested.

This consultation is being made in accordance with the terms of the Cabinet Office Code of Practice on Consultation, and the six consultation criteria:

- Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
- Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
- Ensure that your consultation is clear, concise and widely accessible.
- Give feedback regarding the responses received and how the consultation process influenced the policy.
- Monitor your department's effectiveness at consultation, including through the use of a designated consultation coordinator.
- Ensure your consultation follows better regulation best practice, including carrying out an Impact Assessment if appropriate (See annex A for a draft Impact Assessment).

INTRODUCTION

1.1 Under the cash ratio deposit (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 Government made a commitment to review the scheme after five years, which it carried out in 2003. The main conclusions of the 2003 review were that the CRD scheme continued to be a suitable method of funding the Bank of England’s monetary policy and financial stability operations, but that the minimum threshold for making deposits should be raised from £400 million to £500 million (all other parameters remaining the same). The Government committed 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 14 May 2007, stating that

“The review will include an assessment of the detailed arrangements of the scheme as well as the continuing suitability of the scheme itself compared to alternative sources of funding. It will also address the impact of the scheme on the eligible institutions. The broad conclusions of the review will be the subject of a public consultation.”

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

- Tamara Finkelstein, Director of Government Treasury Management, HM Treasury
- Amelia Fawcett, Non-Executive Director, Bank of England
- 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 currently eligible institutions under the scheme and their representative bodies.

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 speaking:

- UK deposit-taking institutions (banks and building societies) authorised by the Financial Services Authority under the Financial Services and Markets Act 2000;
- European institutions not authorised by the 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. In 2003, the threshold was increased from £400 million to £500 million;¹ and
- A cash ratio, applied above this threshold, set in 1998 at 0.15 per cent of the eligible liabilities. The Treasury and the Bank of England have kept this ratio under review since then.

PARAMETERS OF THE CASH RATIO DEPOSIT SCHEME

1.8 The cash ratio deposit scheme was designed to fund the Bank of England's unremunerated policy functions: monetary policy and financial stability. In 2003, the costs of these activities were projected as follows:

- The projected total costs of the Bank of England's policy functions was estimated to be in the order of £575 million over the five year period from March 2003 to March 2008.
- The investment yield achieved on the deposits was expected to average around 6 per cent, assuming that investment and accounting policies remain unchanged.
- It was assumed that both the average eligible liability base and the Bank of England's own costs would grow in line with nominal GDP at 4.5 per cent per annum.

1.9 The 2003 review found that by increasing the threshold to £500 million, but not changing any other parameters, the estimated level of deposits at the end of the five-year period would be £2,138 million and the total income from CRDs would be £570 million (very close to the £575 million estimated costs).

¹ The definition of eligible liabilities is given in SI 1998 No.1130 The Cash Ratio Deposits (Eligible Liabilities) Order 1998, as amended by SI 2005 No.3203 The Cash Ratio Deposits (Eligible Liabilities) (Amendment) Order 2005. These pieces of secondary legislation can be found online at www.opsi.gov.uk/stat.htm.

2

OPERATION OF THE CASH RATIO DEPOSIT SCHEME 2003 - 2008

2.1 The 2007 review found that the CRD scheme has continued to meet its objective of funding the Bank of England's policy functions. In detail:

- The total cost of the Bank of England's monetary policy and financial stability functions over the 2003-2008 period is expected to be £531 million. This is below the £575 million projected in the 2003 review. The difference is principally attributable to the Bank of England taking steps to focus on core activities and improve efficiency.
- The CRD scheme is expected to yield a total income of £613 million, higher than the £570 million forecast. Surplus CRD income has been subject to corporation tax and then shared equally between the Exchequer and the Bank of England's reserves. Any deficit would, symmetrically, have reduced the Bank of England's total income and its retained profits.
- Higher than expected CRD income is largely due to the fact that cash ratio deposits have grown faster than forecast, from £1,901 million at 1 June 2004² to £2,716 million at 1 June 2007, an annualised rate of growth of 12.5 per cent.
- The average investment yield achieved by the Bank on the deposits over the period from March 2003 to February 2008 is expected to be 5.7 per cent. The investment yield of the initial portfolio of assets is the main determinant of this figure but it is also influenced by the prevailing rate on new investments. It has fallen below the 6 per cent assumed investment yield as higher yielding maturing assets have been replaced by lower yielding investments.

2.2 The review examined why the growth in eligible liabilities, and hence in cash ratio deposits, had been at 12.5 per cent and not in line with nominal GDP, which had grown by 5 per cent per annum. It is likely that this has been driven by a greater demand by firms and households to hold money balances, coupled with a greater willingness of the banking sector to supply money.

² This is the date at which the Cash Ratio Deposit (Value Bands and Ratios) Order relating to the 2003 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 are £563 million over the five year period from March 2008 to February 2013.
- The investment yield achieved on the deposits is strongly influenced by the Bank of England’s existing holdings and is forecast to average 5.0%, assuming that investment and accounting policies remain unchanged.
- The future growth of eligible liabilities is sensitive and difficult to predict. Over the five year period the gap in M4 growth³ (the broad monetary aggregate) and GDP growth could be expected to narrow, though there is uncertainty about how it will revert to trend.

3.2 The review considered different scenarios for the future of the scheme. If the main parameters of the scheme (that is, the definition of eligible liabilities, the minimum threshold and the cash ratio) remain unchanged and eligible liabilities grow broadly in line with nominal GDP at 4.5 per cent per year, then the income from the deposits over the five year period (£772 million) would be significantly in excess of the projected total costs of the Bank of England’s monetary policy and financial stability functions (£563 million).

3.3 If the growth in eligible liabilities continues at a rate above 4.5 per cent, the income would be even further above projected costs. Table 1 below details three possible scenarios.

Table 1: Sensitivity of income to growth of CRDs with an unchanged ratio of 0.15%.

Average growth rate	Deposits after five years (£ million)	Estimated income over five years (£ million)
4.5%	3,460	772
6.5%	3,841	816
8.5%	4,255	863

3.4 These factors are subject to uncertainties. The review found that if 4.5% growth in eligible liabilities was assumed, reducing the ratio to 0.11%, whilst maintaining the threshold at £500 million would result in forecast income from the CRD scheme (£575 million) that was expected to be close to the forecast costs of the Bank’s policy functions over the next five years (£563 million). Such a reduction would serve to take into account the higher than expected growth in eligible liabilities that has occurred. It would also result in a one-off reduction in the total amount of CRDs that institutions are

³ The definition of eligible liabilities is considered to be sufficiently close to that of M4 that the two series are likely to move together.

required to hold with the Bank of England by an estimated £700 million, thus freeing up that amount of capital for investment by the holders. Table 2 shows the income under alternative scenarios of eligible liabilities growth in the future with a ratio of 0.11%.

Table 2: Sensitivity of income to growth of CRDs with a ratio of 0.11%

Average growth rate	Deposits after five years (£ million)	Estimated income over five years (£ million)
4.5%	2,538	575
6.5%	2,817	608
8.5%	3,120	643

3.5 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.

4

THE IMPACT OF THE SCHEME ON THE FINANCIAL SECTOR

4.1 The 2003 CRD review raised the minimum threshold for making deposits from £400 million to £500 million, which initially freed 18 institutions from contributing to the scheme. Of these, 13 are once again above the threshold, one as a result of a merger, and the others through an expansion in their eligible liabilities base. Other institutions have also risen above the threshold since 2003, and in June 2007 there were 150 eligible institutions holding cash ratio deposits compared to 132 on 1 June 2004. For reasons of confidentiality under the Act only aggregated information about deposits can be detailed here.

4.2 The review considered the desirability of changing the minimum threshold. There was little consensus on this issue among institutions that responded to the initial consultation, with some calling for the threshold to be raised (to reduce the number of institutions that contribute) and others arguing for it to be abolished (significantly broadening the base of institutions).

4.3 The review concluded that a change to the minimum threshold in either direction would have a disproportionate negative impact. If the threshold were reduced it would increase the regulatory burden of the scheme falling specifically on smaller institutions that are currently outside of it, in return for very little gain to the scheme as a whole. If the minimum threshold were increased it would have the effect of focusing the financial burden still further on a small number of relatively large institutions. There is also a link to the Bank of England's framework for its operations in the sterling money markets. Access to remunerated reserves and standing facilities is available to all banks and building societies that are required to place cash ratio deposits at the Bank. The review therefore concluded that the minimum threshold should remain at £500 million for the time being.

4.4 Analysis by the review showed that the level of cash ratio deposits for the majority of institutions is small, with 84 per cent of the deposits made by just 30 institutions, and 12 institutions each contributing more than £50 million in CRDs. While the mean deposit is £18.1 million, the median is only £3.4 million. Thus the main incidence of the scheme is on larger banks and building societies.

4.5 The review also examined the proportions of deposits made by UK-owned and foreign-owned institutions. Table 3 shows these proportions. UK-owned institutions contribute 79 per cent of the deposits made.

Table 3: Proportions of deposits made by UK and non-UK institutions as at 1 June 2007

Group	Deposits (£m)	Deposits as % of total
UK		
Major British banking groups	1,760	65
Building societies	311	11
Other UK banks	43	2
Non-UK		
Branches of EU institutions	328	12
Subsidiaries of foreign institutions in the UK	157	6
Branches of non-EU institutions	118	4
Total	2,717⁴	100

4.6 A reduction in the ratio from 0.15% to 0.11% represents the key new impact that the recommendations of the CRD review will have on the financial services sector. This change will result in a one-off reduction in the level of CRDs that institutions are required to hold with the Bank of England by an estimated £700 million, thus freeing up capital available to the banking sector for investment.

4.7 A draft Impact Assessment is included at Annex A.

⁴ Actual figure £2,716 million. The discrepancy is due to rounding.

5

COMPARISON WITH ALTERNATIVE FUNDING ARRANGEMENTS

5.1 The review examined the financing arrangements of several other national central banks. The findings from the 2003 CRD review were reaffirmed; central banks, almost universally, fund their activities from general income including that arising from seignorage (no interest is paid to holders of banknotes) and foreign exchange reserves. In the United Kingdom the income from both these sources passes to the Government: the profits of 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. No central banks were identified that funded their activities from general taxation revenues collected by government.

5.2 All the central banks looked at in the study state monetary policy and financial stability as among their core objectives, but scope varies. For example, many central banks include banking supervision as part of their financial stability responsibilities whilst the Financial Services Authority (FSA) undertakes this in the United Kingdom. The difference in scale of operations is demonstrated by the observation that some central banks have extensive regional networks with more than 10,000 staff, while others are concentrated in a single building, as is the Bank of England. Data showing the level of spending on these functions is generally not available on a consistent basis.

5.3 The review revisited the fee-based funding arrangements of the UK's Financial Services Authority (FSA). It confirmed that this method would not be appropriate for calculating fees payable to fund monetary policy and financial stability activities, as these are benefits to the whole banking sector rather than costs incurred relative to individual firms within it.

6

TRANSPARENCY OF THE CRD SCHEME

6.1 The 2003 CRD review proposed that the Bank of England should consider ways in which the transparency of the scheme could be enhanced. In response, the Bank's Annual report has, since 2004, separately identified CRD income. In 2005, the Bank also started publishing the net expenditure position for remunerated functions.

6.2 The amount of information provided in the Annual Report about the strategy of the Bank of England has also increased over the past five years, and now reports spending levels on key projects. The Bank presents its full financial accounts in accordance with UK accounting standards. During the period, the Bank changed from a UK GAAP to a UK-adopted IFRS basis.

6.3 As part of this consultation, views on how the transparency of the CRD scheme could be further improved would be welcomed. This might, for example, be through the release of further information or simply through the release of information through different communication channels.

7

SUMMARY OF REVIEW PROPOSALS

7.1 In summary, the review reached the following conclusions:

- The cash ratio deposit scheme continues to be a suitable method of funding the Bank of England's monetary policy and financial stability operations.
- The ratio should be changed from 0.15% to 0.11%, benefiting all institutions with eligible liabilities above the £500 million threshold by reducing the level of cash ratio deposits they must hold with the Bank of England. It is estimated that this one-off reduction will be approximately £700 million.
- All other parameters, including the minimum threshold for making deposits, should remain unchanged but be kept under review.
- In response to the conclusions of the 2003 review, the Bank of England has taken positive steps to enhance disclosure of the working of the CRD scheme.
- The Government will continue to monitor the effect of the cash ratio deposit scheme and will conduct a further formal review at the latest in five years' time.

8

CONSULTATION AND HOW TO RESPOND

8.1 As part of the review, the Treasury has already consulted all institutions that are currently eligible institutions under the scheme and their representative bodies. Two representative bodies and 66 institutions responded (44 of which currently hold a CRD). The purpose of publishing this consultation document is to enable any interested parties to make representations on the following issues:

- The proposal to reduce the CRD ratio from 0.15% to 0.11% but leave all other parameters of the scheme unchanged;
- Whether there are any technical aspects of the operation of the scheme that could be improved; and
- How the transparency of the CRD scheme could be further improved, either through the release of further information or through the release of information through different communication channels.

8.2 The proposed change to the cash ratio from 0.15% to 0.11% will require a change to secondary legislation under the Bank of England Act 1998. A draft of the necessary statutory instrument is attached as Annex B.

8.3 Responses are invited by 2 November 2007 and should be sent to:

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Policy Adviser
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to whom any questions or comments about the consultation should also be addressed. Representative bodies are requested to make clear on whose behalf they are making their submission. Responses may be made public unless confidentiality is specifically requested.

A

CONSULTATION STAGE IMPACT ASSESSMENT

A.1 This consultation stage impact assessment gives an early exploration of the potential impacts of the proposals in this consultation document. A full impact assessment will be published when a draft statutory instrument is laid before Parliament.

Title of proposal

A.2 Amendment to Statutory Instrument 2004 No.1270 entitled “the Cash Ratio Deposits (Value Bands and Ratios) Order”. This will ensure that income and expenditure from cash ratio deposits remains aligned.

What is the problem under consideration? Why is Government intervention necessary?

A.3 The Government committed to review the cash ratio deposit scheme by 2008 at the latest. This review has found that the scheme has been raising greater income than required to finance the Bank of England’s monetary policy and financial stability activities. It is therefore necessary to reduce the contribution that financial institutions must make in order to reduce unnecessary burden on the financial sector. Under the Bank of England Act 1998 this must be done through secondary legislation.

Policy objectives and intended effects

A.4 The Cash Ratio Deposit Scheme is intended to finance the Bank of England’s monetary policy and financial stability activities. The intended effects of this change to the parameters of the scheme are to ensure that the income received by the Bank of England is in line with its forecast expenditure.

Alternative policy options and justification for preferred option

A.5 The review concluded that the scheme as a whole remained an effective way of financing the Bank of England and that major changes to its operation were not warranted. However, some changes to its parameters were necessary to ensure matching of income and expenditure as maintaining the status quo would have the effect of producing greater income than required by the Bank of England over the coming five years, and would therefore represent an unjustifiable burden on the financial sector.

A.6 The options for doing this were:

- Amending the definition of ‘eligible liabilities’.
- Changing the threshold above which institutions are required to contribute.
- Changing the amount institutions are required to contribute.

A.7 The preferred option is to reduce the amount that institutions are required to contribute. This will keep the base of the scheme broad, reflecting its rationale that the banking sector as a whole rather than specific firms within it reap the benefits of the Bank of England’s monetary policy and financial stability activities. It will also result in

a reduction of the amount that institutions are required to hold at the Bank as cash ratio deposits.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

A.8 No later than 2013.

MINISTERIAL SIGN OFF

A.9 I have read the impact assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the leading options.

Signed by the responsible Minister



Rt Hon Andy Burnham MP
Chief Secretary to the Treasury
10th August 2007

Summary of the policy change

Costs A.10 The main cost of this policy change will be borne by the Bank of England, who will hold approximately £700m less in cash ratio deposits than they would have done had the status quo had been maintained. However, this will not have a detrimental impact on the Bank, whose monetary policy and financial stability expenditure needs will be fully met by income from the cash ratio deposit scheme going forward. Finally, the decision to maintain the threshold constant at £500m is likely to result in new institutions participating in the scheme. This will create a small opportunity cost for those institutions.

Benefits A.11 The key benefit of this policy change will be a reduction in the amount of capital that banks and building societies are required to hold at the Bank of England on a non-interest bearing basis. When the revised ratio of 0.11% comes into effect on 2nd June 2008, approximately £700m will be returned by the Bank of England to the banks and building societies to which it belongs. This represents £700m extra capital which will be available to the banking sector will be able to invest.

What is the geographic coverage of the policy?	The policy will be implemented in the UK
On what date will the policy be implemented?	2nd June 2008
Which organisation(s) will enforce the policy?	The Bank of England
Does enforcement comply with the Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	None
What is the value of changes in greenhouse gas emissions?	None
Will the proposal have a significant impact on competition?	No

EVIDENCE AND RATIONALE FOR REFORM

A.12 The Bank of England Act 1998 put the cash ratio deposit scheme (by which the Bank of England's monetary policy and financial stability activities are financed) on a statutory footing. Under the Act, 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. A review of the scheme in 2003 set the threshold at £500m and the ratio at 0.15%, committing the Treasury to review the scheme again in no later than 5 years. Under the Act, secondary legislation is necessary to establish the threshold and the ratio. The rationale behind the scheme is that the banking sector benefits the most from the Bank of England's monetary policy and financial stability activities and so should therefore bear the burden of the payments.

A.13 The 2007 review of the cash ratio deposit scheme assessed how the scheme had met its primary aim of meeting the Bank's financial needs over the period. Its findings are outlined in detail in the attached consultation document. Broadly speaking, the review noted that:

- The scheme had generated greater income than forecast in 2003 (£613m compared to £570m), due to faster than expected growth in eligible liabilities.
- The Bank's expenditure had been lower than forecast in 2003 (£531m compared to £575m), due to steps taken by the Bank to focus on core activities and increase efficiency.

As a result, the scheme therefore generated excess income of £82m.

A.14 The 2007 review looked at possible mechanisms for realigning income and expenditure, in order to ensure that the opportunity cost to financial institutions from holding CRDs at the Bank of England were kept to a minimum. It looked into the

possibility of changing the threshold at which institutions are required to contribute and at changing the ratio.

A.15 The review considered the case for altering the threshold at which institutions were required to place CRDs at the Bank of England. It concluded that:

- Keeping the ratio constant and increasing the threshold would require such a significant increase in the threshold to align income and expenditure that the burden of the scheme would fall on a very small number of institutions. This would not be justifiable given that the rationale behind the scheme is that the banking sector as a whole benefits from the Bank's monetary policy and financial stability activities.
- Reducing the threshold would result in only a marginal increase in the income generated by the scheme (even if it were abolished), but would impose a regulatory burden on a considerable number of smaller institutions. It would therefore not be justifiable.

A.16 The review therefore concluded that the threshold should be kept constant at £500m, and that the ratio that institutions should be required to contribute above that level should be reduced from 0.15% to 0.11%. This will result in a one-off repayment to the banking industry of CRDs currently held at the Bank of England of approximately £700m. As the existing infrastructure and payment systems will remain unchanged, there will be minimal change in the annual costs of administering the scheme either from the Bank of England or the banking sector's perspective.

A.17 More detailed analysis can be found in the consultation document.

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.

2007 No. XXX

BANKS AND BANKING

The Cash Ratio Deposits (Value Bands and Ratios) Order 2007

Made - - - - []

Coming into force - - []

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

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 have had regard to the financial needs of the Bank of England.

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.

Citation and commencement

1. This Order may be cited as the Cash Ratio Deposits (Value Bands and Ratios) Order 2007 and comes into force on [].

Revocation

2. The Cash Ratio Deposits (Value Bands and Ratio) Order 2004⁽⁶⁾ 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 value bands and ratios applicable to them, expressed as a percentage, are as follows:

⁽⁵⁾ 1998 c. 11.

⁽⁶⁾ S.I. 2004/1270.

Value band	Ratio
£0-£500 million	0%
Over £500 million	0.11%

Address		<i>Name</i>
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 of, and sub-paragraphs (1A) to (1C) of paragraph 1 in Schedule 2 to, that Act. (Sub-paragraphs (1A) to (1C) were inserted into paragraph 1 by article 163 of the Financial Services and Markets Act 2000 (Consequential Amendments and Repeals) Order 2001, S.I. 2001/3649). The Bank is empowered by paragraph 3 of that Schedule to give such an institution a written call notice specifying the amount of cash ratio deposit 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.

ISBN 978-1-84532-326-4



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