

Sir,

The consultation on strengthening the framework for financial stability published jointly by the Treasury, Financial Services Authority and Bank of England contains a proposal to end publication of the weekly Bank Return, a summary statement of the Bank of England's balance sheet. The suggestion is that this change would give the authorities greater flexibility to provide covert emergency liquidity assistance (ELA) to distressed financial institutions.

Such ELA operations are currently recorded under "other assets" within the Bank Return. This category includes a wide range of Bank of England activities that can show significant week-to-week variation. It is not possible to confirm the existence or size of ELA operations of up to several billion pounds simply by inspecting the weekly Return. Support operations on a larger scale would probably be detected by the market before being revealed by the Return. Publication of the Return historically does not appear to have constrained the Bank from lending covertly.

The Bank Charter Act 1844 required the publication of a weekly statement to show that the Bank of England note issue was adequately backed by holdings of bullion and securities. The original motivation is no longer relevant but confidence in the strength of the Bank's balance sheet remains a cornerstone of financial stability and is enhanced by transparency about its accounts. The Bank's assets have undergone a significant shift recently, with lending collateralised by residential mortgages replacing conventional repo loans backed by government securities.

Regular publication of a central bank balance sheet statement represents international best practice. The Federal Reserve and European Central Bank release weekly statements; the Bank of Japan publishes every 10 days. There are no plans to change these arrangements in response to recent financial stresses.

Abolition of the Bank Return would confer little benefit and would represent an unwelcome retreat from the principles of transparency and disclosure that the authorities wish to promote among private sector institutions. The proposal should be abandoned.