A response to the

HMT and Bank of England Consultations

on

Bank of England Levy Framework

December 2023

Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

We are pleased to be responding to HMT's consultation and the Bank of England's Levy Framework Document. We responded to HMT's previous consultation on this topic in 2021 in which we supported proposals to replace the Cash Ratio Deposit Scheme with a Levy. We have some comments and requests for clarification on this final round of consultation before the Levy is introduced, but we remain very supportive of the plan to replace the current Cash Ratio Deposits scheme and the proposed mechanics of the Levy.

Non-Bank Financial Institutions (NBFIs)

Currently the eligible liabilities framework is expected only to apply to deposit-taking institutions. The Levy will pay for a range of activities undertaken by the Bank, described in Paragraph 2.10 of the Framework Document, including those that support its Financial Stability Strategy and Risk work, as well as international engagement and co-ordination.

There is currently significant work being carried out on the role of Non-Bank Financial Institutions (NBFIs) in the financial system both domestically and internationally - for instance at the end of 2022 the Bank undertook important work to improve the resilience of liability-driven investment funds, is examining the practicalities of developing an NBFI lending tool and is currently undertaking its System-wide exploratory scenario probing the possible behaviours of banks and NBFIs in stressed financial market conditions.

Internationally the FSB has an important NBFI focussed work programme, including on structural liquidity mismatch in open-ended funds and redemption pressures faced by open-ended funds. We understand the Bank of England has, quite properly, been a leader in this debate.

Our members fully support this current focus on the possible impact of NBFIs on financial stability and accept that they are currently subsidising the exploratory work that different policy areas of the Bank are undertaking on NBFIs, but do not necessarily want to pay for it in perpetuity.

We understand that it is unreasonable to expect the BoE to have a mechanism in place for NBFIs to make a contribution to the Levy at the point of its introduction but suggest the Bank should explore how to appropriately and proportionately expand the Levy to NBFIs to ensure they pay their fair share. Without this, another drag on deposit taking institutions will be introduced to the advantage of their less regulated competitors undertaking bank-like activities.

Gilt Portfolio and Cash

We would like greater clarification on what the Bank plans to do with their gilt portfolio. On the proposed implementation date of the Levy funding arrangement on 1st March 2024, the Bank will have a gilt portfolio of around £13 billion which will either need to be run-off or sold. This portfolio has a range of different maturities, with only c25% being ultra-short. Firms would like more clarification on the strategy regarding this Gilt portfolio. We would therefore like to understand the planned sell-down programme and how the losses on sales of the Bank’s CRD gilt portfolio will be attributed through the levy. We would also like to understand how this portfolio will work in conjunction with the Bank’s quantitative tightening programme.

Future Planning

As we recommend in our response to the 2021 consultation with a view to supporting firms’ future planning, we would appreciate if the Bank were able to create a rolling five-year budget, recognising that the later periods may be subject to change depending on the emergence and development of ‘events’. This will give firms time to assess the impact that the Levy will have on their budgets.

Framework Timings

There is some concern that the 6 monthly average eligible liabilities calculation is reduced to 3 monthly eligible liabilities for October to December. Our members are worried that some firms may be able to game the percentages by reducing their retail funding in Q4 each year or time their funding rounds in order to reduce the amount of Levy paid to the Bank. We would also welcome greater clarity on expected timelines for the first year as we have had different interpretations from members on this and there is some confusion as to how the transition from the CDR to the Levy will work.

Accounting Treatment

We are unsure as to what the accounting treatment of the Levy will be. The introduction of the Levy will be a change for firms as the cash ratio deposit is not recognised for accounting purposes as it is loss of income. However, the Levy will be viewed as a cost and thus increase cost income ratios. However, one firm suggested that the Levy could be recognised in NIM and hence not affect cost income ratios. Another firm disagreed as the Levy is a cost it is not a revenue expense. Clearly there is a difference of understanding from firms on how this should be treated in accounting terms and some clarity from the Bank and HMT would be appreciated.

We also have questions on tax treatment. As the billing is in August the tax point it will be fully recognised and immediately tax deductible, whilst for the financial accounting purposes the Levy will be treated as a prepayment and accrue over the 12 months meaning that it may overlap at year end and tax year.

Questions raised in HMT consultation

We support the intent of HM Treasury's consultation so have no particular responses to the questions raised in Chapter 5 thereof.

Responsible Executive

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