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STATUTORY INSTRUMENTS

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**2009 No. 3056**

**The Scottish and Northern Ireland Banknote Regulations 2009**

**PART 3**

**Requirements as to backing assets**

**Backing assets**

6.—(1) An authorised bank must have backing assets in accordance with these Regulations and the rules.

(2) The following kinds of assets are specified as backing assets—

- (a) Bank of England banknotes of such denominations and series as are specified in the rules;
- (b) current coins of the United Kingdom; and
- (c) funds placed on deposit in sterling in an account held by the Bank of England and designated by the Bank of England for the purposes of this regulation.

(3) Backing assets in the form of Bank of England banknotes must be held either—

- (a) by the Bank of England; or
- (b) at one or more locations for the time being approved by the Bank of England for this purpose.

(4) Backing assets in the form of coins must be held at one or more locations for the time being approved by the Bank of England for this purpose.

(5) At least 60% of a bank's backing assets which are held by a bank in respect of its banknotes in circulation must consist of assets of the kinds specified in paragraph (2)(a) and (b).

(6) The rules may prohibit an authorised bank from maintaining more than a specified proportion of its backing assets—

- (a) in locations approved under paragraph (3)(b) or (4); or
- (b) in the form of current coins of the United Kingdom.

(7) The rules may specify requirements with which an authorised bank must comply where it—

- (a) places funds on deposit in an account designated under paragraph (2)(c); or
- (b) holds backing assets in a location approved under paragraph (3)(b) or (4).

(8) Rules may specify the procedure by which authorised banks may acquire or dispose of Bank of England banknotes and coins held as backing assets.

**Value of backing assets to be held by an authorised bank**

7.—(1) The rules must make provision for determining the value of backing assets which must be held by an authorised bank.

(2) Excluded banknotes are not to be taken into account for the purposes of any such determination.

- (3) An excluded banknote is a banknote of an authorised bank which satisfies—
  - (a) such requirements as the Bank of England may specify in the rules; and
  - (b) such conditions as may be specified for the purposes of this regulation by the Bank of England in relation to the banknotes of the bank.
- (4) The Bank of England may amend or revoke any condition relating to an authorised bank’s banknotes.
- (5) The Bank of England must consult an authorised bank before specifying a condition in relation to its banknotes under paragraph (3)(b), or amending or revoking such a condition under paragraph (4).

**Interest on a designated account**

- 8.—(1) The Bank of England must pay interest to an authorised bank on the funds held by the bank in an account designated under regulation 6(2)(c).
- (2) If the amount of funds held by the bank in a designated account exceeds the qualifying limit, the Bank of England shall only be required to pay interest on an amount equal to the qualifying limit.
  - (3) For the purposes of this regulation, the qualifying limit is an amount equal to the total of—
    - (a) 40% of the value of an authorised bank’s banknotes in circulation; and
    - (b) the value of the bank’s banknotes with the potential to enter circulation.
  - (4) Interest shall be—
    - (a) calculated on a daily basis at the rate paid on commercial bank reserves at the Bank of England; and
    - (b) credited to the account at the end of such periods as are specified in the rules.

**Ownership of, and interests in, backing assets**

- 9.—(1) A bank’s backing assets are—
  - (a) assets of the bank; and
  - (b) held for the purpose of protecting holders of banknotes of the bank in accordance with these Regulations and the rules.
- (2) No person may have any interest in or right over the backing assets, except as provided in these Regulations.