Changes to the Bank's weekly reporting regime[1]

Overview

A core function of a central bank is to provide liquidity insurance to the financial sector. This may be done through market-wide operations such as the Bank of England's Indexed Long-Term Repo (ILTR) operations. There will, however, be occasions when a liquidity shock affects one or more individual institutions and in such cases the Bank may need to be ready to provide liquidity bilaterally to the affected institutions, either through its published facilities in the Sterling Monetary Framework, or on a bespoke basis via an Emergency Liquidity Assistance (ELA) operation. It is possible that a bank might lose access to funding markets even if it ultimately had sufficient assets that could, in time, pay out on its liabilities: as Bagehot[2] put it, a bank can be illiquid but solvent. In those circumstances, a better outcome for depositors and the wider economy can sometimes be achieved if the central bank provides the bank with temporary liquidity assistance. Experience suggests that it is more effective for such operations to remain covert at the time, so as not to further undermine confidence in the institution receiving support.

At the same time the Bank is committed to being open and accountable about its activities and from 1844 it was required to publish a weekly balance sheet — the 'Bank Return'. The financial crisis underlined the trade-off that exists between being transparent and open at all times and seeking to maintain financial stability. This article explains how the current Bank Return is being replaced with a new publication that will include additional detail across some parts of the Bank's balance sheet but omit data relating to bilateral operations. This will allow the Bank to carry out such operations but disclose them with a delay, while moving towards a more modernised approach to reporting.

The Bank Return

The current form of the Bank Return summarises key components of the Bank of England's balance sheet, such as reserves balances and notes in circulation, as well as the total size of the Bank's balance sheet. This is useful for providing transparency of monetary policy activities but, conversely, it can impinge on the Bank's ability to successfully undertake financial stability support operations in times of stress. The publication of the Bank of England's full balance sheet on a weekly basis, which in some circumstances allows observers to identify the presence of liquidity support operations, can be counterproductive where the success of an operation depends on it remaining covert. The Bank will be amending its weekly reporting structure to best manage these conflicting issues: this article sets out the rationale and provides details of the new reporting structure.

Financial Stability Objective

Section 238 of the Banking Act 2009 introduced a new statutory objective for the Bank, to 'contribute to protecting and enhancing the stability of the financial systems of the United Kingdom'.[3] The Bank now pursues this objective through a number of channels, including: prudential regulation of financial institutions by the Prudential Regulation Authority; decisions of the Financial Policy Committee; the Bank's role as a resolution authority; and the Bank's financial stability operations, including under the Sterling Monetary Framework, and as lender of last resort.

As the central bank, the Bank of England is well placed — due to the ability to create sterling liabilities — to act as a backstop provider of liquidity. This role has been fulfilled by the Bank of England for over 140 years. The Bank may provide liquidity where a specific firm is facing a liquidity shortage. Where the aim of this intervention is to restore confidence such operations, at least initially, need to be conducted covertly as disclosure can itself be a cause of financial instability. This was witnessed during the Northern Rock crisis when unauthorised disclosure of central bank support sparked a run on the bank. Around that time, observers familiar with Bank publications were able to track the size and duration of liquidity support by analysing the change in the value of 'other assets' included in the weekly publication of the Bank Return. This emphasised that the Bank Return in itself could become the route for inadvertent disclosure.

In response to the financial crisis, Section 245 of the Banking Act 2009 removed the legal requirement for the Bank of England to publish a Bank Return, to provide scope for the Bank to provide covert liquidity operations.[4] At the time,

(1) This article was prepared by Ankita Mehta of the Bank's Customer Banking Division and Chris Salmon, Executive Director for Markets.
(2) See Walter Bagehot, Lombard Street: A description of the Money Market.
(3) See Banking Act 2009: www.legislation.gov.uk/ukpga/2009/1/pdfs/ukpga_20090001_en.pdf.
(4) *Ibid*.

History of the Bank Return

The statutory requirement for the Bank to publish a weekly Bank Return in the *London Gazette* was introduced by Section 6 of the 1844 Bank Charter Act[1] to strengthen confidence in the currency by providing transparency over the assets backing the notes issue. The format of the statutory return did not keep pace with changes in the Bank's activities and from 1928 the Bank has published an expanded Return, whose format has been amended from time to time. Following the Banking Act 2009, publication of the statutory Return in the *London Gazette* ceased in January 2010. However, the Bank Return continued to be made available on the Bank of England's website every Thursday, providing figures as at the close of business Wednesday. The first Bank Return from 1844 can be found in Annex 1.

(1) See Bank Charter Act 1844: www.bankofengland.co.uk/about/Documents/legislation/1844act.pdf.

Parliament specifically discussed the rationale for this change and it was acknowledged by the Exchequer Secretary to the Treasury that there are circumstances in which the disclosure of liquidity support is in no one's best interests.[1]

In 2012, Ian Plenderleith completed a review of the Bank's provision of ELA to the Royal Bank of Scotland and HBOS in 2008–09.[2] Regarding the future publication of the (non-statutory) Bank Return, the review recommended that the Bank 'should consider ceasing to do so at an appropriate time, in order to improve its ability to provide covert liquidity assistance in future'. The Bank's public response was to agree the recommendation and pledge to undertake further analysis.[3] The Bank publicly committed to completing this analysis in the first half of 2014.

Transparency

Given the breadth of the Bank's statutory duties it is important that the Bank is transparent, independent and accountable to its stakeholders. This is why 'Open and Accountable' is one of the four pillars in the Strategic Plan that the Bank announced in March 2014.

In many cases, being transparent about the Bank's financial operations can aid their effectiveness: for example being transparent about the size of the loan to the Asset Purchase Facility created by the Bank's quantitative easing programme helps to anchor inflation expectations, which in turn leads to more stable inflation outcomes, thus supporting the Bank's monetary policy objective. For these operations, considerations of policy effectiveness and transparency work in the same direction.

In relation to liquidity support operations, as noted above, considerations of policy effectiveness and transparency have the potential to conflict with each other. But even here the conflict can be reconciled through time: for any given instance of liquidity support, the financial stability benefit of keeping that assistance covert is only temporary. With a sufficient lag, disclosure that a firm had received temporary liquidity support from the Bank should not undermine confidence in that firm or the financial system as a whole. This also explains why the Bank publishes data on the use of its Discount Window Facility (DWF) — its published tool for providing bilateral liquidity insurance — with a five-quarter lag.

As such, when considering Ian Plenderleith's recommendation, the Bank has weighed up two competing public policy considerations: the benefits from being transparent about the Bank's regular operations versus the benefits of delaying disclosure of certain balance sheet items to provide the scope for the Bank's ability to provide covert liquidity assistance.

It is important to note that under the Memorandum of Understanding on Crisis Management,[4] all ELA operations require the Chancellor's approval. The Chancellor and the Treasury are responsible for keeping Parliament and the public appropriately informed of action taken to manage a crisis. In this way, the Bank remains accountable to HM Treasury and Parliament. Additionally in response to the Plenderleith review, the Bank agreed to undertake a quarterly review about whether and when it is possible to publicly disclose the existence of ELA.

New reporting

The Bank plans to reconcile the competing considerations by replacing the Bank Return with a new Weekly Report which will maintain the Bank's current level of transparency in relation to balance sheet items that affect monetary conditions, but will not include line items which have the scope to inadvertently reveal the provision of covert liquidity support. Those items will be reported on a quarterly basis but with a five-quarter lag — the same disclosure lag as applies to DWF usage.

The new Weekly Report will be an operational report that provides data on all assets and liabilities generated through the Bank's monetary policy operations. The Report will include separated data on liquidity operations (ILTR and Contingent

(1) See transcript from Session 1007-08, Banking Bill, Public Bill Committee, Clause 223: www.publications.parliament.uk/pa/cm200708/cmpublic/banking/081030/pm/81030s01.htm.
(2) See Plenderleith, I (2012), 'Review of the Bank of England's provision of Emergency Liquidity Assistance in 2008–09', available at www.bankofengland.co.uk/publications/Documents/news/2012/cr1plenderleith.pdf.
(3) See Bank of England (2013), 'Response of the Bank of England to the three Court-commissioned reviews', available at www.bankofengland.co.uk/publications/Documents/news/2013/nr051_courtreviews.pdf.
(4) See the Memorandum of Understanding on Crisis Management, available at www.bankofengland.co.uk/about/Documents/mous/moufincrisis.pdf.

Bilateral facilities in the Sterling Monetary Framework

Bilateral facilities can be used by individual banks at their initiative, as opposed to market-wide operations undertaken at the initiative of the Bank. In October 2008, the Bank replaced the existing bilateral facility in its Sterling Monetary Framework with two new facilities. They are an Operational Standing Facility offering overnight loans and deposits to absorb technical frictions in the overnight money markets and a Discount Window Facility to provide longer-term liquidity insurance in the event of stress. From 2006 to 2008 the Bank had included a line in the Bank Return for standing facility deposits and assets. However this had helped to make banks unwilling to make use of the facility and thus frustrated its purpose. When the two new bilateral lending facilities were introduced, reporting on standing facilities was removed from the Bank Return and information on their use provided with a delay in order to address banks' unwillingness to access Bank facilities. The Bank's approach to disclosure on these facilities was further refined in its response to Bill Winters' review of the Sterling Monetary Framework, published in October 2013.(1)

(1) See Bank of England (2013), 'Liquidity insurance at the Bank of England: developments in the Sterling Monetary Framework', available at www.bankofengland.co.uk/markets/Documents/money/publications/liquidityinsurance.pdf.

Term Repo Facility), the loan to the Asset Purchase Facility and the foreign currency assets that constitute the Bank's own foreign currency reserves(1) together with the foreign currency liabilities that finance them. In designing the report the Bank has sought to identify a format that will be helpful and relevant for users of the data. Overall, this new report will typically continue to disclose over 90% of the Bank's balance sheet by value.

Compared with the current Bank Return the main omissions will be the overall size of the Bank's balance sheet and 'other assets' and 'other liabilities'. But a number of items currently included in these 'other' categories — such as the loan to the Asset Purchase Facility — will be shown separately in the new Report. The other change is that the Bank will cease publishing separate reports for the Issue and Banking Departments(2) on a weekly basis. The current Bank Return as at 25 June 2014 and a template of the new Weekly Report can be found in Annexes 2 and 3. An accompanying article, 'replacement of the Bank Return and other changes to the release of notes and coin data', will be published in Bankstats on the 30 June and will provide a description of the changes being made to the Bank's statistical reporting.

The information provided in the Weekly Report will be augmented on a quarterly basis, with a lag of five quarters, with data for those assets and liabilities which had not previously been disclosed, completing the balance sheet. This will enable the Bank to provide full balance sheet disclosure on a delayed basis. These data will be published on the Bank's website.

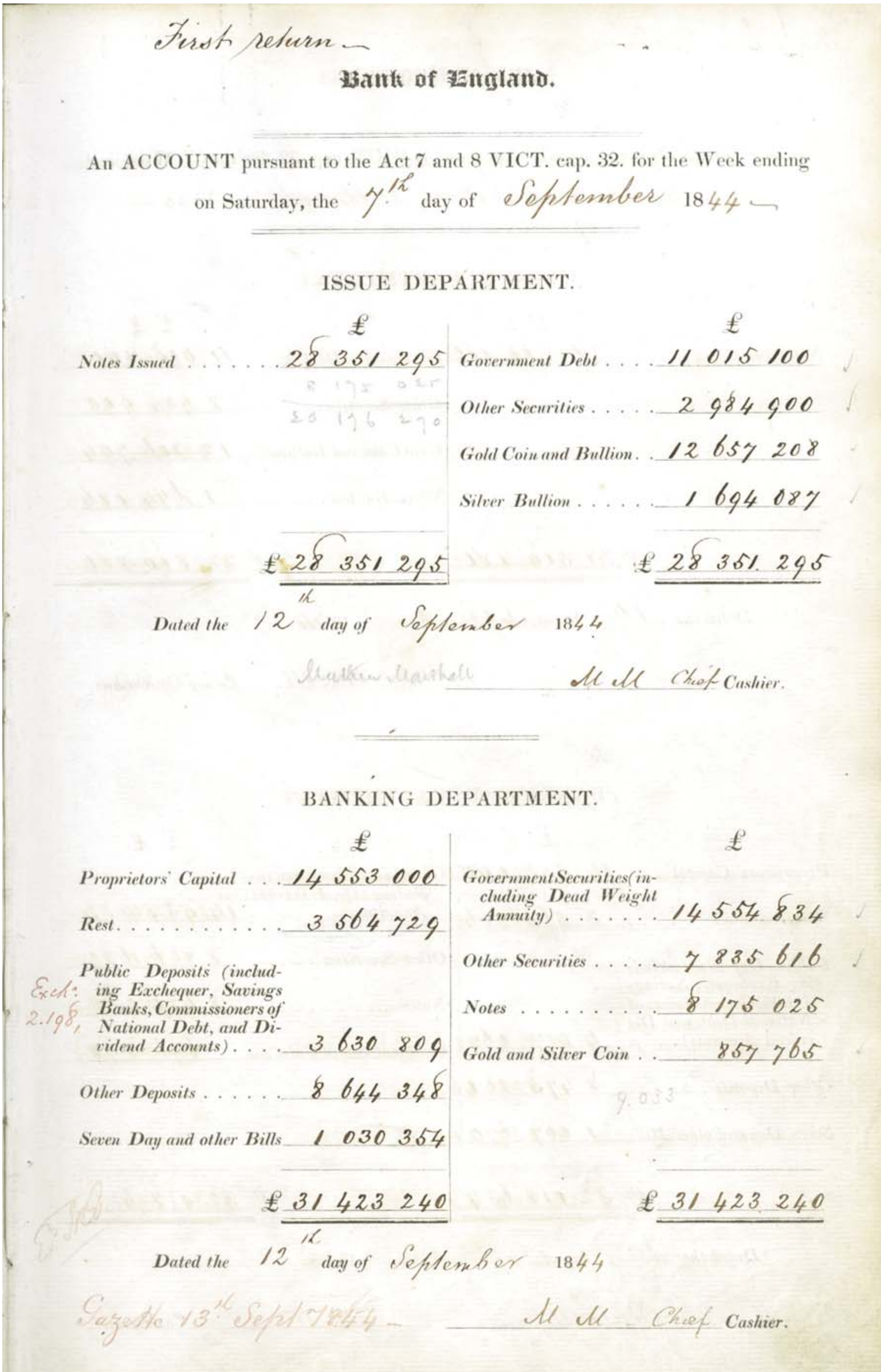
The Bank will continue to publish its end-of-year balance sheet each year within its *Annual Report*, which is typically published three to four months after the end of the Bank's financial year. The Bank's *Annual Report* disclosures will not be affected by the changes to the weekly reporting structure, and will continue to report the Issue and Banking balance sheets.

Timetable for introducing the Bank's Revised Disclosure Policy

The final Bank Return will be published on 25 September 2014, with the first Weekly Report being published on 2 October 2014. The first quarterly disclosure of the Bank's balance sheet will be data as at 30 September 2014 which will be published with a five-quarter lag. The Bank has chosen to pre-announce the change to dispel any speculation that might otherwise exist that the change in reporting arrangements was tied in any way to the provision of liquidity to a specific counterparty.

(1) This excludes the HM Treasury Exchange Equalisation Account (EEA) which holds the United Kingdom's reserves of gold, foreign currencies and International Monetary Fund Special Drawing Rights.
(2) The Issue and Banking Departments were created by the Bank Charter Act 1844. These are not organisational units of the Bank, but serve to divide the note issuing business of the Bank from its other activities.

Annex 1
The first Bank Return



First return —

Bank of England.

An ACCOUNT pursuant to the Act 7 and 8 VICT. cap. 32. for the Week ending on Saturday, the 7th day of September 1844 —

ISSUE DEPARTMENT.

	£		£
Notes Issued	28 351 295	Government Debt	11 015 100
		Other Securities	2 984 900
		Gold Coin and Bullion	12 657 208
		Silver Bullion	1 694 087
	£ 28 351 295		£ 28 351 295

Dated the 12th day of September 1844

M M Chief Cashier.

BANKING DEPARTMENT.

	£		£
Proprietors' Capital	14 553 000	Government Securities (including Dead Weight Annuity)	14 554 834
Rest	3 564 729	Other Securities	7 835 616
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)	3 630 809	Notes	8 175 025
Other Deposits	8 644 348	Gold and Silver Coin	857 765
Seven Day and other Bills	1 030 354		
	£ 31 423 240		£ 31 423 240

Exch: 2.198

Dated the 12th day of September 1844

Gazette 13th Sept 1844 —

M M Chief Cashier.

Annex 2
Current Bank Return

BANK OF ENGLAND

Wednesday, the 25th of June 2014

CONSOLIDATED STATEMENT

LIABILITIES	£	ASSETS	£
Notes in circulation	61,409,605,670		
Reserve balances	303,599,009,466		
Short-term open market operations		**Short-term open market operations**	
Fine-tuning sterling	-	Other maturity within-maintenance period sterling reverse repos	-
One-week sterling	-	One-week sterling reverse repos	-
Other maturity within-maintenance period sterling	-	Fine-tuning sterling reverse repos	-
		Longer-term sterling reverse repos	1,908,000,000
		Ways and Means advances to HM Government	369,847,840
Foreign currency public securities issued	3,540,133,333	**Bonds and other securities acquired via market transactions**	16,673,808,255
Cash ratio deposits	4,127,828,548		
Other liabilities	32,120,321,189	**Other assets**	385,845,242,111
Total liabilities	**404,796,898,206**	**Total assets**	**404,796,898,206**

Annex 3
Template of new Weekly Report

BANK OF ENGLAND

Weekly Report

	25 June 2014 £mn	18 June 2014 £mn
Sterling Liabilities		
Reserves balances	303,599	303,435
Short-term open market operations	-	-
Fine-tuning sterling	-	-
One-week sterling	-	-
Other maturity within maintenance period sterling	-	-
Notes in circulation	61,410	61,164
Sterling Assets		
Short-term open market operations		
Fine-tuning sterling	-	-
One-week sterling	-	-
Other maturity within maintenance period sterling	-	-
Longer-term sterling reverse repos		
Indexed linked term repos	1,908	1,908
Contingent term repo facility	-	-
Sterling denominated bond holdings	10,247	10,197
Loan to Asset Purchase Facility	375,000	375,000
Foreign Currency Liabilities		
Foreign currency public securities issued	3,540	3,547
Foreign Currency Assets		
Foreign currency reserve assets	3,531	3,537