



BANK OF ENGLAND

News release

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21 June 2012

HM Treasury and Bank of England announce technical changes to selected foreign currency operations

HM Treasury and the Bank of England are today announcing that they expect to make some technical changes to the terms on which they transact with market counterparties in selected foreign currency operations.

The changes will apply to over-the-counter derivatives transactions undertaken by the Bank both in relation to its own balance sheet and in its role as HM Treasury's agent in the day-to-day management of the UK's foreign exchange reserves. These transactions are undertaken to manage the financial impact of fluctuations in foreign exchange and interest rates. Under current agreements, the Bank takes collateral when the risk to the Bank or HM Treasury increases. Under the changes being announced today the Bank and HM Treasury intend also to provide collateral in the form of foreign currency securities to counterparties where the risk moves out of their favour.

The decision to make this change has been driven by value-for-money considerations and has been taken now because the costs of transacting derivatives have been rising over the course of the past few years. The one-way provision of collateral, in the context of the growing size of the UK's official foreign currency reserves, has contributed to the increase in these costs.

These changes are expected to come into effect during 2013 and the Bank will be liaising with market counterparties to discuss implementation over the coming weeks and months.

Notes for Editors

1. The United Kingdom's official holdings of international reserves comprise gold, foreign currency assets, International Monetary Fund (IMF) Special Drawing Rights (SDRs), and the UK's Reserve Tranche Position (RTP) at the IMF.
2. With the exception of the RTP, these reserves are held in a government account administered by Her Majesty's Treasury (HMT), the Exchange Equalisation Account (EEA).

3. The Bank of England (the Bank) acts as HMT's Agent in the day-to-day management of the EEA. The Bank deals in foreign exchange and invests the reserves within the framework of a Remit set by HMT.
4. The Bank of England holds its own foreign exchange reserves in support of its monetary policy objective, which are separate from EEA.