

A

Bill

To

Provide the Bank of England with the exclusive right to create and issue all currency;
to establish the Money Creation Committee of the Bank of England;
to protect fully the content of customer transaction accounts held with
authorised deposit taking institutions; and for connected purposes.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the
Lords Spiritual and Temporal, and Commons, in this present Parliament assembled,
and by the authority of the same, as follows:—

PART 1

INTERPRETATION

1.— In this Act:

"sight deposit" means the deposit in a current account, or in an instant access savings account, or an overnight deposit, or a demand deposit.

"time deposit" means the deposit in an investment account, or a savings account which is not an instant access savings account.

"cash money" means sterling coin and sterling banknotes, including those sterling banknotes of the authorised Scottish and Northern Irish banks, and the sterling coin and sterling banknotes of the Crown Dependencies.

"non-cash money" means money which is neither tangible coin nor banknote but which is found only in an intangible electronic or digital or number sense, and which is often transferred by cheque, card or any electronic or digital facility, and which is found in sight deposits.

"currency" is the currency of this Realm and means cash money and non-cash money, denominated in British sterling.

"coin" means the coin of this Realm, denominated in British sterling.

"banknote" has the same meaning as section 208 of the Banking Act 2009, and is denominated in British sterling.

"the Bank" means the Bank of England.

"Monetary Policy Committee" means the Monetary Policy Committee of the Bank of England.

"Money Creation Committee" means the Money Creation Committee of the Bank of England, established by this Act.

"Committee" means the Money Creation Committee of the Bank of England.

"Chancellor" means the Chancellor of the Exchequer.

"Minister of the Crown" has the same meaning as in the Ministers of the Crown Act 1975.

"authorised Scottish and Northern Irish banks" means the banks in Scotland authorised to print their design on banknotes, presently the Bank of Scotland, the Clydesdale Bank and the Royal Bank of Scotland; and the banks in Northern Ireland authorised to print their design on banknotes, presently the

Where further information is available in the book *Modernising Money*, it will be referred to here.

Bank of Ireland, the First Trust Bank (a trading name of Allied Irish Banks), the Northern Bank, and the Ulster Bank.

"person" includes a body of persons corporate or unincorporate.

"deposit" has the same meaning as in paragraph 22 of Schedule 2 of the Financial Services and Markets Act 2000.

"deposit taking" means accepting deposits, as per paragraph 4 of Part 1 of Schedule 2 of the Financial Services and Markets Act 2000.

"deposit taker" has the same meaning as in section 9 of the Bankers' Books Evidence Act 1879, as amended.

"authorised deposit taking institution" is a deposit taker within the meaning of section 9 of the Bankers' Books Evidence Act 1879, as amended, and section 31 of the Financial Services and Markets Act 2000.

"institution" means authorised deposit taking institution.

"alternative currencies" and "complementary currencies" means the community and locally-initiated payment systems which, while usually not acceptable for the payment of taxes, have become known variously as "LETS", "Time Banking", and other variations thereon, such as "Totnes Pounds".

"day" means calendar day.

"month" means calendar month.

PART 2

CREATION OF CURRENCY

Establishment of the Money Creation Committee

2. – (1) The Money Creation Committee of the Bank of England shall be established.
- (2) Every member of the Monetary Policy Committee of the Bank of England shall automatically become a member of the Money Creation Committee.
- (3) On the establishment of the Money Creation Committee, the former Monetary Policy Committee shall cease to exist.
- (4) In furtherance of subsection 1 of this section, in every mention throughout the Bank of England Act 1998, the phrase "Monetary Policy Committee" shall be removed and there shall be inserted in those places the phrase "Money Creation Committee".

For further detail see **Modernising Money (MM) Section 7.2**

Exclusive Right of the Bank of England

- 3.– (1) The authority to create and issue all sterling currency shall reside exclusively with the Bank of England, under the direction of the Money Creation Committee.
- (2) The currency, so created and issued, shall take the form of cash money and non-cash money.
- (3) This currency shall be created, free of any debt, obligation or liability to any holder or user of this currency.
- (4) All currency shall be created in accordance with subsection 3 of this section, but nothing in this section shall prohibit the Bank of England loaning such currency, which it has created under subsection 3 of this section, to an institution as a contractual debt to facilitate, specifically and only, a

MM 7.1 & 7.2

7.3, 7.4 & Appendix III

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Transitory Loan in accordance with section 27 of this Act, or an Emergency Loan in accordance with Schedule 7 of this Act.

(5) For the avoidance of doubt, nothing in subsection 3 of this section shall be construed so as to prohibit the purchase of currency by authorised deposit taking institutions, as provided for in this Act.

(6) The Bank of England shall be required to take whatever steps are necessary, including the creation of new currency in accordance with the method described in this section, in order to ensure a sufficiency of loan finance in the economy on the date of the commencement of this Act.

(7) For the avoidance of doubt, nothing in this section shall be construed so as to prohibit the creation of "alternative currencies" or "complementary currencies", not being represented as sterling currency.

Calculation, Creation and Removal in Accordance with Monetary Policy Targets

4.– (1) The Money Creation Committee of the Bank of England shall take directions from the Chancellor with regard to monetary policy targets which shall be determined by the Treasury and approved by Parliament, in the usual way.

(2) The Committee shall meet at least monthly to calculate the quantity of new currency necessary in the economy, or of existing currency necessary to be withdrawn, which shall accord with the monetary policy targets determined under subsection 1 of this section, and shall announce the quantity of new currency to be created, or of existing currency to be withdrawn, immediately upon the conclusion of the meeting.

(3) The Committee shall direct the Bank of England to create the new currency calculated in subsection 2 of this section, in accordance with subsection 3 of section 3 of this Act and at a rate which shall seek to accord with the monetary policy targets determined under subsection 1 of this section.

(4) The Committee shall issue the supply of currency into the economy, in accordance with section 5 of this Act.

(5) For the avoidance of doubt, the Committee shall not be responsible for setting the rate of interest at which the Bank lends to institutions, with the exception of an interest rate on an Emergency Loan in accordance with Schedule 7 of this Act.

Manner of Money Entering Economy

5.– (1) The Money Creation Committee shall consult with the Treasury on all decisions to increase, keep constant, or reduce the money supply, but shall not take directions from the Treasury, except with regard to the monetary policy targets determined by the Treasury.

(2) The money supply shall be measured by the aggregate of the Customer Funds Accounts, Investment Pools, Operational Accounts, Central Government Account, Bank of England Own Funds Account, and the Cash in Circulation Dummy Account, which are established under this Act.

(3) In the event that the Committee shall decide to increase the money supply, the Committee shall direct the Bank of England to add to the Central Government Account, established by Schedule 5 of this Act, the amount of new currency determined by the Committee. For the avoidance of doubt, this shall be a creation of money, free of debt, in accordance with subsection 3 of section 3 of this Act.

(4) The Treasury may spend such additional amount in accord with the government's policy objectives, as approved by Parliament in the usual way.

(5) In the event that the Committee shall decide to reduce the money supply, it may take whatever steps it considers prudent, including but not limited to:

- a) selling securities which it owns, on the open market;
- b) issuing new securities, for sale on the open market;
- c) curtailing the Bank of England's lending facility;

- d) withholding and destroying an amount received under subsection 2 of section 25 of this Act.
- e) reducing the amount of money in the Central Government Account, with the consent of the Treasury;
- f) any other measure that the Committee believes will effect a reduction in the money supply.

PART 3

MONEY CREATION COMMITTEE

Independence and Neutrality of Committee regarding Political Interests

6.– (1) The Money Creation Committee shall be politically independent and neutral.

(2) For the avoidance of doubt, in calculating the quantity of new currency required to be created, or of existing currency to be withdrawn, in order to accord with the monetary policy targets determined by the Treasury and approved by Parliament, under section 4 of this Act:

- (a) The Committee shall not consider the political ideology, or the general policy objectives, of the Chancellor, the Treasury or the government.
- (b) The Committee shall not attempt to influence the spending priorities or policies of the government.
- (c) The Committee may insist upon a representative of the Treasury, including the Chancellor or a Minister of the Crown, to attend and speak at any meeting of the Committee.
- (d) No person shall be granted an audience with the Committee on demand.
- (e) The Chancellor, Treasury representatives and any Ministers of the Crown may advise the Committee, but shall take no part in the final calculation of the Committee.
- (f) The Committee shall study and consider, and shall be assisted in all its needs to commission where necessary, any research and reports and forecasts and accounts as may be required in order to reach its decision.

Independence and Neutrality of Committee regarding Commercial Interests

7.– (1) The Money Creation Committee, in its calculation of the quantity of new currency required to be created, or of existing currency to be withdrawn, under section 4 of this Act, shall be independent of, and shall maintain a strict neutrality towards all authorised deposit taking institutions, financial companies, commercial companies, interest groups, lobbying firms, and any other persons and bodies which may have an interest in the calculation of the Committee; with the exception of any body established by Parliament for the furtherance of the purposes of this Act.

(2) A member of the Committee shall be bound under subsection 1 of this section but the Committee shall not be bound by a member.

Prohibition of Undue Influence upon the Committee

8.– It shall be prohibited to attempt to influence a member or members of the Committee to favour, to assist, to benefit or to promote an economic interest of any kind, without due regard to the independence and neutrality of the Committee in its calculation of the quantity of new currency required to be created, or of existing currency to be withdrawn, under section 4 of this Act.

Disclosure Regime for Committee and Members

9.– (1) The Committee shall publish the minutes of each currency decision meeting under subsection 2 of section 4 of this Act, within two weeks of the decision.

(2) Each member of the Committee shall disclose publicly his vote at each currency decision meeting under subsection 2 of section 4 of this Act, and shall disclose the research material upon which his decision was made, within six weeks of the decision.

(3) A Register of the Interests of Members of the Money Creation Committee shall be established by Parliament, which shall require a member to provide information of any financial or material benefit which he receives, or any pecuniary activity or any personal circumstance in which he is involved, which might reasonably be thought by others to influence his actions in his capacity as a member of the Committee.

(4) Each member of the Committee, for the duration of his appointment, shall disclose on the Register established under subsection 3 of this section, any such relevant matter, which shall be published on the website of the Bank at the address [www.BankofEngland.co.uk/RegisterofInterests\[nameofmember\]](http://www.BankofEngland.co.uk/RegisterofInterests[nameofmember]) or at such other address as the Treasury may specify by Order.

(5) Notwithstanding Schedule 7 of the Bank of England Act 1998, the Committee shall disclose any approach, any meeting, or any written or verbal correspondence, to an individual member or to the Committee as a whole, which, in the opinion of the Committee, might be considered to breach section 7 or section 8 of this Act, and shall publish it on the website of the Bank at the address www.BankofEngland.co.uk/section9point5disclosure or at such other address as the Treasury may specify by Order.

Restrictive Covenant for Members

10.– (1) A member of the Committee shall be prohibited from possessing shares in an authorised deposit taking institution and any institution carrying on regulated activities as defined by the Financial Services and Markets Act 2000; and from sitting on the Board of Directors, as a Director or Consultant or in any other role on the Board, of any authorised deposit taking institution and any institution carrying on regulated activities as defined by the Financial Services and Markets Act 2000; during his period of appointment in the Committee; and a former member shall continue to be prohibited in this manner for a period of 3 years from the date of termination of said appointment.

(2) For the avoidance of doubt, the prohibition in subsection 1 of this section shall not apply to a person who is a former member of the Committee at the time of the commencement of this Act.

Conduct and Scrutiny of Committee

11.– (1) The Money Creation Committee shall be assisted in all its needs:

(a) To maintain weekly, monthly and annual reports and forecasts of the money supply and its effect on the economy, and any other regular reporting and forecasting schedules as may be deemed appropriate.

(b) To maintain full accounts of the money creation process.

(c) To announce the aggregate money supply, in accordance with subsection 2 of section 5 of this Act, in real time, and at all times, on the website of the Bank at www.BankofEngland.co.uk/moneysupply or at such other address as the Treasury may specify by Order.

(d) To provide such reports and forecasts and accounts as aforementioned, publicly to the Chancellor and the Treasury, and to lay copies before each House of Parliament, on a regular basis as shall be established by Parliament.

(e) To report to a cross-party Treasury Select Committee, and to lay itself open to such scrutiny as this cross-party group shall require, on a regular basis as shall be established by Parliament.

(f) To carry out any other researching, reporting, forecasting or accounting responsibilities as may be required by the Chancellor or recommended by the cross-party group.

(g) To consult widely and to develop any appropriate sub-committees to aid researching and reporting and forecasting and accounting, as may be deemed necessary by the Bank of England, the Chancellor or the cross-party group.

(2) The cross-party group as aforementioned in this section shall be drawn proportionally, and on a rotating basis where necessary to ensure proportionality, from all the political parties and those independent of party affiliation, as shall be established by Parliament.

Appointment to the Committee

12.– (1) In pursuance of the independence and neutrality of the Money Creation Committee as specified in section 6 of this Act, the Chancellor of the Exchequer shall take no part in appointing or re-appointing a member of the Committee.

(2) In furtherance of subsection 1 of this section:

(a) Subsection 2(b) of section 13 of the Bank of England Act 1998 shall be amended, whereupon the words "Chancellor of the Exchequer" shall be removed and there shall be inserted in their place the words "Treasury Select Committee".

(b) Subsection 2(c) of section 13 of the Bank of England Act 1998 shall be amended, whereupon the words "Chancellor of the Exchequer" shall be removed and there shall be inserted in their place the words "Treasury Select Committee".

(c) Subsection 4 of section 13 of the Bank of England Act 1998 shall be amended, whereupon the words "Chancellor of the Exchequer" shall be removed and there shall be inserted in their place the words "Treasury Select Committee", and the word "he" shall be replaced by the word "it", and the words "Money Creation" shall be inserted in front of the word "Committee's".

(d) Subsection 5 of section 13 of the Bank of England Act 1998 shall be amended, whereupon the words "Money Creation" shall be inserted in front of the word "Committee".

(3) Vacant positions on the Committee shall be advertised publicly on the website of the Bank of England at www.BankofEngland.co.uk/MCCvacancies or at such other address as the Treasury may specify by Order.

Appointment of Two Internal Members of Committee

13.– (1) The Treasury Select Committee shall convene an Appointment Hearing which shall consider the recommendation, or recommendations, of the Governor of the Bank for a position under subsection 2(b) of section 13 of the Bank of England Act 1998, as amended by this Act.

(2) The Treasury Select Committee shall have the power of veto over the Governor of the Bank, concerning appointments to the Committee.

(a) In the event of a veto, the Treasury Select Committee shall recommend a debate in the House of Commons on the matter.

(b) In the event of a House debate on the matter, the final decision shall rest with the House of Commons.

Appointment of Four External Members of Committee

14.– (1) The Treasury Select Committee shall convene an Applications Board which shall consider each suitable application for a position under subsection 2(c) of section 13 of the Bank of England Act 1998, as amended by this Act, in a process which shall be established by Parliament.

(2) On completion of the application process, the Treasury Select Committee shall make its appointment, or appointments, to the Money Creation Committee.

Re-appointment to the Committee

15.– (1) A member of the Committee may be re-appointed by the Bank for a further term, after consultation with the Treasury Select Committee.

(2) The Treasury Select Committee shall have the power to hold a Re-appointment Hearing and shall have the power of veto over the recommendation of the Bank.

(a) In the event of a veto, the Treasury Select Committee shall recommend a debate in the House of Commons on the matter.

(b) In the event of a House debate on the matter, the final decision shall rest with the House of Commons.

Removal from the Committee

16.– (1) The Bank may recommend the removal of a member of the Money Creation Committee appointed under section 13(2)(b) or (c) of the Bank of England Act 1998.

(2) In pursuance of the independence and neutrality of the Money Creation Committee as specified in section 6 of this Act, the Chancellor of the Exchequer shall have no power to remove a member of the Committee appointed under section 13(2)(b) or (c) of the Bank of England Act 1998.

(3) In furtherance of subsection 1 of this section, sub-paragraph 1 of paragraph 9 of Schedule 3 of the Bank of England Act 1998 shall be amended, whereupon the words "Chancellor of the Exchequer," shall be removed and there shall be inserted in their place the words "Treasury Select Committee".

(4) The Treasury Select Committee shall have the power to hold a Removal Hearing and shall have the power of veto over the recommendation of the Bank.

(a) In the event of a veto, the Treasury Select Committee shall recommend a debate in the House of Commons on the matter.

(b) In the event of a House debate on the matter, the final decision shall rest with the House of Commons.

PART 4

COURT OF DIRECTORS

Appointment to the Court of Directors

17.– (1) For the avoidance of doubt, appointments to the Court of Directors of the Bank of England shall continue to be Crown appointments.

(2) Subsection 2 of section 1 of the Bank of England Act 1998 shall be amended, whereupon the words "on the advice of the Prime Minister after consultation with the Treasury Select Committee." shall be inserted after the words "Her Majesty".

(3) Vacant positions in the Court of Directors shall be advertised publicly on the website of the Bank of England at www.BankofEngland.co.uk/courtvacancies or at such other address as the Treasury may specify by Order.

(4) The Treasury Select Committee shall convene an Applications Board which shall consider each suitable application for a position on the Court of Directors, in a process which shall be established by Parliament.

(5) After the appointment has been announced, the Treasury Select Committee shall make public its recommendation, or several recommendations regarding the same position, to the Prime Minister.

Re-appointment to the Court of Directors

18.– (1) A member of the Court of Directors may be re-appointed by the Bank for a further term, after consultation with the Treasury Select Committee.

(2) The Treasury Select Committee shall have the power to hold a Re-appointment Hearing and shall have the power of veto over the recommendation of the Bank.

(a) In the event of a veto, the Treasury Select Committee shall recommend a debate in the House of Commons on the matter.

(b) In the event of a House debate on the matter, the final decision shall rest with the House of Commons.

Removal of Director from Office

19.– (1) The Bank may recommend the removal of a person from office as Governor, Deputy Governor or director of the Bank.

(2) In pursuance of the independence and neutrality of the Money Creation Committee as specified in section 6 of this Act, the Chancellor of the Exchequer shall have no power to remove a member of the Court of Directors.

(3) In furtherance of subsection 1 of this section, paragraph 8 of Schedule 1 of the Bank of England Act 1998 shall be amended, whereupon the words "Chancellor of the Exchequer" shall be removed and there shall be inserted in their place the words "Treasury Select Committee".

(4) The Treasury Select Committee shall have the power to hold a Removal Hearing and shall have the power of veto over the recommendation of the Bank.

(a) In the event of a veto, the Treasury Select Committee shall recommend a debate in the House of Commons on the matter.

(b) In the event of a House debate on the matter, the final decision shall rest with the House of Commons.

PART 5

ESTABLISHMENT AND OPERATION OF ACCOUNTS

Types of Customer Accounts held by Institutions

20.– (1) Every authorised deposit taking institution may establish Customer Transaction Accounts and Customer Investment Accounts, in accordance with Schedule 1 of this Act.

(a) Customer Transaction Accounts shall be governed by the rules in Schedule 1 of this Act.

(b) Customer Investment Accounts shall be governed by the rules in Schedule 1 of this Act.

(2) All existing customer current accounts, including "instant access savings accounts" and "overnight deposit accounts" and "demand deposit accounts", shall be converted into Customer Transaction Accounts.

(3) In the event of subsection 2 above, the institution shall provide a new set of Terms and Conditions to each customer.

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(4) An amount equivalent to the aggregate of the accounts converted into Customer Transaction Accounts in accordance with subsection 2 of this section, shall be removed as a liability from the balance sheet of the institution.

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Types of Institution Accounts held by the Bank of England

21.– (1) The Bank of England shall provide to each authorised deposit taking institution 3 accounts with the Bank, in accordance with Schedule 2 of this Act.

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(2) The manner in which loans shall be made and repaid, between the accounts in subsection 1 of this section and subsection 1(a) of section 20 of this Act, shall be governed by the rules in Schedule 3 of this Act.

Cash Handling Process

22.– The manner in which cash money shall be transferred between the Bank of England and authorised deposit taking institutions and customers, shall be governed by the rules in Schedule 4 of this Act.

Central Government Account with the Bank of England

23.– The Bank of England shall provide one Central Government Account, which shall be held at the Bank, in accordance with Schedule 5 of this Act.

MM 7.4

Bank of England Own Funds Account

24.– The Bank of England shall provide one Own Funds Account, which shall be held at the Bank, and owned by the Bank, in accordance with Schedule 6 of this Act.

PART 6

TRANSITION PROCESS

Equitable Conversion Process

25.– (1) On the commencement of this Act, an authorised deposit taking institution shall have a liability to the Bank of England which shall be equivalent to the aggregate of the current accounts converted into Customer Transaction Accounts under subsection 2 of section 20 of this Act.

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(a) This liability shall be held on the balance sheet of the institution and shall be an asset of the Bank.

(b) This liability shall be repaid in full by the institution to the Bank at a schedule which shall be agreed with the Bank and which shall correspond to the maturity profile of the loan portfolio of the institution.

(2) The Bank shall deposit automatically all monies immediately upon repayment under subsection 1(b) of this section, into the Central Government Account.

Transitory Lending Scheme

26.– (1) The Bank of England shall ensure a sufficiency of loan finance for institutions during the period following the commencement of this Act.

MM 7.6

(2) In furtherance of subsection 1 of this section, the Bank of England shall provide a lending scheme which shall be termed the "Transitory Lending Scheme", and which shall be continued for the period considered necessary by the Committee.

(a) A loan from this Scheme shall be termed a "Transitory Loan".

(b) This Scheme may lend only to institutions and shall be prohibited from lending to the Treasury.

(c) Institutions may bid for these loans through monthly auction.

(3) Institutions shall be forbidden to use funds acquired under subsection 2 of this section for the purpose of financing:

- a) a residential mortgage;
- b) a commercial mortgage;
- c) a merger or an acquisition; and
- d) any activity which is trading in financial instruments, including but not limited to bonds, stocks, derivatives, commodities and currencies.

(4) For the avoidance of doubt, any activity under subsection 3 of this section includes:

- a) any activity attempting to profit from fluctuations in the price of a tradable good or financial instrument, known commonly as speculation;
- b) any activity attempting to profit by offsetting a pre-existing risk, known commonly as hedging;
- c) any activity attempting to profit from the trade of an instrument at a different price in a different market, known commonly as arbitrage.

Provision of Transitional Loan

27.– (1) In the event of a Transitional Loan, the Bank of England shall fund the loan by creating new money in accordance with section 3 of this Act.

(a) The Transitional Loan shall be regarded as a contractual debt between the institution and the Bank.

(2) The amount of the Transitional Loan shall be paid into the Operational Account of the recipient institution, and the principal of the Transitional Loan shall be repaid from the institution's Operational Account.

(3) The interest payments on the Transitional Loan shall be paid from the institution's Operational Account into the Bank of England Own Funds Account.

PART 7

BANK OF ENGLAND OPERATIONAL CHANGES

Cash Ratio Deposits Scheme

28. – (1) The Cash Ratio Deposits Scheme shall be abolished and its investments unwound or sold, and the funds returned to the respective institutions.

(2) The Bank of England shall be permitted to recover its operating costs via a charge to the institutions which use its services, in a manner which the Bank shall decide, either on an annual fee, or a per service provided, basis.

Discount Window Facility

29.– (1) The Discount Window Facility shall be abolished.

(2) In the event that an institution is seeking emergency finance, as per paragraph 1 of Schedule 7 of this Act, the money may be provided as an Emergency Loan as per paragraph 3 of Schedule 7 of this Act.

Special Liquidity Scheme

30.– The Special Liquidity Scheme shall be closed permanently and any existing assets held by the Scheme shall be released in a manner which the Bank shall consider appropriate and with due regard to the requirements of the institution which was using the Special Liquidity Scheme.

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Promotion of Competition in Transaction Accounts

31.– The Bank of England shall always aim, reasonably, to minimise the barriers to entry for those authorised deposit taking institutions which intend to provide access to the payments system through the provision of Customer Transaction Accounts.

MM 10.4

PART 8

PROCEDURES IN RESPONSE TO INSOLVENCY DECLARATION

Remedy Available to the Bank of England

32.– In the event that an authorised deposit taking institution does not have sufficient funds to service maturing Customer Investment Accounts, as required under paragraph 18 of Schedule 1 of this Act, the Bank of England may, at its discretion, take whatever steps it considers prudent, as per Schedule 7 of this Act.

MM 6.9

Establishment of Bank of England Liquidation Procedure Company

33.– The Bank of England shall establish a subsidiary company entitled "The Bank of England Liquidation Procedure Company" in accordance with paragraph 8 of Schedule 7 of this Act.

Establishment of Liquidation Procedure for Institutions

34.– (1) Every institution shall establish a Liquidation Procedure in accordance with Schedule 7 of this Act.

(2) In the event of an institution being declared insolvent by the Bank of England, in accordance with paragraph 1 of Schedule 7 of this Act, the institution shall commence the Liquidation Procedure described in Schedule 7 of this Act.

(3) The Terms and Conditions of every Customer Transaction Account and every Customer Investment Account shall detail the procedure in the event of the institution being declared insolvent.

PART 9

GENERAL

Offences

35.– (1) It shall be an offence for an authorised deposit taking institution to be unable to pay the aggregate of its on-demand liabilities at any time.

(2) It shall be an offence for a member of the Money Creation Committee to violate subsection 2 of section 7 of this Act.

(3) It shall be an offence to attempt to influence a member of the Money Creation Committee in violation of section 8 of this Act.

(4) It shall be an offence for a member of the Money Creation Committee to violate section 10 of this Act.

(5) It shall be an offence for any institution to use money deposited in a Customer Transaction Account to fund loan-making or investment activity, as per sub-paragraph 1 of paragraph 5 of Schedule 1 of this Act.

(6) It shall be an offence for any institution to consider money deposited in a Customer Transaction Account to be part of that institution's balance sheet, or, in any way to include such money on that institution's balance sheet, as per sub-paragraph 1 of paragraph 6 of Schedule 1 of this Act.

(7) It shall be an offence for any institution to reduce the Investment Account balance of a customer in return for increasing the Investment Account balance of another customer, as per paragraph 25 of Schedule 1 of this Act.

(8) It shall be an offence for any institution to fail to establish and maintain, at all times, a Liquidation Procedure, as per Schedule 7 of this Act.

(9) Any institution which fails to comply, in an unreasonable manner, with the Bank of England, or the Commissioners of Her Majesty's Revenue and Customs, or any other person or body appointed for the furtherance of the purposes of this Act, shall be committing an offence.

(10) Where an offence under this Act committed by a body corporate is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of, any director, manager, secretary or other similar officer of the body corporate or any person purporting to act in any such capacity, that person as well as the body corporate shall be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Repeals

36.– (1) In pursuance of the independence and neutrality of the Money Creation Committee as specified in section 6 of this Act, section 19 of the Bank of England Act 1998 is repealed.

(2) In pursuance of the independence and neutrality of the Money Creation Committee as specified in section 6 of this Act, paragraph 13 of Schedule 3 of the Bank of England Act 1998 is repealed.

(3) In pursuance of the disclosure regime of the Money Creation Committee as specified in section 9 of this Act, section 15 of the Bank of England Act 1998 is repealed.

PART 10

FINAL

Extent

37.– This Act extends to England, Scotland, Wales, Northern Ireland, the Channel Islands, the Isle of Man, and to the British Overseas Territories which use sterling currency.

Commencement

38.– (1) This Act comes into force one year after the day on which this Act is passed.

(2) The following provision of this Act shall come into force on such day as the Treasury may by order made by statutory instrument appoint:

- (a) subsection 6 of section 3.

Short title

39.– This Act may be cited as the Bank of England (Creation of Currency) Act.

SCHEDULES

On the commencement of this Act, the following rules will apply:

Schedule 1

PROVISION OF CUSTOMER ACCOUNTS

Provision of Secure Customer Transaction Account

1. Any person may appoint one or more authorised deposit taking institutions to register his holdings of Customer Transaction Accounts, and administer those so registered on his behalf for the purposes of payment transactions and safe-keeping.
2. Every institution may provide a Customer Transaction Account for a customer, on request, for the purposes of payment transaction and safe-keeping. An institution may decline to provide a Customer Transaction Account to a customer at its discretion.
3. There may be an unlimited number of Customer Transaction Accounts registered and administered by each institution, and a customer may acquire an unlimited number of Customer Transaction Accounts at the discretion of the institution.
4. A Customer Transaction Account may also be described as a Secure Customer Transaction Account.
 - (1) The Customer Transaction Account is an asset of the customer and shall be owned in full by the customer.
 - (2) Money deposited in a Customer Transaction Account shall be held in trust and retained in full within the Customer Funds Account administered by the institution at the Bank of England, as per Schedule 2 of this Act, until it is required by the customer.
 - (3) The institution shall transfer money from a Customer Transaction Account only on the instruction of the customer, which for the avoidance of doubt may include transferring fees to the institution's Operational Account in accordance with paragraph 9 of this Schedule and paragraph 6 of Schedule 3 of this Act.
5. For the avoidance of doubt, money deposited into a Customer Transaction Account shall not be used to fund any loan-making or investment-making activity by the institution.
 - (1) It shall be an offence for any institution to use money deposited in a Customer Transaction Account to fund loan-making or investment activity.
6. For the avoidance of doubt, the money held in a Customer Transaction Account is not an asset, nor is it owned in any way, by the institution.
 - (1) It shall be an offence for any institution to consider money deposited in a Customer Transaction Account to be part of that institution's balance sheet, or, in any way to include such money on that institution's balance sheet as either an asset or a liability.
7. The Customer Transaction Account shall provide the payment services currently provided by current accounts, which may include an overdraft facility, electronic fund transfers, debit cards, cheque books and any other means of payment, subject to the Terms and Conditions of the account as specified by the institution and agreed by the customer.
8. In the event of a customer overdraft, the institution shall provide the funds only from its Account 2: Investment Pool at the Bank of England.
9. In return for the service of registering and administering a Customer Transaction Account, the institution shall be permitted to charge reasonable fees, subject to the Terms and Conditions of the

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account as specified by the institution and agreed by the customer, and subject to supervision by the Office of Fair Trading.

10. The Financial Services Compensation Scheme shall not apply to Customer Transaction Accounts.

Provision of Customer Investment Account

11. Any person may make a loan to one or more authorised deposit taking institutions for the purpose of investment. Ownership of the money which has been loaned shall transfer to the institution and shall be recorded, in a Customer Investment Account, as a liability of the institution to the customer.

12. Every institution may provide a Customer Investment Account to a customer, on request, for the purpose of investment. An institution may decline to provide a Customer Investment Account to a customer at its discretion.

13. There may be an unlimited number of Customer Investment Accounts established by each institution, and a customer may acquire an unlimited number of Customer Investment Accounts at the discretion of the institution.

14. Every institution shall disclose, in the Terms and Conditions of the Customer Investment Account, the specific investments, or range of investments, for which funds placed in the Account shall be used.

(1) The Bank of England shall define the categories of investment which the institution shall disclose.

15. Any money paid to an institution, by a customer, in respect of a Customer Investment Account shall be transferred automatically and immediately to the institution's Investment Pool at the Bank of England.

16. On opening a Customer Investment Account, the customer and the institution together shall agree on either a Maturity Date or Notice Period that applies to the particular Customer Investment Account. The institution shall not repay to the customer any part of the loan until the Maturity Date, or until the customer has given notice and the Notice Period has passed, except that the institution may at any time pay to the customer interest which has accrued on the loan, subject to the Terms and Conditions of the account.

(1) The Maturity Date shall be not less than 28 days from the date of opening the Account. This lower limit of 28 days shall be known as the Minimum Maturity Term.

(2) The Notice Period shall be not less than 28 days. This lower limit of 28 days shall be known as the Minimum Notice Period.

(3) Notwithstanding sub-paragraphs 1 and 2 above, the Bank of England may change the Minimum Maturity Term or the Minimum Notice Period to a figure greater than 28 days. This decision shall apply to all authorised deposit taking institutions. The Bank shall not set different Terms or Periods for different institutions, and shall give due notice of its intention in a manner which shall be established by secondary legislation.

(4) The Bank of England may set different Minimum Notice Periods in relation to the value of the investment or the amount to be withdrawn. All such Minimum Notice Periods shall be at least 28 days. This decision shall apply to all authorised deposit taking institutions. The Bank shall give due notice of its intention in a manner which shall be established by secondary legislation.

(5) Existing customer time deposits with a specified Maturity Date shall be converted into Customer Investment Accounts with the same Maturity Date, notwithstanding sub-paragraph 1 above.

(6) In the event of sub-paragraph 5 above, the institution shall provide a new set of Terms and Conditions to the existing customer.

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(7) Existing customer time deposits with a Notice Period shall be converted into Customer Investment Accounts with the same Notice Period, notwithstanding sub-paragraph 2 above.

(8) In the event of sub-paragraph 7 above, the institution shall provide a new set of Terms and Conditions to the existing customer.

17. On a Customer Investment Account reaching its Maturity Date, or the Notice Period having been given and passed, the current balance of funds in the Customer Investment Account, or the partial withdrawal amount for which notice has been given, shall be transferred into the customer's Customer Transaction Account, unless prior consent has been received from the customer to roll-over or re-invest the funds.

18. Each institution shall take measures to ensure that it has sufficient funds available to pay into Customer Transaction Accounts, as and when Customer Investment Accounts mature.

19. The Financial Services Compensation Scheme shall not apply to Customer Investment Accounts.

Provision of Customer Investment Account Guarantee

20. An institution may offer a guarantee to repay the customer the principal sum, or a minimum percentage of the principal sum invested in a particular investment product, without regard to the performance of the particular investment product.

21. An institution may offer a guarantee to pay the customer a minimum rate of interest, or a minimum return, on the principal sum invested in a particular investment product, without regard to the performance of the particular investment product.

22. For the avoidance of doubt, the guarantees in paragraphs 20 and 21 of this Schedule shall not be backed by the Treasury and shall be made at the risk of the institution.

23. The guarantees in paragraphs 20 and 21 of this Schedule shall cease to apply in the event of the insolvency or illiquidity of the institution.

24. Either the Financial Services Authority, or the Bank of England, or a body established for the purposes of the furtherance of this Act, shall have the power to forbid an institution from offering a particular guarantee on a particular investment product where it considers that the guarantee exceeds the likely rate of return of the investment product, and where the offering of such a guarantee may increase the likelihood of the institution appealing to the Bank for an Emergency Loan under Schedule 7 of this Act.

Prohibition of inter-Customer Investment Account Transfers

25. An authorised deposit taking institution shall be forbidden from reducing the Investment Account balance of a customer in return for increasing the Investment Account balance of another customer.

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Schedule 2

ESTABLISHMENT OF THREE ACCOUNTS WITH THE BANK OF ENGLAND

Account 1: Customer Funds Account at Bank of England

1. The Bank of England shall establish one Customer Funds Account, which shall be held at the Bank, for each authorised deposit taking institution which provides a Customer Transaction Account facility in accordance with section 20 of this Act.
2. This account shall be known to the institution as "Account 1: Customer Funds Account at Bank of England".
3. The Customer Funds Account shall hold the sum total of funds in the institution's Customer Transaction Accounts.
4. For the avoidance of doubt, the Customer Funds Account is an entry in an administrative system for the purpose of reconciling transfers between the Customer Transaction Accounts administered by the institution and is not a balance sheet item of the Bank of England.
5. For the avoidance of doubt, the Customer Funds Account is an entry in an administrative system for the purpose of reconciling transfers between the Customer Transaction Accounts administered by the institution and those administered by all the other institutions and is not a balance sheet item of the institution.
6. The Customer Funds Account shall be managed by the institution but the funds within this Account shall be owned in full by the institution's customers.
7. The Bank of England shall be prohibited from paying interest on the balance of the Customer Funds Account.

Account 2: Investment Pool at Bank of England

8. The Bank of England shall establish one Investment Pool, which shall be held at the Bank, for each authorised deposit taking institution which provides a Customer Investment Account facility in accordance with section 20 of this Act.
9. This account shall be known to the institution as "Account 2: Investment Pool at Bank of England".
10. For the avoidance of doubt, the Investment Pool is an entry in an administrative system for the purpose of reconciling payments of loans and repayments of loan principal and interest between the Customer Transaction Accounts administered by the institution and the institution's Investment Pool, and is not a balance sheet item of the Bank of England.
11. The Investment Pool shall be owned in full by the institution, which may choose to create sub-accounts within the Pool to manage funds for different purposes.
12. The Investment Pool shall be an asset of the institution and shall be recorded on its balance sheet.
13. An institution may transfer funds from its Operational Account to its Investment Pool.
14. The Bank of England shall be prohibited from paying interest on the balance of the Investment Pool.

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Account 3: Operational Account at Bank of England

15. The Bank of England shall provide to each authorised deposit taking institution, one Operational Account, which shall be held at the Bank.
16. This account shall be known to the institution as "Account 3: Operational Account at Bank of England".
17. For the avoidance of doubt, the Operational Account is an entry in an administrative system for the purpose of reconciling payments on the institution's own account, including between it and the Customer Transaction Accounts administered by the institution and all the other institutions, and between it and all the other institutions' own accounts, and is not a balance sheet item of the Bank of England.
18. The Operational Account shall be owned in full by the institution, which may choose to create sub-accounts within the Operational Account to manage funds for different purposes.
19. The Operational Account shall be an asset of the institution and shall be recorded on its balance sheet.
20. An institution may transfer funds from its Investment Pool to its Operational Account.
21. The Bank of England shall be prohibited from paying interest on the balance of the Operational Account.

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Schedule 3

FUNDING LOANS

Funding Loans to Customers

1. An authorised deposit taking institution shall fund a loan to a customer using only the money in its Account 2: Investment Pool at Bank of England.
2. The institution may move money from its Account 3: Operational Account at Bank of England to its Account 2: Investment Pool at Bank of England, or use money which is already in its Investment Pool, for the purpose of making a loan to a customer.
3. For the avoidance of doubt, the institution shall issue a loan to a customer by simultaneously:
 - a) instructing the Bank of England to transfer a sum equivalent to the amount of the loan from its Investment Pool to its Customer Funds Account;
 - b) increasing the recorded balance of the institution's appropriate Customer Transaction Account by the amount of the loan; and
 - c) updating the institution's internal records, as appropriate.
4. For the avoidance of doubt, when a customer is repaying a loan, the institution which holds the customer's Customer Transaction Account shall make the loan repayment by simultaneously:
 - a) instructing the Bank of England to transfer a sum equivalent to the amount of the repayment from its Customer Funds Account to the lending institution's Investment Pool;
 - b) reducing the recorded balance of the appropriate Customer Transaction Account by the amount of the repayment; and
 - c) updating the institution's internal records, as appropriate.

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Collecting Charges from Customers

5. An institution may make a charge to a Customer Transaction Account which is consistent with the Terms and Conditions of the account, in accordance with paragraph 9 of Schedule 1 of this Act.
6. For the avoidance of doubt, the institution shall collect a charge from a customer by simultaneously:
 - a) instructing the Bank of England to transfer a sum equivalent to the amount of the charge from its Customer Funds Account to its Operational Account;
 - b) reducing the recorded balance of the institution's appropriate Customer Transaction Account by the amount of the charge; and
 - c) updating the institution's internal records, as appropriate.

Funding Loans to other Institutions

7. An authorised deposit taking institution shall fund a loan to another such institution using only the money in its Account 2: Investment Pool at Bank of England.
8. The institution may move money from its Account 3: Operational Account at Bank of England to its Account 2: Investment Pool at Bank of England, or use money which is already in its Investment Pool, for the purpose of making a loan to another institution.
9. For the avoidance of doubt, the institution shall issue a loan to another institution by simultaneously:
 - a) instructing the Bank of England to transfer the amount of the loan from its Investment Pool into the Investment Pool or the Operational Account of the loan-recipient institution; and
 - b) updating the institution's internal records, as appropriate.
10. For the avoidance of doubt, the loan-recipient institution will make loan repayments to the loan-making institution by simultaneously:
 - a) instructing the Bank of England to transfer the amount of the repayment from its Investment Pool or its Operational Account; to the Investment Pool of the loan-making institution; and
 - b) updating the institution's internal records, as appropriate.

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Schedule 4

TRANSFERRING CASH MONEY

Bank of England Balance Sheet

1. Existing banknotes, and those created consequent to the commencement of this Act, are no longer to be recorded as liabilities of the Issue Department of the Bank of England.
2. The separate balance sheet of the Issue Department of the Bank shall no longer be required and shall be merged into the Banking Department balance sheet.
3. There shall be no assets required to back the issue of banknotes.
4. The Bank shall cover the expense of producing banknotes from the general service charges which it may pass on to authorised deposit taking institutions, in accordance with subsection 2 of section 28 of this Act.

Bank of England to Determine Fitness of Institution to Hold Cash

5. The Bank of England may permit an institution to hold cash in custody on behalf of the Bank.
6. The Bank may prohibit an institution from holding cash in custody, and shall explain its reason to the institution.
7. The Bank shall establish a "Cash in Circulation Dummy Account", which shall be held at the Bank, and which shall record the total amount of sterling cash money in circulation outside the Bank, excluding cash held in custody on behalf of the Bank.

Cash in Custody

8. For the avoidance of doubt, when cash money is supplied to a customer by an institution permitted to hold cash in custody, then the institution holding that cash in custody shall simultaneously:
- a) reduce the amount of the cash in the appropriate Customer Transaction Account;
 - b) instruct the Bank of England to transfer the amount of the cash from the Customer Funds Account administered by the institution, to the Cash in Circulation Dummy Account; and
 - c) update its records of cash held in custody and inform the Bank accordingly.
9. For the avoidance of doubt, when cash money is deposited by a customer to an institution permitted to hold cash in custody, then the institution holding that cash in custody shall simultaneously:
- a) add to the appropriate Customer Transaction Account by the amount of the cash paid in;
 - b) instruct the Bank of England to transfer the amount of the cash from the Cash in Circulation Dummy Account to the Customer Funds Account administered by the institution; and
 - c) update its records of cash held in custody and inform the Bank accordingly.

Cash not held in Custody

10. For the avoidance of doubt, when the Bank of England supplies cash money to an institution not permitted to hold cash in custody, then the Bank shall simultaneously:
- a) transfer the amount of the cash from the institution's Operational Account to the Cash in Circulation Dummy Account; and
 - b) the institution shall record the cash as an asset on its balance sheet.
11. For the avoidance of doubt, when cash money is supplied to the Bank of England by an institution not permitted to hold cash in custody, then the Bank shall simultaneously:
- a) transfer the amount of the cash from the Cash in Circulation Dummy Account to the institution's Operational Account; and
 - b) the institution shall deduct the cash as an asset on its balance sheet.
12. For the avoidance of doubt, when cash money is supplied to a customer by an institution not permitted to hold cash in custody, then the institution shall simultaneously:
- a) reduce the amount of the cash in the appropriate Customer Transaction Account;
 - b) instruct the Bank of England to transfer the amount of the cash from the Customer Funds Account administered by the institution, to the institution's Operational Account; and
 - c) the institution shall deduct the cash as an asset on its balance sheet.
13. For the avoidance of doubt, when cash money is supplied by a customer to an institution not permitted to hold cash in custody, then the institution shall simultaneously:
- a) add to the balance of the appropriate Customer Transaction Account by the amount of the cash paid in;
 - b) instruct the Bank of England to transfer the amount of the cash from the institution's Operational Account to the Customer Funds Account administered by the institution; and
 - c) the institution shall record the cash as an asset on its balance sheet.

Schedule 5

ESTABLISHMENT OF CENTRAL GOVERNMENT ACCOUNT

Central Government Account

1. The Bank of England shall provide one account for the government, which shall be held at the Bank.
2. This account shall be known as "Central Government Account at Bank of England".
3. There shall be only one Central Government Account, with sub-accounts where necessary.
4. The Central Government Account is an asset of the Treasury and shall be owned in full by the Treasury.
5. The Central Government Account is not a liability of the Bank of England and is not a balance sheet item of the Bank.
6. This Account shall replace the account known as "Consolidated Fund" and the balance in "Consolidated Fund" shall be transferred to the Central Government Account.

Schedule 6

ESTABLISHMENT OF THE BANK OF ENGLAND OWN FUNDS ACCOUNT

Bank of England Own Funds Account

1. The Bank of England shall provide one account for its own funds, which shall be held at the Bank.
2. This account shall be known as "Bank of England Own Funds Account".
3. There shall be only one Bank of England Own Funds Account, with sub-accounts where necessary.
4. The Bank of England Own Funds Account shall be owned in full by the Bank of England.
5. The Bank of England Own Funds Account shall be an asset of the Bank of England and shall be recorded on its balance sheet.

Schedule 7

REMEDIES AVAILABLE TO THE BANK OF ENGLAND

Responses to Insufficient Funding

1. In the event that an authorised deposit taking institution does not have sufficient funds to service maturing Customer Investment Accounts, as required under paragraph 18 of Schedule 1 of this Act, the Bank of England may, at its discretion, take whatever steps it considers prudent, including but not limited to:
 - a) an investigation by a regulatory body;
 - b) a monetary fine, which shall be paid to the Treasury;
 - c) an Emergency Loan to the institution, with the option of a penal interest rate, where the Bank considers the institution to be temporarily illiquid but fundamentally solvent;
 - d) declaring the institution insolvent and instigating liquidation procedures, when the Bank considers the institution to be inherently insolvent; or
 - e) any other measure that the Bank believes will encourage other institutions to manage their funds in a prudent manner.

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Announcement of Emergency Measures

2. In furtherance of paragraph 1 of this Schedule, the Bank of England shall publish a statement detailing its decision, and its consequent action, as soon as it considers practical in the circumstances.

(1) For the purposes of this paragraph, the Bank shall consider whether publication of its decision, and its consequent action, would be likely to impede or frustrate the achievement of the purpose of the intervention, or exacerbate the situation which is the reason for the intervention.

(2) The Bank may delay a statement where it considers that a statement would impede or frustrate the achievement of the purpose of the intervention, or exacerbate the situation which is the reason for the intervention.

(3) In the event of sub-paragraph 2 above, the Bank shall publish the statement within 6 weeks from the date of its initial decision.

Provision of Emergency Loan

3. In the event of an Emergency Loan, the Bank of England shall fund the loan by creating new money in accordance with section 3 of this Act.

4. In the event of an Emergency Loan, the Bank of England shall accept collateral from the institution.

(1) The Bank shall determine the interest rate for the Emergency Loan.

(2) The Bank shall determine the repayment schedule for the Emergency Loan.

5. For the avoidance of doubt, the Bank of England shall make an Emergency Loan to an institution by simultaneously:

- a) adding to the institution's Operational Account, without reducing any other account; and
- b) updating its internal records, as appropriate.

6. For the avoidance of doubt, the Bank of England shall collect repayments of the principal of the Emergency Loan by simultaneously:

- a) reducing the institution's Operational Account, without adding to any other account; and
- b) updating its internal records, as appropriate.

7. For the avoidance of doubt, the Bank of England shall collect payments of the interest on the Emergency Loan by simultaneously:

- a) transferring the amount from the institution's Operational Account, to the Bank of England Own Funds Account; and
- b) updating its internal records, as appropriate.

Bank of England Liquidation Procedure Company

8. The Bank of England shall establish a subsidiary company entitled "The Bank of England Liquidation Procedure Company", which shall be wholly owned by the Bank of England.

9. In the event that an institution is declared insolvent by the Bank, the Liquidation Procedure Company shall manage the Customer Transaction Accounts of the insolvent institution:

(1) The Customer Funds Account administered by the insolvent institution shall become a Customer Funds Account managed by the Liquidation Procedure Company.

(2) The Investment Pool and Operational Account of the insolvent institution shall remain as assets of the institution, as shall any other outstanding assets of the institution.

(3) The Liquidation Procedure Company shall appoint a Liquidator to handle the liquidation of the insolvent institution.

10. In the event that an institution is declared insolvent, the Liquidation Procedure Company shall, within 24 hours, provide mechanisms to ensure that the payment system of the insolvent institution shall, where possible, continue to function, at a cost to the institution which shall be established by secondary legislation.

11. Within 7 days of the institution being declared insolvent, the Liquidation Procedure Company shall provide a telephone number and a website, the addresses of which shall be made widely available through national media outlets, and which shall allow the customers of the insolvent institution to transfer their Customer Transaction Accounts to their choice of other institutions.

Liquidation Procedure for Institutions

12. Every institution which provides a Customer Transaction Account facility in accordance with section 20 of this Act, shall establish and maintain, at all times, a procedure which shall be known as a "Liquidation Procedure", that shall be capable of exporting the entirety of its data for all its Customer Transaction Accounts to the safe-keeping and management of the Liquidation Procedure Company, as established in paragraph 8 of this Schedule.

13. The exported data shall include the entirety of the Account details, including, but not limited to, all customer details, account history, and security information including passwords, and any such data specified by the Bank.

14. For the avoidance of doubt, the Bank shall have access to the data described in paragraph 13 of this Schedule only in the event of the insolvency of an institution.

15. The institution shall implement and complete the export procedure within 6 hours of the institution being declared insolvent.

16. Customer Investment Account holders shall be creditors of the insolvent institution.