



HM Treasury

Financial Services (Banking Reform) Bill

Clause 15: Accounts of Bank of England and its Wholly-Owned Subsidiaries

Briefing for Peers

October 2013

Accounts of Bank of England and its Wholly-Owned Subsidiaries

This clause changes the cases in which the Bank of England or its wholly owned subsidiaries have to disclose information in their accounts. . It relates to the provision of covert support operations by the Bank in crisis situations.

Currently under the Bank of England Act 1998, the Bank need not disclose information in its accounts that might reveal that covert support has been provided to a firm in any case where it considers that disclosure would not be appropriate in the light of any of the Bank's functions.

This clause amends the Bank of England Act 1998 in two ways:

- it limits the circumstances in which the Bank may decide not to disclose information in its accounts to cases where it considers non-disclosure is necessary to meet its financial stability objective (which makes it an objective of the Bank of England to protect and enhance the stability of the UK financial system).
- the clause allows the Bank of England direct its wholly owned subsidiaries that they need not comply with accounting requirements under the Companies Act 2006.

The Bank will sometimes create subsidiaries or 'special purpose vehicles', which do not sit on the Bank's balance sheet, to provide liquidity support to the market. A special purpose vehicle is a subsidiary company with an asset/ liability structure that makes it secure even if the parent institution goes bankrupt. The Bank may be called upon by an institution experiencing or anticipating financial difficulty to provide assistance and it will deploy its specially created subsidiaries to provide covert support to institutions in crisis. The application of the Companies Act 2006 provisions on company accounts to such subsidiaries may give rise to financial stability concerns; therefore keeping support covert is necessary to protect financial stability.

Special purpose vehicles are not covered by the exemption from accounting requirements given in the Bank of England Act 1998, but it is important for financial stability reasons that they should not have to disclose information which could destabilise the market in their accounts.

The clause therefore allows the Bank of England to extend the exemption from accounting requirements to its subsidiaries by direction.

The Bank must consult the Treasury before issuing such a direction and the Treasury can require the Bank to publish information relating to the accounts of its subsidiaries. This can include information that was originally excluded from publication by direction from the Bank.

This provision includes a number of significant safeguards:

- Giving a direction must be “necessary” having regard to the Bank’s financial stability objective;
- The Treasury must be consulted before the use of the direction and can compel the Bank to disclose information about its subsidiaries’ accounts if need be; and
- It is limited to provisions of the Companies Act which relate to the preparation of company accounts. It does not apply to the substantive provisions of the Companies Act- e.g. the provisions on directors’ duties.

The provision here does not cover the PRA, nor does it cover “bridge banks”, which the Bank may create as part of a resolution of a bank. A bridge bank is a bank that is authorised to hold the assets and liabilities of another bank, particularly an insolvent bank. A bridge bank will continue the operations of the insolvent bank until it becomes solvent through liquidation.

Further Enquiries

1. For further information, please contact the Bill Manager Tom Wipperman (020 7270 6180, tom.wipperman@hmtreasury.gsi.gov.uk) or the Bill Team Leader Ian Ginsberg (020 7270 5967, ian.ginsberg@hmtreasury.gsi.gov.uk)
2. For access to publications please go to <http://www.gov.uk/government/policies/creating-stronger-and-safer-banks>