



BANK OF ENGLAND

Bank of England Omnibus Accounts – Access Policy

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Background to settlement of payments and RTGS

1. The Bank of England plays a leading role in sterling payments as the provider of the ultimate settlement asset (central bank money)¹ and the operator of the RTGS service.² RTGS provides final settlement for 99% of electronic payments in the UK by value. Provision of payment and settlement services contributes to the Bank's mission to promote the good of the people of the UK by maintaining monetary and financial stability. Part of performing our core mission effectively is to continuously monitor industry innovation and assess whether our policies remain fit for purpose. The Bank also has a mandate to support efficiency, innovation and competition in sterling payments, where it can be done without impairing monetary and financial stability.
2. The Bank offers a variety of models that enable payment systems to settle in central bank money. These range from the real-time settlement model used for CHAPS, to the net settlement arrangements used by several private sector payment systems.³ Payment system operators can also hold accounts in RTGS and participate in payments systems directly themselves, where it is necessary to facilitate their payment arrangements (e.g. CLS). The provision of omnibus accounts will expand the range of access options available to payment system operators.
3. Alongside reviewing our policies, the Bank continuously updates its technical infrastructure. The RTGS Renewal Programme, announced in 2017, will deliver a new RTGS which is capable of responding to the changing demands of the industry, while continuing to deliver the highest possible levels of operational resilience.⁴

¹ Central bank money – the liabilities of the central bank.

² A provider of final settlement of the claims and liabilities that arise between a payment system's participants.

³ More information on the features of the existing settlement models can be found at: <https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-chaps-brief-intro.pdf>. The [Settlement Account Policy](#) also provides information on the eligibility criteria for settling in RTGS and access to accounts that can be used for settlement by system participants including different types of FMI.

⁴ <https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme>

Introduction to an omnibus account

What is it?

4. An omnibus account is defined as one where the funds of different entities are co-mingled in a single account. In RTGS, the omnibus accounts will be offered to regulated payment system operators to pool participant funds. This will allow the operator to fully fund wholesale settlement⁵ on their platform with central bank money. The payment system operator will hold this account on behalf of their participants. The account can hold funds both during and outside of the RTGS operating hours.

How can it be used?

5. Payment system operators holding an omnibus account could offer participants (financial institutions) a method of settling payment obligations that is fully funded with central bank money. These transactions can either be by market participants themselves (e.g. a commercial bank buying gilts) or on behalf of their customers (e.g. a small business paying their supplier).

6. Importantly, this policy only aims to enable innovative ways of facilitating payments between financial institutions that are already eligible to access central bank money settlement (see the eligibility requirement 2 in paragraph 11). The Bank regularly reviews the range of entities eligible to access our infrastructure, most recently in 2019.⁶

What are the benefits?

7. The new account offers a number of benefits to both payment system operators and their participants:⁷

- The full funding in central bank money enables participants to face **reduced credit risk** when holding funds and making payments via the payment system operator's platform.
- It would allow participants to adjust funds allocated to the payment system in real-time and therefore offer **improved flexibility to manage their intraday liquidity**.
- The relevant payment systems will also be able to operate **outside of RTGS operating hours**, as long as sufficient liquidity has been pre-positioned in the account before RTGS closes.⁸

⁵ Wholesale settlement in this context is settlement between financial institutions (such as banks).

⁶ <https://www.bankofengland.co.uk/-/media/boe/files/research/access-to-bank-of-england-payments-infrastructure-and-balance-sheet-for-payments-firms.pdf>

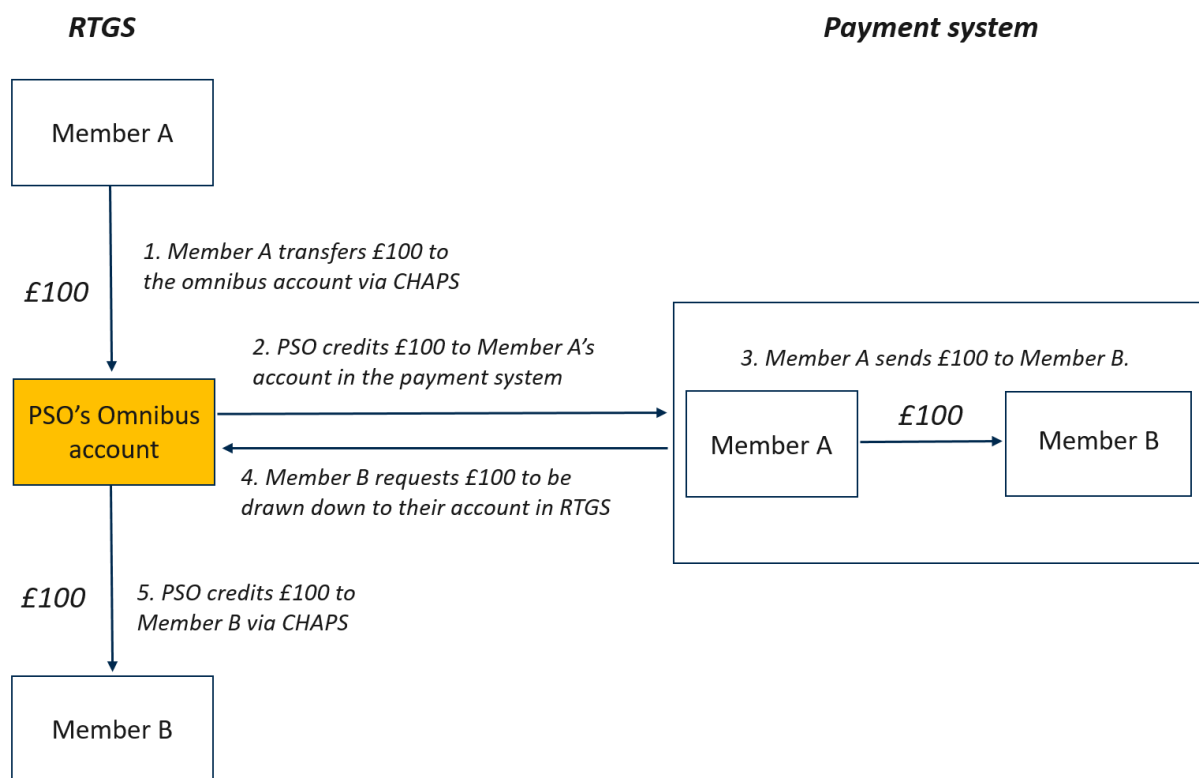
⁷ Relative to using a commercial bank as a settlement agent.

⁸ RTGS is currently open for settlement between 6:00 -18:00 on business days and closed on weekends and Bank Holidays.

How does it work in practice?

8. The diagram below shows a stylised model of how an omnibus account can be used. The high-level steps would be as follows:

1. A participant in the payment system (Member A above) makes a CHAPS payment to credit the omnibus account.
2. The payment system operator (PSO on the diagram) credits exactly the same amount to Member A's balance in their payment system.
3. Member A is then able to use these funds to send payments to other participants.
4. If Member B wants to withdraw funds, they send a request to the payment system operator.
5. The payment system operator then reduces the balance available to Member B on their system and transfers the same amount via CHAPS back to the participant account in RTGS.



9. To effectively support topping up and drawing down, the payment system operator will need to join CHAPS as a direct participant. The omnibus account will also need to be a **settlement account**.⁹

⁹ An account held in RTGS, which can be used for settlement in one or more payment systems.

Eligibility requirements for opening an omnibus account

10. While enabling omnibus accounts can benefit financial stability, it can also present risks. In considering an application to hold an omnibus account, the Bank will consider the following eligibility requirements. They are designed to manage and mitigate the financial, legal and operational risks that could arise in this arrangement.

- 1. The sterling balances in the relevant payment system must always be fully (1-1) funded with monies in the omnibus account held in the Bank's RTGS system.** It is the responsibility of the payment system operator holding the omnibus account to maintain, at all times, a 1-1 correspondence between the omnibus account balance in RTGS and the sum of all participant balances on its platform. This process must be supported by robust contingency arrangements and have clear risk management and governance arrangements.
- 2. The only entities that can hold an overnight entitlement¹⁰ in the account are the participants in the Sterling Monetary Framework (SMF) that hold reserves accounts at the Bank of England¹¹ and are not subject to a target level of reserves.¹²** Institutions that are eligible to join the SMF, will need to join the SMF first before becoming eligible to participate in the relevant payment system. The payment system operator would not be eligible to hold own funds in the omnibus account. The Bank will keep it under review whether other SMF participants (e.g. those subject to a target level of balances) can be allowed to hold an entitlement to funds in the omnibus account, subject to appropriate restrictions.
- 3. The payment system operator holding the account needs to have robust legal arrangements that protect both the participants and the Bank of England from legal risks and liability exposures.** The relevant payment system must be designated under the Settlement Finality Regulations.¹³ The payment system operator holding the account must offer participants a strong legal claim on the underlying funds in the account by holding the account on trust on behalf of the participants. The payment system operator's legal documentation must clearly outline arrangements

¹⁰ That can have beneficial ownership rights to the funds in the account outside of RTGS operating hours.

¹¹ These eligible entities include:

- Banks – defined as a deposit-taking institution that is required to report its eligible liabilities (see Bank of England Act 1998, Schedule II paragraph 1).
- Broker dealers – defined as an investment firm which is designated by the Prudential Regulation Authority for prudential supervision in accordance with Article 3 of the PRA Regulated Activities Order.

See [Sterling Monetary Framework Terms and Conditions](#) for more information.

¹² As specified in Part F, paragraph 4 of the [Sterling Monetary Framework Terms and Conditions](#)

¹³ [The Financial Markets and Insolvency \(Settlement Finality\) Regulations 1999](#)

for the timely pay-out of funds in the event of a default of the payment system operator or their participant.

4. **The account holder has to be an operator of a payment system that has been recognised by HM Treasury under the Banking Act 2009, and is therefore regulated and supervised by the Bank.** If the payments system also operates internationally and subject to supervision in other jurisdictions, then the Bank also requires assurance of oversight and co-operation with authorities in relevant jurisdictions.
5. **Specific settlement services should not increase the risk to financial or monetary stability.** Any applicant needs to set out what types of settlement services they intend to offer via their platform. The account will be granted for a particular set of settlement services, agreed during the application process, and any additional settlement services would require prior approval by the Bank as the operator of RTGS. It may also need regulatory approval or non-objection. The Bank will discuss with the applicant whether holding an omnibus account is the most suitable model for their payment system to mitigate the financial stability risks, as opposed to other settlement models offered.¹⁴

What are the other terms of the omnibus account?

11. It will be important for the applicant to demonstrate a track record of successful operation. For applicants that are in the early stages of their operation, the Bank may introduce temporary balance limits, to allow the account holder to demonstrate their safe and robust operation of the system. Balances held on the omnibus account overnight will be remunerated at Bank Rate. The payment system operator holding the omnibus account will be required to fully pass on the interest rate to the participants in their system. By mandating this, the Bank ensures that the omnibus account model does not impact the transmission of monetary policy.

12. The institutions permitted to hold an overnight entitlement in the account will need to be prudentially regulated by the Bank. There will then be an interaction between sterling balances within the payment system and participant institutions' prudential obligations. Therefore, as part of its consideration of specific settlement services (see requirement 5 in paragraph 11) the Bank will factor into its assessment the way in which prevailing prudential regulations would treat participant institutions' entitlements, e.g. in the context of eligibility to satisfy an institution's liquidity obligations. These considerations will also draw on the assessment of the underlying legal arrangements (see requirement 3 in paragraph 11) surrounding the account.

¹⁴ Section 3 of the Bank's Settlement Account Policy explains the settlement models offered by the Bank.

Key steps in the approval process

13. To find out more about the application process and submit an application, please contact the Bank of England at rtgschapsaccess@bankofengland.co.uk. The following section describes the key high-level steps required to obtain an omnibus account. Some of these steps can be progressed in parallel, but they should be expected to take a significant amount of time.

Recognition under the Banking Act 2009.

14. Only operators of systemic payment systems recognised by HM Treasury for regulation and supervision by the Bank would be eligible for an omnibus account. Payment systems are recognised for Bank regulation if their potential disruption could lead to financial stability risks. Specific recognition criteria includes consideration of their ability to disrupt the UK financial system and businesses based on current or likely volume and value of transactions, nature of transactions and links to other systems, as well as substitutability and use by the Bank of England in its role as monetary authority.¹⁵ Payments systems with significant potential to be systemic at launch are eligible to be recognised from launch. The full criteria for recognition are detailed in Banking Act 2009, Part 5 section 185.¹⁶

15. If the applicant is an operator of a payment system that is not currently recognised under the Banking Act 2009, but believes it would meet the criteria, the payment system will need to contact HM Treasury to discuss recognition.¹⁷ HM Treasury may require specific evidence to support the assessment of whether the applicant meets the criteria.

Eligibility assessment.

16. In determining whether to grant the account to a payment system operator, the Bank will complete an assessment of the applicant's proposition against the five eligibility criteria for omnibus accounts outlined above. The Bank will provide the applicant with a detailed list of evidence to submit against the eligibility criteria.

Designation under the Financial Markets and Insolvency (Settlement Finality) Regulations.

17. One of the requirements for the account to be granted is that the applicant's system is designated under the Financial Markets and Insolvency (Settlement Finality) Regulations. If they are not currently designated, they should contact the Bank of England to apply for the designation.¹⁸

¹⁵ <https://www.bankofengland.co.uk/financial-stability/financial-market-infrastructure-supervision>

¹⁶ <https://www.legislation.gov.uk/ukpga/2009/1/section/185>

¹⁷ HM Treasury '[The recognition process for inter-bank payment systems](#)'

¹⁸ Please be aware that this is a separate application process.

Compliance with the CHAPS and RTGS requirements.¹⁹

18. In order to be permitted to operate an omnibus account, the payment system operator must become a direct participant in CHAPS. This is required to facilitate funding and de-funding of the account. To become and remain a CHAPS direct participant an organisation must meet the criteria listed on the [Bank's website](#) and in the [CHAPS Reference Manual](#).

¹⁹ Full information on the RTGS requirements can be found in the Settlement Account Policy and RTGS Terms and Conditions, found here: <https://www.bankofengland.co.uk/payment-and-settlement>