Review of the Cash Ratio Deposit scheme: summary of consultation responses

HM Treasury ran a public consultation on the cash ratio deposit (CRD) scheme between 8 February 2018 and 9 March 2018. All eligible institutions under the CRD scheme were contacted and proactively invited to respond, including 146 institutions that are currently paying into the scheme, as well as trade associations. HM Treasury received three responses, which are summarised below.[1] The remaining eligible institutions offered no views on the proposed changes.

This followed an earlier informal consultation over December 2017 to January 2018 to which nineteen responses were received. These responses were considered fully by HM Treasury prior to the publication of the consultation document.

The consultation document set out the government's proposals to:

1. move from a fixed ratio to a ratio that is indexed to yields on a portfolio of gilts and is calculated every six months, as set out in the consultation paper
2. leave all other parameters of the scheme unchanged. This includes the current value bands, with the threshold value band remaining at over £600 million
3. continue to monitor the effectiveness of the CRD scheme and conduct a further formal review within five years and publish a report in respect of that review

A summary of the comments made in individual responses is included below.

In order to inform the next review, and as part of the continued monitoring of the effectiveness of the CRD scheme, the Bank intends to do further analysis of alternative funding arrangements.

Summary of individual consultation responses received

Response 1

The respondent recognised the increased activities of the Bank since the last CRD review and the importance of these responsibilities. The respondent noted that Financial Market Infrastructure (FMI) supervisory costs will no longer be funded by the scheme, which was something the respondent had addressed during the informal consultation.

The respondent was of the view that it was appropriate to broaden the range of institutions contributing to the scheme.

Response 2

The respondent considered that a fee-based mechanism would be the fairest, most efficient and most transparent means of funding the Bank's critical monetary policy and financial stability policy work. The respondent noted that, whilst the consultation paper explained that a fee-based model would require more in-depth analysis, no indication had been given to if, or when, such in-depth analysis will take place. The respondent understood that the current legislative

[1] The last review in 2013 received three responses to the public consultation and twenty-two responses to the informal consultation.

agenda makes changing the basis of funding the CRD scheme difficult, but nonetheless considered that discussions on this proposal should begin.

The respondent also suggested that the range of institutions contributing to the scheme should be widened to cover all financial institutions that benefit from the Bank's monetary and financial stability policy.

The respondent was concerned by the increased costs of the Bank's monetary policy and financial stability work and by the fact that the consultation document did not explain how the Bank had tried to make savings elsewhere in its operations.

The respondent noted that one benefit of the proposed indexation approach is transparency in the ratio calculation.

Response 3

The respondent recognised the increase in the responsibilities of the Bank since the last CRD review and that this has led to an increase in the costs to be funded by the scheme, at a time when the reinvestment yield on the deposits placed under the scheme has been lower. The respondent also recognised the importance of the Bank's activities in this area and indicated that these activities are valued by its members.

The respondent considered that the benefits of the Bank's activities in monetary policy and financial stability are felt more widely than just the banking system and that, accordingly, the costs should be spread more widely than on just those institutions with eligible liabilities.

The respondent also suggested moving to a pro-rata fee based approach, based on each institution's eligible liabilities at the end of the previous year (with the Bank's costs being forecast on a three to five year rolling budget basis).

Notwithstanding these points, the respondent (i) supported the maintenance of the existing threshold for eligibility, (ii) agreed that the ratio should be calculated every six months and indexed to yields, and (iii) saw no obvious technical impediments to the operation of the scheme.