Indemnity to Bank of England

United Kingdom: Parliament

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On 23 November 2009 the Governor of the Bank of England informed the Chair of the Treasury Committee of how, in exceptional circumstances, the Bank of England extended emergency liquidity assistance (ELA) to RBS and HBOS in the autumn of 2008.

The Treasury granted the Bank an indemnity in October 2008. This indemnity was on a net basis against losses that it might suffer or incur in connection with the Bank’s commitment to ensure that the banking system had sufficient access to liquidity, including this ELA. The indemnity was granted given the size of the operations the Bank had entered into, and considered in the context of the existing demands on the Bank’s balance sheet at that time. It was not related to any perception of the increased risks associated with lending to the banks, for instance because of any concerns regarding the quality of the collateral posted by the banks.

The indemnity was provided for actions taken by the Bank from 14 October 2008 for a period of two months. The Bank paid an indemnity fee of 170bps to the Treasury on borrowings it guaranteed. The total use of ELA across both banks was £61.6 billion on 17 October. The peak of the indemnity was £18.1 billion on 27 October. Treasury received fees totalling £18.9 million for this indemnity. This was recognised as “other dividends and interest” income which is payable to the consolidated fund in the 2008-09 resource accounts. The amount was not separately identified, but included within the total other dividends and interest income balance of £866.7 million disclosed in note 9, page 201 of the resource accounts.

The Bank’s assessment at that time was that it was vital that its ELA operations remained confidential, and that any disclosure or leak of the operations would seriously jeopardise the financial stability of the system as a whole. I shared this assessment. I also judged that the risk to public resources was low given the quality of the collateral received by the Bank. Having carefully considered the case for disclosure of the of the prevailing circumstances, would not be in the public interest.

The Bank no longer considers it necessary for the assistance to remain confidential. I also share that judgment. Market conditions have improved considerably, and the disclosure by Lloyds Banking Group in their recent prospectus of the current aggregate amount of support it has received from the authorities has not destabilised to the markets. In the light of those developments, I now consider that the balance of the public interest is in disclosure.

I remain of the view that the Bank of England must be allowed to provide assistance to financial institutions on a confidential basis as financial stability may require.
I have written to the Chairs of the Treasury Committee and the Public Accounts Committee on this matter and a copy of these letters has been placed in the Libraries of both Houses.