



Bank Levy

The Chancellor announced that the Government will introduce a bank levy from 1 January 2011.

A joint statement was also released by the UK, French and German Governments today.

The levy will apply to:

- the consolidated balance sheet of UK banking groups and building societies;
- the aggregated subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK; and
- the balance sheets of UK banks in non-banking groups.

These institutions and groups will only be liable for the levy where their relevant aggregate liabilities, as set out below, amount to £20 billion or more. In calculating branch liabilities and Tier 1 capital, the Government proposes to use the principles applied to the capital attribution methodology used for Corporation Tax purposes.

The levy will be based on total liabilities (i.e. both short and long term liabilities) excluding:

- Tier 1 capital;
- insured retail deposits;
- repos secured on sovereign debt; and
- policyholder liabilities of retail insurance businesses within banking groups.

The Government proposes that any derivative liabilities will only be taken into account where they are net derivative positions, but will consider the technical details of this and other aspects of the levy design in consultation with industry over the summer.

It is proposed that the levy will be set at 0.07 per cent which is expected to raise over £2 billion annually. However, there will be a lower rate of 0.04 per cent in 2011. There

will also be a reduced rate for longer-maturity wholesale funding (i.e. greater than one year remaining to maturity) to be set at 0.02 rising to 0.035 per cent; half the main rate.

The levy will not be deductible for Corporation Tax.

There will be anti-avoidance provisions to prevent avoidance of the levy. HM Revenue and Customs will administer the levy.

The levy is intended to encourage banks to move to less risky funding profiles. The Government believes that banks should make a fair contribution in respect of the potential risks they pose to the UK financial system and wider economy.

The joint statement from the UK, France and Germany released today shows that this is a view shared by our international partners. The levy is based on the valuable work undertaken by the International Monetary Fund and complements the wider financial regulatory reform agenda.

Systemic risks must always be assessed in light of the circumstances at the time. The regulatory reforms underway are aimed at ensuring that no firm is too big to fail and that all firms are resolvable. The levy is a contribution reflective of economic risk, it is not an insurance against failure or a fund for future resolution.

The Government will consult over the summer. Final details of the levy will be published later this year, following this consultation.