

Short-term paper issues by deposit-taking institutions

Notice issued by the Bank of England on 26 November 1986

1 This notice explains the Bank of England's attitude to the issue of certificates of deposit and other short-term paper instruments by deposit-taking institutions. It replaces the Bank's notices on certificates of deposit of 30 June 1983, 26 November 1984, 22 October 1985 and 29 April 1986. Attention is also drawn to the existence of publications by the British Bankers' Association and by the International CD Market Association which provide guidance on market practices (including recommended minimum security) when issuing or trading sterling and foreign currency certificates of deposit, respectively.

2 The Bank wishes to make clear that the provisions of this notice apply to *all* issues, irrespective of title, of marketable, unsecured, one-name paper of an initial maturity not exceeding five years, whether in sterling or other currencies, by any deposit-taking institution which is legally empowered to issue London certificates of deposit.

London CDs

3 London certificates of deposit may only be issued by institutions authorised to accept deposits under the Banking Act 1979 or specifically exempted under Schedule 1 of that Act, and must be issued and payable in the United Kingdom. These institutions are expected to issue London certificates of deposit in the relevant maturity range rather than instruments of any other title (see (c) below). Any institution contemplating its first issue is asked to inform the Wholesale Markets Supervision Division of the Bank. The Bank expects London CDs to display the following characteristics:

(a) Currency denomination

London CDs are at present denominated in sterling, US dollars, yen, Canadian dollars, Australian dollars, SDR or ECU. The Bank recognises that, from time to time, interest is expressed in making issues in other currencies. The Bank would, however, wish to be satisfied that London issues in other currencies would have the agreement of the appropriate overseas authorities and that a genuine market for such instruments is likely to develop.

(b) Maturity

- (i) Minimum: London certificates of deposit should have a minimum term to maturity of not less than seven days.
- (ii) Maximum: the Bank regards certificates of deposit as short-term market instruments whose maximum life should not exceed five years (although, where

necessary, a few days' grace would be acceptable when the natural maturity date does not fall on a business day). Negotiable instruments evidencing deposit liabilities which are issued with an original life beyond five years are more appropriately described as 'notes' and should not, in the Bank's view, be referred to as certificates of deposit at any stage of their life (see paragraph 11 below).

(c) Description of short-term instruments

The Bank would not wish to see the descriptions 'deposit notes' and 'commercial paper', nor any hybrid titles like 'CD notes', applied to instruments (including promissory notes) within the maturity range covered by certificates of deposit (ie up to five years). Institutions which believe they have exceptional reasons for not describing issues as certificates of deposit must consult the Bank.

(d) Minimum denomination

Certificates of deposit should be issued with a minimum denomination of not less than £50,000, or its currency equivalent.

(e) Interest

Certificates of deposit may carry interest at a fixed or variable rate. Where there is no agreed market practice, the Bank would like it to be clear from the instrument when payments of interest or repayment will be effected in the event of the due date falling on a non-business day. Calculation of interest on certificates of deposit should be on an actual day basis in conformity with British practice.

Non-London CDs

4 The Bank does not seek to restrict the trading in London of certificates of deposit which do not come within the definition of London CDs. However institutions which propose to place or trade non-London CDs in the United Kingdom are asked to inform the Bank of their intention and should ensure, where appropriate, that the provisions of the Banking Act are complied with. Furthermore, it should be made clear to all counterparties that the instruments are not London CDs.

Early repayment option

5 The Bank has no objection to issues of London CDs which incorporate an option for repayment before the stated maturity date where this option lies with the *holder*. In the case of issues of London CDs which incorporate an option for the *issuer* to repay early, on a specific date, the Bank does not object provided that:

- (a) the terms of the option are clear to the initial, and any subsequent, holder and the means by which a holder will be informed if the issuer proposes to exercise the option are in no doubt.
- (b) issues of these instruments by foreign institutions do not run counter to the wishes of parent supervisory authorities. In this connection foreign institutions wishing to issue instruments of this sort should inform the Bank beforehand so that it can, if necessary, consult the relevant authorities.

Discount certificates of deposit

6 The Bank does not object to issues of London CDs which carry no coupon and are issued at a discount, provided that the instrument is so worded that the basis of issue is obvious to all interested parties and, in the case of certificates with an original maturity in excess of one year, some means of periodically verifying the authenticity of such instruments is incorporated in the terms of issue.

Certificates of deposit purchased by issuers

7 The Bank accepts that the purchase of its own certificates of deposit by an issuer can, in particular circumstances, assist the maintenance of an orderly market. Institutions intending to purchase their own certificates are asked to inform the Wholesale Markets Supervision Division of the Bank.

Certificates of deposit as security

8 The Bank does not expect institutions normally to take as collateral certificates of deposit issued by themselves or by companies within the same group.

Bank of England operations

9 The Bank of England does not deal in certificates of deposit, nor are they eligible at the Bank as security or margin for advances to the discount market or to the gilt-edged market.

Statistical reporting

10 Certificates of deposit outstanding, both issued and held, should be reported by monetary sector institutions to the Financial Statistics Division of the Bank on the

appropriate forms. (If a reporting institution holds certificates of deposit which it has itself issued, these should be excluded from both sides of its balance sheet.) Building societies similarly provide data on their certificates of deposit outstanding to the Building Societies Association.

Medium and long-term sterling securities

- 11(a) Institutions referred to in paragraph 3 above are free to issue medium or long-term sterling securities, carrying either a fixed or a variable rate of interest, where the term to maturity is over five years and where there is no provision for repayment within five years of original issue or for conversion into or reclassification as certificates of deposit. Issues of such securities by monetary sector institutions will not be classified as eligible liabilities nor will holdings of such securities issued by other monetary sector institutions be regarded as an offset against eligible liabilities at any stage of the life of the securities. In consequence, issues of such securities will not be subject to cash ratio deposits or to special deposits.
- (b) Institutions proposing to issue such securities are invited to consult the Bank over the description of the securities, which must be clearly identifiable. In addition, such issues are subject, like all capital market issues, to the arrangements set out in the Bank's guidance notices of 10 November 1980 and 19 July 1982 on 'capital market issues in the United Kingdom'.

Enquiries

12 The Bank recognises that problems which fall outside its province may arise from time to time in relation to the issue of certificates of deposit, eg taxation. The Bank remains willing to act as a channel of communication on such problems, where it can usefully do so.

13 Enquiries on the content of this notice and on related matters should be addressed to the Wholesale Markets Supervision Division of the Bank (Telephone 01-601 4307 or 4327).