HM Treasury

Review of the Cash Ratio Deposit Scheme:

Summary of consultation responses

February 2022

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Contents

Chapter 1

Summary of consultation responses

Introduction

1.1 HM Treasury ran a 6-week public consultation on the cash ratio deposit (CRD) scheme between 24 September 2021 and 5 November 2021. All eligible institutions under the CRD scheme, as well as trade associations, were contacted and invited to respond. HM Treasury received six responses, which are summarised below. Two responses were received from trade associations (who together represent many of the deposit-takers within the scope of the CRD scheme), two responses were from individual banks and two responses were from members of the public.

1.2 The consultation document set out the government's proposals to replace the CRD scheme with a levy to raise the funds to meet the costs of the Bank of England's (the Bank) policy functions. The new levy would be payable by the same cohort that currently pay into the CRD scheme and use the same arrangement for apportioning costs to those that pay.

1.3 The consultation document asked for views on: the design and operations of the CRD scheme, the impact of the scheme's performance, retaining the existing CRD scheme with modifications, replacing the CRD scheme with a new levy, the introduction of a new levy, the impact of the levy on the financial sector and whether they expect CRD payers to make a greater return that that available through the Bank's investments in gilts.

1.4 Overall, respondents supported the proposal of a new levy. The consultation respondents raised many of the same themes in their responses: the cohort of payers, the implementation and operation of the proposed levy and alternatives to the levy. A summary of the responses is included below.

Summary of individual consultation responses received

Response 1

1.5 The respondent welcomed and supported the proposed new levy and would prefer a new levy over the retention and modification of the existing CRD scheme. The respondent noted that a levy would create less of a constraint on firms' balance sheets and would allow the option to invest in a broader range of assets to generate an income to cover the levy payment, although they were of the view that in doing so firms would not make a greater return than the Bank might be able to. The respondent requested an option for payment of a new levy be on a quarterly basis to smooth cash flows. The respondent noted that it would be easier to transition from the current CRD scheme to the new levy immediately at the point of implementation, rather than simultaneously managing two different regimes.

1.6 The respondent was of the view that it was appropriate to broaden the range of institutions contributing to the scheme to include non-banks who may be affected by the Bank's policy initiatives. The respondent recommended that a liabilities-based calculation of the levy should relate to GBP liabilities only, to avoid penalising global businesses operating from the UK.

1.7 The respondent suggested that the assessment of eligibility be a transparent and annual process. The respondent was of the view that the annual consultation process should provide granular detail, including the key drivers, supporting the levy figure to be levied on the payers.

Response 2

1.8 The respondent did not disagree with the proposal to move from the current CRD scheme to a new levy and noted that they had previously argued the case for a levy replacement to CRD. The respondent was of the view that if the CRD scheme were retained, then the payers should be broadened to include, for example, wholesale and investment banks, mortgage lenders, other retail or wholesale lenders that are not also deposit takers, and insurers. The respondent also suggested that seigniorage be examined more closely.

1.9 The respondent noted that a new levy would allow for a much greater degree of transparency and accountability, and would allow firms to reflect the direct cost of contribution rather than having to estimate its opportunity cost. The respondent considered that the return of cash ratio deposits would have the worthwhile result of improving the liquidity position of the bank and building society sector.

1.10 The respondent suggested that all financial institutions that benefit from the Bank's monetary and financial stability policy should be required to contribute, and that any move to lower the threshold and therefore extend the scheme to smaller deposit takers should be resisted.

1.11 The respondent noted that the Bank's policy costs have risen at a rate higher than inflation. The respondent requested that adequate time be allotted for payers to consider and respond to the levy rate and any other proposals.

1.12 The respondent questioned the impact on competitive pressures in the mortgage market and questioned the net fiscal impact of a levy.

Response 3

1.13 The respondent is of the view that a new levy would be an unwelcome additional deduction from profit. The respondent supports a higher threshold, with the eligible liabilities threshold aligned to the Bank levy threshold of £20bn. The respondent believes that this approach would support smaller institutions without detriment to the overall collection. The respondent does not consider that there is a business case for widening the scope of eligible institutions.

Response 4

1.14 The respondent questioned whether there would be a requirement under a levy scheme to submit eligible liabilities on a monthly basis and questioned what a new levy's impact would be on the FCA fee calculation.

Response 5

1.15 The respondent questioned whether a new levy would count as a deduction from Corporation Tax or other bank specific taxes.

Response 6

1.16 The respondent's response was unrelated to the CRD review.

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