BANK OF ENGLAND

Access to Bank of England payments infrastructure and balance sheet for payments firms

A call for evidence

November 2019

Foreword

This document marks the start of our response to the recommendation from the Future of Finance Report, published in June 2019, that the Bank should consider the appropriate level of access to its balance sheet and payments infrastructure, along with a package of suitable safeguards.

Handling the payments of households and companies safely, efficiently and speedily is one of the most critical functions of the financial sector. Historically that service was provided exclusively by banks, settling payments using their reserves accounts in the Bank's Real-Time Gross Settlement (RTGS) system. In recent years, however, a range of non-bank payments firms have emerged in the UK and elsewhere, spurring innovation and providing new ways to make payments, both domestically and internationally.

To compete fairly, such firms need appropriate access to payments systems and public infrastructure. That is why, in 2017, the Bank of England became the first G7 central bank to grant access to settlement accounts in RTGS to certain non-bank payments providers, subject to them meeting appropriate regulatory and technical standards. This allows those firms the direct access to the payments systems they require to provide their services, in the same way as a bank would do with its reserves account. But, unlike reserves accounts, these accounts are not designed to allow those firms to hold material amounts of their customers' funds at the Bank of England overnight – and the Future of Finance Report recommended that we should investigate the potential for allowing such broader access in ways that benefit innovation and enable competition, while still ensuring monetary and financial stability.

In 2020, we will consult formally on practical options for delivering the Bank's priority of supporting more resilient, innovative and competitive payments systems, together with the necessary safeguards to ensure that broadening access does not harm financial and monetary stability. Before that, to ensure we develop appropriate proposals, shaped by the varying needs of emerging service providers, we first need to: deepen our knowledge of the challenges facing firms and consumers in the UK payments market; understand the potential role of the Bank – or other authorities – in helping address undue obstacles to these emerging providers, including through access to Bank facilities; and develop a better understanding of the regulatory and other safeguards that might need to be put in place.

This call for evidence provides a framework within which to have that engagement over the coming months. The following pages set out the main areas in which the Bank wants to gather further information. Our team is keen to hear views from a wide range of stakeholders – both service providers and users. The material gathered will feed directly into the options presented in the formal consultation in 2020. We look forward to hearing from you.

Andrew Hauser
Executive Director for Markets

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Executive Director for Banking, Payments and Innovation

1. Responding to this call for evidence

Whose views are we seeking?

Our aim is to gather a rich set of information that can support better policy proposals. We expect there will be particular interest from both new and established firms providing payments services, as well as from payment system operators. But we also want to hear from current and prospective users of payments services, those who follow developments in the payments landscape, and those who have researched the impacts of wider access to central bank money – including consultants, academics, researchers, consumer groups or other public authorities, and other interested parties.

The Bank is already looking to improve its technical infrastructure through the RTGS Renewal Programme.[1] This call for evidence therefore focuses on evaluating our current policy regime for access to the Bank's overnight deposit facilities and RTGS payments infrastructure rather than proposing any new technical infrastructure, and is not intended to cover RTGS Renewal issues.[2] If you have any questions on the RTGS Renewal Programme, please contact RTGSengagement@bankofengland.co.uk.

How can views be submitted?

We welcome views on the questions below – and other relevant issues – in writing, which can be sent to accessconsultation@bankofengland.co.uk. The deadline for responses to this call for evidence is **31 January 2020**, although we would welcome earlier submissions.

The Bank team will also be meeting a range of stakeholders during the period. To help ensure we gather an inclusive set of views we expect to speak to stakeholders from around the UK.

What are the next steps?

The responses received, and associated discussions, will help us consider the balance of benefits and costs in any change to our policy.

We will publish a formal consultation in 2020 setting out our proposals, followed by a stated policy response to this consultative process.

[1] More information can be found here: The RTGS Renewal Programme
[2] We are also not consulting on changes to our *lending* facilities.

2. Access to Bank of England facilities today

The Bank's mission is to promote the good of the people of the UK, by maintaining monetary and financial stability. We use our balance sheet to do this in a number of ways, including providing electronic settlement and reserves accounts in our Real-Time Gross Settlement (RTGS) system. In doing so, we help underpin the UK's payment systems by allowing payments to settle immediately and with finality in the most secure and liquid sterling asset available – central bank money. In 2018, RTGS settled over £650bn on average each day.

Banks, building societies, PRA-authorised broker-dealers and Central Counterparties (CCPs) are currently eligible to apply for access to the Bank's Sterling Monetary Framework (SMF).[3] These firms hold central bank money (known as reserves) in reserves accounts, held in RTGS. These accounts have an important role in the transmission of monetary policy into the real economy, as funds held in reserves accounts receive interest at Bank Rate as set by the Bank's Monetary Policy Committee. This framework helps to keep short term money market rates in line with Bank Rate by influencing the rates at which these firms are willing to lend or take deposits. Firms can also use these reserves accounts to settle payments in RTGS. Where they do, these accounts may be referred to as settlement accounts.

Certain firms which are permitted to settle payments in RTGS, but are not eligible for the SMF can apply for settlement accounts. Like reserves accounts, these accounts enable firms to settle intra-day payments. However, unlike reserves accounts, these settlement accounts do not receive interest and are typically limited to holding balances intraday. At present systemically important financial market infrastructures and FCA-authorised Payment and E-Money Institutions are eligible to apply for settlement accounts.[4]

Additionally, the Bank also acts as settlement service provider for certain payment schemes, such as CHAPS and Bacs. Settling in central bank money reduces risk for the users of the system and supports greater innovation and competition in the provision of payment services, through encouraging diversification and supporting the development of new, risk reducing technologies.

3. What questions do we want to explore?

A list of detailed questions is set out on subsequent pages. Broadly, these questions cover:

- What are the barriers which currently prevent new and innovative business models from competing in payments markets, or improving resilience in payments systems?
- How might the Bank play a role in addressing these barriers, including via wider access to our infrastructure or balance sheet?
- What safeguards, regulatory or otherwise, will be needed to ensure that wider access can be delivered in ways that also maintain stability?

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[3] More information can be found in the Bank of England Market Operations Guide

[4] More information can be found in the Bank's Settlement Account Policy

- What are the broader implications of wider access?

The questions below are intended to clarify the information we think we need to help us to understand the issues at hand, the potential benefits of us acting, and the risks that might need to be addressed. It is not an exhaustive list, however, and we welcome responses on other related points, or wider comments not captured by the questions.

Not all questions may be applicable to all respondents, so please feel free to ignore questions not applicable to you or your organisation.

What are the barriers or challenges faced today?

1. What are the current obstacles faced by payments firms or users of electronic payments in the UK? These could include obstacles to resilience, innovation or competition.
2. What do you believe to be the root causes of the obstacles you highlight in Q1?
3. What do you see as the most effective ways to resolve the root causes of the obstacles you have described?

How could the ability to hold funds with the Bank, or access its payments infrastructure, help?

4. In what ways could additional access to the Bank's payments infrastructure, or the ability to place funds with the Bank overnight, help to address the challenges described?
    a. Why do you think that leaving funds with private sector intermediaries does not, or could not, meet these needs?
    b. Why do you think, and what evidence do you have, that existing routes to access payment services through current payment service providers, including eligible non-bank payment services providers, do not meet these needs?

       Potential examples may include cost, availability, service levels offered (including operational reliability), credit risk considerations, or regulatory requirements.
5. What are the characteristics of Bank of England accounts or direct access to RTGS payments infrastructure which would be of most use to payments firms? For example: remuneration, creditworthiness of the Bank, increased independence from commercial banks, or other factors.
6. If you think that payments firms would benefit from being able to hold funds overnight at the Bank, please describe:
    a. the nature of these funds (e.g. client funds, 'own' business funds, or funds held ahead of settlement), and whether they would be held as principal or agent;
    b. (for payment firms only) roughly how much you would expect to hold overnight, on average; and
    c. how existing levels of access to the Bank's infrastructure (including settlement account access) do not address these needs.

What might be the broader implications of the Bank widening access to deposit or settlement account facilities?

7. How might widening access to
    a. the Bank's account facilities (which allow firms to hold funds at the Bank and directly access existing payments systems); or
    b. the Bank's RTGS payments infrastructure (which could facilitate new types of payments systems which settle in central bank money)

    introduce new risks, or reduce existing risks, to other market participants, payments systems, or the Bank itself? (These might include operational, credit, liquidity, reputational or other types of risk.)

8. How might wider access to our deposit facilities or payments infrastructure change the economics of
    a. the business models of firms involved; or
    b. the wider financial system

    for example by offering new lines of business, or reducing existing income streams?

What safeguards might be necessary?

9. Would the provision of wider access to our payments infrastructure or balance sheet help payments firms comply with the existing regulatory regime, including protection of customer funds, AML/KYC requirements, or liquidity requirements? If so, how? If not, where might there be conflicts?

10. How could the Bank seek to mitigate the risks identified in Q7?

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By responding to this call for evidence you are providing personal data to the Bank of England. This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the response itself.

The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The responses may be shared with other organisations (for example, the Financial Conduct Authority and HM Treasury). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

Information provided in response to this call for evidence, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

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