



BANK OF ENGLAND

News release

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Abbey and UBS to become Direct Members of the UK's Wholesale Sterling Payments System

The Bank of England is glad to announce an expansion in the group of settlement banks with the Bank of England, and so in the direct members of the UK's wholesale sterling payments system, CHAPS Sterling. Abbey became a settlement bank on 14 November 2005; UBS AG plan to become a direct member during 2007.

Commenting, Paul Tucker, Executive Director Markets, and Andrew Bailey, Chief Cashier and Executive Director Banking, said:

"We welcome Abbey as a new settlement bank and thus as a direct member of the UK's wholesale payment system, CHAPS Sterling. We look forward to UBS joining. As part of our fundamental reforms of the UK's money markets, the settlement banks will have greater flexibility in managing their payment flows across the Bank's balance sheet. Wider membership of the group of settlement banks will improve the efficiency and safety of our wholesale payment system and the sterling money markets. It will reduce payments-related credit exposures amongst the big banks, and is therefore part of a sensible risk management strategy. It will enhance the Bank's ability to achieve its objectives of implementing UK monetary policy and ensuring the stability of the financial system."

Note to Editors

(1) Settlement banks are at the core of the UK payments system. Payments transfers between them are settled across the balance sheet of the Bank of England in the economy's final risk-free settlement asset (central bank money). The UK's interbank payment system for high-value wholesale sterling payments, CHAPS Sterling, is a real-time gross settlement system (RTGS), which means that payments are processed individually and continuously during the day in real time.

(2) CHAPS Sterling processes more than 100,000 payments with a total value of around £200bn every day. There are now thirteen commercial bank members of CHAPS Sterling in addition to the Bank of England - Abbey, ABN Amro, Bank of Scotland, Barclays Bank, Citibank, Clydesdale Bank, Co-operative Bank,

Deutsche Bank, HSBC Bank, Lloyds TSB, National Westminster Bank, The Royal Bank of Scotland and Standard Chartered Bank. Other banks handle high value sterling payments indirectly through these direct (settlement) members, so the system is 'tiered'. CLS Bank International (a special purpose bank providing settlement services for foreign exchange) joined CHAPS on November 28th 2005.

(3) The potential risks associated with tiering in the UK wholesale payments system are described on pages 23-25 of the Bank of England's Payments System Oversight Report 2004

(<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/psor/psor2004.pdf>). In its 2003 Financial Stability System Assessment for the UK, the IMF expressed concern about the potential systemic vulnerability in a heavily tiered system (see page 29)

<http://www.imf.org/external/pubs/ft/scr/2003/cr0346.pdf>.

(4) Settlement banks obtain the liquidity necessary to make payments from accounts at the Bank of England by posting collateral with the Bank or by holding positive balances on settlement accounts. Under the current framework for implementing monetary policy, positive balances on settlement accounts are unremunerated and so very low. Following the introduction of reserve-averaging as part of the Bank of England's fundamental money market reforms in 2006, balances held on reserve accounts at the Bank will be remunerated at the MPC's official rate and so will be much bigger, giving settlement banks greater flexibility in managing their payments flows. For more details see the Money Market Reform pages.

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