



Sam Woods

Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority

12 October 2020

Dear CEO

Information request: Operational readiness for a zero or negative Bank Rate

Since the financial crisis in 2008, interest rates in the UK and elsewhere have reached historically low levels, and some central banks have implemented negative interest rates as a monetary policy tool. In August, the Bank of England's Monetary Policy Committee (MPC) noted that it would continue to assess the appropriateness of a negative official Bank Rate alongside all of its other tools.

For a negative Bank Rate to be effective as a policy tool, the financial sector – as the key transmission mechanism of monetary policy – would need to be operationally ready to implement it in a way that does not adversely affect the safety and soundness of firms.

As highlighted in the September minutes of the MPC,¹ the Bank of England (the Bank) and the Prudential Regulation Authority (PRA) are commencing structured engagement on the operational considerations of a negative policy rate. For these purposes, we also include being operationally ready to deal with a zero Bank Rate. This structured engagement is not indicative that the MPC will employ a zero or negative policy rate. The appropriate level of Bank Rate remains a decision for the MPC, which sets monetary policy to meet the 2% inflation target in a way that helps to sustain growth and employment. This engagement is not asking firms to begin taking steps to ensure they are operationally ready to implement a negative Bank Rate.

We recognise that a negative policy rate could have wider implications for your firm's business and your customers. The Bank and PRA will consider the wider business implications, including on financial stability, safety and soundness of authorised firms and pass-through to the wider economy. This letter, however, is seeking information to understand firms' operational readiness and challenges with potential implementation, particularly in terms of technology capabilities.

Responding to this letter and the structured survey questions attached will help us and firms to identify whether there are any technical operational challenges associated with the implementation of a zero or negative Bank Rate, and to consider how best to prepare and prevent any unintended operational disruption that could be associated with a change should the MPC decide it was appropriate.

¹ Paragraph 52: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-summary-and-minutes/2020/september-2020.pdf>.

As part of this work, we are requesting specific information about your firm's current readiness to deal with a zero Bank Rate, a negative Bank Rate, or a tiered system of reserves remuneration – and the steps that you would need to take to prepare for the implementation of these.

It is important for the Bank, PRA, and firms to understand the implications of these potential approaches to implementing a zero or negative Bank Rate, since the MPC may see fit to choose various options based on the situation at the time. We are also seeking to understand whether there may be potential for short-term solutions or workarounds, as well as permanent systems changes.

The responses to this letter will be shared across the Bank and PRA's different functions to assist in forming a structured view on readiness and contingency plans. This will inform the MPC about the operational aspects of a negative policy rate, and the Bank and PRA's understanding of the implications for firms and the UK financial system, in line with our objectives.

While completing the data template is voluntary, your response will help to ensure that the Bank and PRA have an accurate and comprehensive understanding of any potential issues and risks associated with the operational implementation of a zero or negative Bank Rate. Reflecting the importance that the PRA places on this request and our desire for your response to be considered at the most senior levels within your firm, I would welcome responses from CEOs.

I would be grateful if you could send your response to the information request to negativeratesops@bankofengland.co.uk by Thursday 12 November 2020. Upon receipt of your response, supervisors will follow up with you if deemed necessary. If you have any questions about the contents of this letter, please speak to your usual supervisory contact.

Yours sincerely



Sam Woods
Deputy Governor and CEO, Prudential Regulation Authority

Link to questionnaire: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/info-request-operational-readiness-policy-rates-app1.xlsx>