10 March 2014

Dear Andrew,

Temporary high balance protection by the Financial Services Compensation Scheme (FSCS)

Thank you for your letter of 1 March about “lumpy deposits”. You highlighted the issue of deposits over and above the FSCS compensation limit of £85,000, which consumers or small businesses may occasionally need to keep in a single bank or building society account for a short period of time, for example during the period between selling one house and buying another.

Such balances are commonly referred to as “temporary high balances” and, above the £85,000 level, are not currently protected by the FSCS. However, it has been a long held position of the Bank of England and the Prudential Regulatory Authority (and predecessor regulators) that certain temporary high balances should receive additional protection in certain circumstances.

You may be aware that the Financial Services Authority consulted on such additional protection in 2008, but was unable to implement reforms due to the harmonisation of protection limits required by the European Union’s Deposit Guarantee Schemes Directive (DGSD).

Changes to the DGSD are now being finalised, and will lead to the introduction of temporary high balance protection in a range of circumstances including (but not limited to) residential property transactions, retirement, invalidity, or the death of a depositor.

We continue to believe that this protection will help to improve depositor confidence, which in turn can contribute to financial stability. The Bank therefore intends to work with the FSCS to put in place a system of temporary high balance protection in the UK as part of the implementation of the DGSD. We expect this to happen during 2015.

I hope this letter provides you with assurance that we are engaged in this issue and that actions are being taken to resolve the issue that you highlighted.

Yours sincerely,

[Signature]