UK FINANCE

A response to HMT's consultation paper

Review of the cash ratio deposit scheme

November 2021

Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

We are pleased to respond to HMT's consultation paper on its review of the cash ratio deposit scheme.

Our members welcome and support the new levy proposed in the CP. We have some comments regarding the process behind the proposed levy, but overall, we are very supportive of the approach which, as the CP acknowledges, is consistent with industry responses to previous consultations, including UK Finance's own in 2018.

Please find below our answers to the questions in the CP. UK Finance would be pleased to discuss these further, and/or assist HMT in its finalisation of the new levy.

Responsible Executive

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Q1: What are your views on the design and operations of the CRD scheme?

We agree with the assessment provided by HMT is in the CP, and are satisfied it suitably covers the key issues.

Q2: What has been the impact of the scheme's performance for your firm (e.g., administration of the scheme; the mechanism determining balances; rising balances)?

The Cash Ratio Deposit (CRD) scheme has had some implementation challenges (e.g. complexities relating to its impact on Liquidity Coverage Ratio compliance) and balance sheet management, but given we support the CP's suggestion of moving to a new approach, we do not feel it is necessary to provide further detail.

Q3: What are your views on retaining the existing CRD scheme with some modifications?

We do not support this approach, and prefer the approach set out in Chapter 5.

Q4: What are your views on replacing the existing CRD scheme with the direct funding option of a new levy?

We broadly support the approach as described in the CP, but we ask that there is an option for payment to be made on a quarterly basis, to smooth firms' cash flows, reflecting the Bank's likely expenditure profile on its monetary policy and financial stability operations.

Q5: What are your views on how the new levy could be introduced?

UK Finance strongly supports the first option detailed in para 5.17, i.e. that the levy is "*introduced immediately at the point of implementation, with the Bank returning firms' existing cash ratio deposits*". It will be considerably easier to implement the change with a "big bang", rather than simultaneously managing two different approaches, assuming firms have suitable notice and sufficient time for cut-over planning.

We believe it is equitable that a transparent structure is developed for the assessment of "eligibility". For example, Fintech firms are a growing presence, and while their payments as individual entities may not be significant, they potentially could be in aggregate, with consequent impacts on financial stability. It does not seem reasonable that banks could underwrite the Bank's cost of developing policy to mitigate the risks that unregulated financial services firms may pose to the economy. We suggest eligibility is assessed annually as part of the levy consultation process and its continuing re-assessment of the regulatory perimeter.

Q6: Do you agree with the impacts outlined above and are there others to consider?

We agree with impacts outlined in the CP, but we do have some additional views on how the economic factors should be addressed in the future annual consultation process. In the spirit of providing transparency, the annual consultation process should provide granular detail supporting the levy figure to be levied on our members, for example, the key drivers (e.g. identified risks) on which the Bank has based the amount it requests from firms.

We would also recommend that if the basis for a levy is to be liabilities-based and that it should pertain

to GBP liabilities only, to avoid penalising global businesses operating from the UK. In addition, in terms of firms liable to the levy, it should not just encompass UK banking entities but include non-banks who may be affected by the Bank's policy initiatives, to avoid the banking sector indirectly subsidising the non-banks.

Replacing CRD with a levy-based scheme would result in a direct pre-defined cost, the certainty of which is beneficial to our members' own planning. As a levy would not encumber cash it would create less of a constraint on firms' balance sheets. Also levy payers would have the option to invest in a broader range of assets to cover the levy payment, although we believe firms generally will not make a greater return – see Q7.

With a view to supporting firms' future planning, the annual consultation should also include a rolling five-year budget, recognising that the later periods may be subject to change depending on the emergence and development of 'events'.

Q7: Do you consider payers will be able to make a return greater than the return available through the Bank's investments in a portfolio of gilts and if so why?

Although it will vary from firm to firm, it is our impression that levy payers will generally not make a greater return than that available through the Bank's investments in gilt portfolio, the key reason being that gilts deposited with the bank in support of the current CRD scheme serve to reduce leverage, which would not be a factor under the new levy.