

The work of the Cashier's Department

The Cashier's Department is the principal operational department of the Bank. It undertakes a full range of banking services for the Bank's customers, handles the Bank's day-to-day operations in the gilt-edged, money and foreign exchange markets, and is responsible for the management of the note issue; the department also acts as an issuing house on behalf of the Government and certain other customers. This article describes how the department is organised to discharge these responsibilities. It does not attempt to deal with the Bank's operations and policy objectives in these fields, which have been described in a number of articles in earlier issues of the *Bulletin*.⁷ Nor does it discuss the close links maintained between the Cashier's Department and other departments of the Bank.

At the head of the department is the Chief Cashier, the Bank's chief executive officer, who is served by a staff of approximately 1,000 in eleven separate offices and by about a further 350 at the eight branches of the Bank. Drawing on their experience in market operations, and their close contact with the financial community as a whole, the Chief Cashier and senior officials of the department advise the Governors and Executive Directors on the planning and execution of domestic monetary policy.

The Chief Cashier is assisted directly by a group of officials with general departmental responsibilities. Among these are four Deputy Chief Cashiers, whose individual responsibilities are the management of the gilt-edged market and the implementation of credit control policies; the management of the money market and customer services; staff and administration of the department and matters relating to bank notes; and foreign exchange operations. Also assisting the Chief Cashier, but with direct responsibilities to the Governor, is the Principal of the Discount Office, whose duties are described later in the article.

Each of the offices of the department deals with a specialised aspect of the work and is under the administrative control of a Principal, who is directly responsible to the Deputy Chief Cashier concerned with the particular operations of his office. A diagram at the end of this article shows the organisation of the department, and the offices included within it.

The Chief Cashier's Office

The *Chief Cashier's Office*, the principal office in the department, deals with a variety of tasks requiring the regular personal attention of the Chief Cashier, his deputies and assistants. It includes a small section of specially selected staff who undertake research into a wide variety of matters affecting the department's operations. The office is divided into two main groups, the Banking and Securities sections. A smaller General section is responsible for staffing matters and miscellaneous correspondence.

⁷ See, for example, the following articles:
March 1963 – The management of money day by day;
March 1964 – The London gold market;
September 1964 – The Treasury bill;
March 1965 – The note circulation;
March 1966 – The growth in demand for new bank notes;
June 1966 – Official transactions in the gilt-edged market;
and
December 1968 – The Exchange Equalisation Account: its origins and development

The Banking section maintains the records of the portfolios of the Issue and Banking Departments, the accounting divisions set up under the Bank Charter Act of 1844 to separate the note issuing function from the Bank's other activities. The Bank's operations in the gilt-edged and money markets, which comprise in the main transactions in British government stocks and Treasury bills, are undertaken with these portfolios; and the section makes the necessary arrangements for the delivery to or acceptance from the market of the required securities, and the settlement for them. Daily reports are prepared for the Governors and the Chief Cashier in respect of the previous day's transactions in these portfolios, and the Bank Return—the statement of the assets and liabilities of the Issue and Banking Departments—is drawn up for publication each Thursday. The section also receives tenders for the weekly issue of Treasury bills and handles customers' Treasury bill business.

The Securities section is concerned with the investments of the Bank's internal funds and the gilt-edged portfolios of central bank customers, and of certain sinking funds and charitable trusts in respect of which the Bank act as investment advisers or trustees. This section also deals with applications for advance and overdraft facilities, and is responsible for the provision of general market intelligence to the Chief Cashier and his deputies.

From time to time it also falls to the office to deal with specialised problems having general departmental implications. For example, work is being done currently in preparation for decimalisation.

With the exception of the Chief Cashier's Office, the various offices have clearly defined areas of operation. The work of these offices is best illustrated by examining the various functions of the department.

Banking services

The first of these functions—the provision of banking services—makes the largest demand on the department's resources. The Bank do not offer banking facilities to the general public. Customers are limited to the Government, overseas central banks, most domestic commercial banks, certain other financial institutions, a few private customers mainly having particular associations with the Bank, and members of the Bank of England staff.

Banking accounts

The custody and maintenance of customers' current and deposit accounts at head office is the responsibility of the *Drawing Office* (the name derives from the time when current accounts were called drawing accounts), which offers the usual counter services provided by a bank to its customers. A major difference between the work of the Drawing Office and its counterpart in a commercial bank lies in the responsibility for dealing with the central government's accounts—H.M. Exchequer and the Paymaster General's accounts and also those of the Commissioners of Inland Revenue and Customs and Excise. One section of the office works in close liaison with these government departments and the Chief Cashier's Office in establishing

the daily cash position of the funds on public account, which is important in the operational management of the money market (see the article on "The management of money day by day" already referred to).

Most of the domestic commercial banks have an account with the Bank, as do the discount houses and accepting houses and a few of the overseas banks in London. In particular, the London clearing banks keep a substantial part of their total cash holdings in the form of balances at the Bank, from which they settle their daily cheque and credit clearings with each other.

A further specialised aspect of the work of the Drawing Office arises from its responsibility for the operational oversight of the accounts of some ninety overseas central banks. Facilities are provided for the deposit of liquid funds at call, at a rate of interest which is fixed weekly and is slightly below the Treasury bill rate. Other funds are invested in Treasury bills or in such other manner as the customer may direct, usually in British government stocks.

In addition to the daily processing of customers' cash transactions, the Drawing Office provides other services which a customer expects from his banker, including the execution of payments under standing orders and direct debiting arrangements, the supply of foreign exchange (provided through the Dealing and Accounts Office), the arrangement of cheque encashment facilities and documentary credits, the custody of valuables (other than securities) and, for certain customers, the maintenance of advance and overdraft facilities.

The *Bill Office* works in close co-operation with the Drawing Office, obtaining payment for items which customers pay into the Drawing Office and the branches but which are not drawn on other Bank customers, and making payment for items drawn on the Bank and presented via the London Bankers' Clearing House. The method of obtaining payment for items paid in depends on the type of bank on which they are drawn. Those drawn on banks which are members of the Committee of London Clearing Bankers are presented for payment in the Clearing House, membership of which is confined to the clearing banks and in which, by invitation, the Bank of England also participate. Items drawn on non-clearing banks and other financial institutions situated within a limited area of inner London are collected through the 'amalgamated walks' system. This is an arrangement whereby certain of the smaller clearing banks and the Bank of England have formed a syndicate, organised by the Bill Office and operating from a centre in the Bank's head office, to facilitate collection. Items drawn on non-clearing banks outside the area of the 'amalgamated walks' are presented for payment through the post, by hand, or, if more convenient, via one of the Bank's branches: those drawn on Scottish and Irish banks are presented through correspondents in Edinburgh, Dublin and Belfast for local clearing.

The Bill Office also presents for payment on the due date bills of exchange held by the office in safe custody for customers or for the Banking or Issue Departments, the method of presentation again being dictated by the nature

of the acceptance. Similarly the office arranges for the collection of payments drawn on banks abroad and, through the Dealing and Accounts Office, for the collection or negotiation of payments drawn in foreign currencies.

The Bank have been closely associated with the work of the Committee of London Clearing Bankers in the field of automatic cheque processing. The vast majority of cheques are now printed with magnetic symbols which can be read electronically, indicating the cheque number, the bank and branch on which the cheque is drawn, and the account number of the customer; the amount is added in magnetic ink characters by the presenting bank and all the detail required for automatic clearing processes as well as for account posting is then available.

The Bank have taken full advantage of these developments. The prime register of accounts is maintained on magnetic tapes and is updated daily by an ICL 1904 series computer. The information required for the daily posting of accounts is fed to the computer in one of three ways. Credits paid into the Drawing Office, and most internal items, are processed to enable operators to type the required information on accounting machines which produce simultaneously a printed record and a punched record on paper tape; after the printed record has been checked the paper tape is read into the computer. For cheques and other items received from the Clearing House, and those encashed over the Drawing Office counter, the requisite details are read into the computer through the medium of an ICL 8500 reader/sorter.

Finally, the majority of standing orders and direct debits are dealt with through the inter-bank computer bureau. The members of this bureau are the clearing banks, the Bank of England, and some of the Scottish banks, and its services may also be used by a customer sponsored by a member. Briefly, the system requires delivery to the bureau of standing order instructions or direct debit instructions on magnetic tape. These tapes are then processed by a central computer and all credits and debits of a member are isolated and delivered to that member – either again in the form of magnetic tape or, if preferred, in the form of vouchers. The net settlement forms part of the settlement made daily in the Clearing House. The Bank's magnetic tape for delivery to the bureau is prepared from a register of standing orders, which is scanned daily by the computer to produce a tape containing only the information relevant to the orders for a particular day.

Security accounts

The *Securities Office* maintains the records of customers' securities deposited with the Bank and held in the name of the Bank's nominee company or in the customer's own name. The office is responsible for implementing instructions received from customers in respect of these securities and for servicing bearer securities. The work involves settlement with brokers for purchases and sales, the collection of interest and dividends, the payment of calls on allotment letters (together with the registration or renunciation of allotments) and the subsequent collection

of certificates. The office also collects, on behalf of the Inland Revenue, income tax on interest and dividends received in the Bank and denominated in currencies other than sterling. A considerable amount of security work is undertaken for the Commissioners for the Reduction of the National Debt, who hold securities in their own name but appoint the Chief Cashier, his deputies, and the Principals of the Securities Office to act as their attorneys: a separate aspect of the work undertaken for the Commissioners is the receipt of 4% Victory Bonds surrendered to the Estate Duty Office in part settlement of death duties.

The safe-keeping of securities is the responsibility of a small office called the *Treasury*, which also has security control responsibilities for the note and coin vaults.

The Bank's branches¹

Although the main function of the provincial branches is to serve as subsidiary note issuing centres, they provide for their local customers a similar service in respect of banking and security transactions as has been described for head office customers. They also undertake certain functions in the administration of exchange control. The officials in charge of the branches (known as Agents) establish and maintain close personal contact with the business communities in their areas, thus helping to provide the Bank with an up-to-date assessment of the state of affairs in industry and commerce in the various regions. The Law Courts branch specialises in the provision of statutory services to the Supreme Court and to the Board of Trade in matters of bankruptcy and liquidation. Liaison with the branches is maintained by the *Branch Banks Office*, through which transfers of funds between head office and the branches are effected.

Foreign exchange and gold

Customers' orders for the purchase and sale of foreign exchange and gold (including orders from central bank customers) are executed by the *Dealing and Accounts Office* (see the section on market management below). Between twenty-five and thirty thousand foreign exchange transactions are effected each year, about a third of which are on behalf of government departments. Foreign exchange is provided to meet authorised expenditure abroad, or received for conversion into sterling, and currency drafts drawn in favour of customers are negotiated or collected. The transactions are effected either through one of the eighteen central banks with which the Bank hold an account or through the London agent of a commercial bank in the country of the currency concerned.

Gold is received for central bank customers' accounts and delivered or transferred on their instructions; and gold coin or bars surrendered to the Bank as an authorised dealer in gold under the Exchange Control Act 1947, or seized by H.M. Customs or the police, is accepted for realisation. The Dealing and Accounts Office negotiates and accounts for these transactions, but the responsibility for the physical handling and custody of gold rests with the *Bullion Office* – which examines all gold received by the Bank and

¹ Branches are maintained at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle upon Tyne, Southampton and the Law Courts in London. (There is also an exchange control office in Glasgow.) The history and work of the branches was described in an article in the December 1963 *Bulletin*.

calculates the fine gold content before arranging for its deposit in the bullion vaults. The Bank from time to time also hold deposits of silver bars for the bullion brokers.

Other banking services

With the Bank's Treasury, the Bullion Office is also responsible for the safe custody of the Bank's holdings of coin other than gold coin. The coin requirements of customers—apart from the main domestic banks, which deal direct with the Royal Mint—is usually met from a reserve held jointly by two offices, the Treasury and the Drawing Office. This reserve is replenished from the main stock as necessary; but customers regularly having a large requirement collect coin direct from the Bullion Office. All coin received by the Bank is examined to see if it is pre-1947 (containing silver), foreign, counterfeit, damaged or badly worn.

Finally, the Bank's Cable Section performs an important service in the execution of customers' business and of the Bank's own operations. Day-to-day communications with overseas central banks and international financial institutions are usually by cable or telex, and all the Bank's telecommunications are handled here. The majority of cable messages are in code, usually the Bank's own, which is compiled and maintained by the section.

Market management

As already mentioned the Cashier's Department is responsible for the Bank's day-to-day operations in the gilt-edged, money and foreign exchange markets. The main objects of these operations—which necessarily involve the Bank closely in all aspects of monetary policy—are to finance the Government's long and short-term borrowing requirements, to uphold the value of sterling in international markets, and to maintain and safeguard the gold and foreign exchange reserves. This section of the article describes the operations of the two offices of the Cashier's Department whose main functions evolve from the Bank's responsibilities in the money and foreign exchange markets.

The *Discount Office* is responsible for maintaining day-to-day contact with the money market and with the City's financial community as a whole, and for keeping the Governors and Chief Cashier informed of events, personalities and developments of interest to the Bank. It is also one of the channels by which guidance is given to the banks about the detailed implementation of credit restrictions.

The office acts as lender of last resort when the discount houses find themselves short of cash and the Bank either will not or cannot relieve the shortage through the purchase of Treasury, commercial or local authority bills. Nowadays the lending is almost invariably by means of advances to the houses against the pledge of securities.

The Bank regularly make sample purchases of commercial bills—bank bills or trade bills—from the market for their own account. The bank bills bought are those accepted by banks whose paper the Bank regard as eligible for discount.

This eligibility gives the paper high standing in the market and, coupled with quantitative limits on the amount of finance paper which the Bank will purchase, permits some measure of control of the quality of paper circulating in the market. A few bills accepted by certain trading companies are also bought. Such sample purchases enable the Bank to obtain a view of the type of paper circulating and the trades which are being financed in this way.

The Discount Office also seeks bankers' references on behalf of customers of the Bank and provides references in answer to enquiries about banks with accounts in the Drawing Office. References for other customers are provided by the Drawing Office.

The *Dealing and Accounts Office* carries out, and accounts for, the Bank's operations on behalf of the Exchange Equalisation Account in gold, foreign exchange and foreign securities. The Account at present holds sterling (which is either invested in Treasury bills or held in the form of balances with H.M. Paymaster General), foreign exchange (principally U.S. dollars but also working balances in other important currencies), gold and Special Drawing Rights. The latter are a recent addition to the Account's assets under the International Monetary Fund Act 1968. Using the resources of the Exchange Equalisation Account the Bank are responsible for fulfilling the Government's obligation to maintain spot exchange rates for sterling in London within a range of 1% either side of the parity declared to the I.M.F. Buying and selling rates are therefore published (currently £1 = U.S. \$2.42 buying and U.S. \$2.38 selling) at which the Bank will deal with authorised banks in London for spot U.S. dollars in the form of telegraphic transfers; but it also operates between these limits to moderate abrupt exchange rate fluctuations and to cushion their possible effect on the reserves. Until the Washington conference in March 1968 the Bank also operated in the London gold market on behalf of the Exchange Equalisation Account, the 'gold pool' and central bank customers.¹

Although not part of the exchange control, the Dealing and Accounts Office has certain control functions delegated to it because of its specialised knowledge – namely the supervision of the positions taken by banks which are authorised to deal in gold and foreign currencies, and all questions concerning access to the forward market, the industrial use of gold and the control of gold coin.

To assist its objectives and operations in the foreign exchange and gold markets, and to help it to assess market trends, the office maintains close contact with individual banks, brokers and bullion dealers and with their respective associations, much as the Discount Office does in internal money markets. On international monetary affairs, the Bank are, of course, closely involved with other central banks. They are responsible for arranging and executing inter-central bank assistance transactions, usually through the Exchange Equalisation Account – which is also the medium for H.M. Government's transactions with the I.M.F. and under the European Monetary Agreement. Regular contacts are maintained with those responsible for foreign operations in many central banks.

¹ The gold pool, and the Bank's operations in the market, were described in an article on the London gold market in the March 1964 *Bulletin*; the events leading up to the Washington conference were outlined in the June 1968 *Bulletin*, page 108.

The note issue

The responsibility for the bulk issue of Bank of England notes to the London note centres of the clearing and Scottish banks, and the receipt from them of notes being withdrawn from circulation, rests with the *Issue Office*. New notes received from the Bank's Printing Works, together with notes paid in but fit for reissue, are held in the office vaults, supervision of which is shared with the Bank's Treasury. A considerable amount of statistical information is compiled about the number and denomination of notes issued, to form a basis for estimating future requirements for new notes. Soiled notes withdrawn from circulation and paid in by the banks are cancelled before despatch to the Printing Works for examination and destruction. Settlements in respect of new notes issued and old notes paid in are made over the Drawing Office accounts of the banks concerned. The Bank's branches perform a similar function in their own areas, and about 70% of all notes issued and paid by the Bank are handled through the branches.

The Issue Office also handles applications for the replacement of mutilated notes, requests to use reproductions of bank notes for advertising and other purposes, and work in connection with forgeries.

Responsibility for the design and issue of new denominations of notes rests with the Chief Cashier, who is assisted by an informal committee including eminent artists and designers.

The Bank as an issuing house

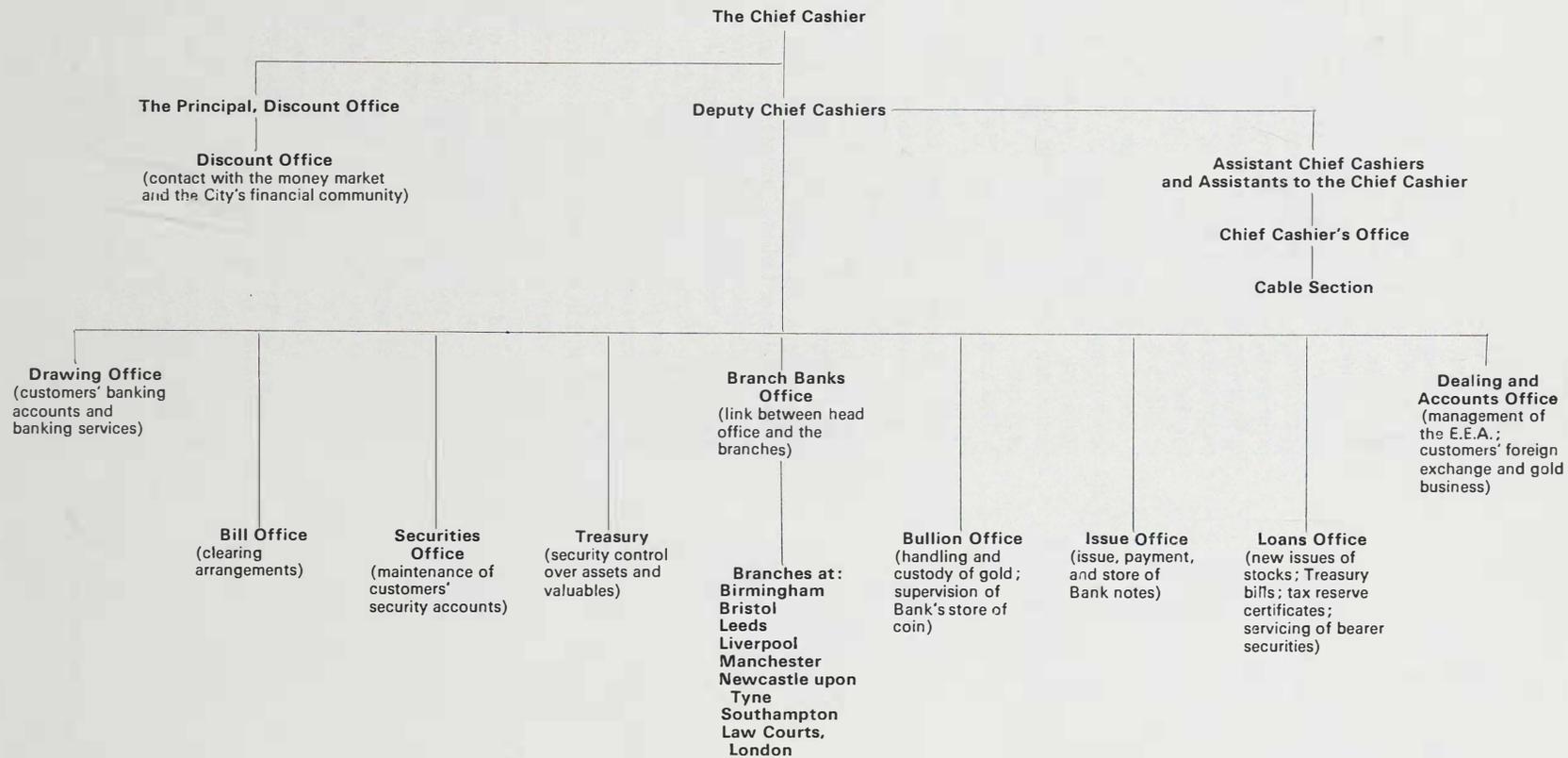
The Cashier's Department arranges for the issue of stocks, Treasury bills and tax reserve certificates on behalf of the British Government, for the stock issues in sterling of some Commonwealth Governments, for the issue of bills, bonds and stocks for the Greater London Council and certain other local authorities, and for the stock and bond issues of a few other customers *e.g.* the Agricultural Mortgage Corporation.

The terms and timing of a government stock issue are agreed between the Governors and H.M. Treasury, on the advice of the Government Broker and the Chief Cashier. The Chief Cashier's Office arranges for the drafting, printing and distribution of the prospectus and application forms, and makes the appropriate advertising arrangements. Completed application forms, together with subscriptions, are required to be lodged at the Bank by a specified date and the *Loans Office* then arranges for the issue of allotment letters to successful applicants.

Stock issues on behalf of other borrowers are similarly arranged, although payment may be by instalments rather than in full on application; such issues are subject to Control of Borrowing legislation which is administered by the Cashier's Department on behalf of H.M. Treasury and is described in more detail below.

The registration of allotment letters and the servicing of registered stock, including the issue of interest warrants, is dealt with by the Accountant's Department,¹ but the Cashier's Department is responsible for the claiming of dividend and

¹ See the article on the Bank of England as registrar in the September 1968 *Bulletin*.



redemption monies and management charges from the borrower.

The weekly Treasury bill tender takes place each Friday under the joint supervision of the Chief Cashier's Office and the Loans Office. The amount of bills offered each week for tender varies according to the Exchequer borrowing requirement and considerations of market conditions.¹ Applications for allotment, which must be lodged in the Chief Cashier's Office at the Bank by 1 p.m., are examined in the presence of an official of H.M. Treasury and a representative of the Governors. The basis of allotment and the approximate average rate of discount are calculated and published by about 1.30 p.m. Exact calculations are subsequently made by the Loans Office and the results are published by about 3.30 p.m. The Loans Office also arranges for the printing and issue of the bills and for their redemption at maturity.

Local authority bill issues are arranged either by open tender, much as for Treasury bills, or by a limited tender confined to the discount houses. Local authority bond issues are usually placed with the market through the Bank's brokers.

The Loans Office also deals with the issue and surrender of tax reserve certificates,² and acts as paying agent for certain German and Austrian Bonds which were issued internationally between the wars.

As already mentioned, the Bank administer the Control of Borrowing legislation on behalf of H.M. Treasury. Their main function in this connection is to maintain an orderly market by avoiding an excessive bunching of new issues. Under the regulations, all sterling security issues made by local authorities are subject to terms control and timing consent by the Bank of England; all other sterling issues which are liable to raise more than £1 million, including those made by overseas residents, are subject to timing consent. In recent years the potential long-term fixed interest borrowing requirement of local authorities has considerably exceeded the demand in the market for such stock issues and this has led to the formation of a queue of would-be borrowers.

The office of 'First Cashier' was one of the original appointments on the incorporation of the Bank in 1694 and the structure of the department has evolved since that time to meet the needs of developing responsibilities.

The last significant change was in 1957, when responsibility for the administration of exchange control—which, since its inception during the last world war, had rested with the Cashier's Department—was transferred to what is now the Overseas Department. However, with the gathering momentum of developments in the banking world, and particularly in view of technical developments in the field of data processing by computer, the need for changes in organisation has to be continually reviewed. An investigation is currently being made into the design of an integrated management information and accounting system for the department as a whole, taking advantage of the more recent computer developments. This may well give rise to further changes in the staffing and organisation of the department.

¹ See the article on the management of money day by day in the March 1963 *Bulletin*.

² See articles on tax reserve certificates in the *Bulletins* for September 1962 and December 1968.

CORRECTIONS

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Page 294 Last paragraph, first line, for 1957 *read* 1964

The international capital markets of Europe

Page 303 Table B, Western Europe: 1966, 516 *should read* 531; and 1968, 855 *should read* 860

U.K. external assets and liabilities: end-1969

Page 316 Footnote *c* applies to the figure of 179 quoted as the gold subscription to the I.M.F. in 1962

Page 317 Total of identified external liabilities 1967, 18,490 *should read* 18,400