

# The Bank of England’s Alternative Liquidity Facility

## ALF Operating Procedures

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**Last updated: February 2024**



## ALF OPERATING PROCEDURES

### 1 Introduction

- 1.1 These Alternative Liquidity Facility (ALF) Operating Procedures govern participation in the ALF and explain the operational procedures involved.
- 1.2 The Bank of England Alternative Liquidity Facility Limited (BEALF) is a wholly-owned subsidiary of the Bank and is the legal counterpart to ALF transactions. Under the terms of an investment management agreement, the Bank acts as agent for BEALF.
- 1.3 Unless the context requires otherwise, all capitalised terms have the meaning ascribed to them in the Glossary of the Terms and Conditions for participation in the ALF.
- 1.4 These Operating Procedures should be read together with the other parts of the Documentation – which includes the Terms and Conditions, the Eligibility Criteria contained in the Terms and Conditions, the Scheme Letter and the Guarantee – by which all transactions referred to in these Operating Procedures are governed. All relevant documents will be made available on the Bank’s website<sup>1</sup>.
- 1.5 In the event of a conflict between these Operating Procedures and the Terms and Conditions, the Terms and Conditions shall prevail.
- 1.6 The Bank may amend these Operating Procedures generally or in particular circumstances from time to time, with any such amendment taking effect at the time specified by the Bank. A link to copies of the Documentation as amended, or the relevant amended parts, will be circulated to Participants in the ALF and posted on the Bank’s website.<sup>2</sup>
- 1.7 The Bank will endeavour to give reasonable notice of any amendment to the Operating Procedures, but reserves the right to introduce any amendment with immediate effect. The Bank may also vary the operational timetable<sup>3</sup> or vary or omit any of the procedures described on any particular day.
- 1.8 All transactions or planned transactions by individual Participants as part of the ALF are confidential (see clause 19 of the Terms and Conditions).
- 1.9 All references to times are to London time, unless stated otherwise.
- 1.10 Documentation relating to the Sterling Monetary Framework, Asset Purchase Facility and the Term Funding Scheme with additional incentives for SMEs (TFSME) is available separately on the Bank’s website.<sup>4</sup>

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<sup>1</sup> [Documentation | Bank of England.](#)

<sup>2</sup> [Documentation | Bank of England.](#)

<sup>3</sup> The calendar of operations is available on the Bank’s website at [Information for participants | Bank of England.](#)

<sup>4</sup> [Documentation | Bank of England.](#)

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### 2 Purpose

- 2.1 The ALF is a deposit facility available to certain institutions which face formal restrictions on engaging in interest-bearing activity, and so are unable to participate in the Bank's other facilities under the Sterling Monetary Framework.
- 2.2 The ALF will pay Profit on Deposits which will be generated from a portfolio of Eligible Assets. Accordingly, the capacity of the ALF will be limited to the size of the portfolio. The capacity of the ALF is specified in Section 4, Deposit Operations.

### Eligible Assets

- 2.3 A portfolio of Eligible Assets will be held to form the backing fund of the ALF. Eligible Assets will be in the form of securities which the Bank deems appropriate to support the purpose of the ALF. Where practical to do so, prior to purchasing Eligible Assets, and without prejudice to the Bank's absolute discretion in making such purchases on behalf of BEALF, the Bank will from time to time use reasonable endeavours to communicate its investment plans to ALF Participants to ensure transparency about the composition of the ALF backing fund. Each Participant must treat any such information it receives from the Bank as confidential.

### Bank Guarantee

- 2.4 The Bank provides a Guarantee in favour of Participants for the principal amount from time to time of Deposits of Participants in the ALF. This is to provide certainty for Participants that they are able to withdraw the principal amount of their Deposits at any time and in full (in accordance with the Terms and Conditions and the terms set out in Section 6 of these Operating Procedures). The Guarantee will be shared with Participants as part of the application process.
- 2.5 For the avoidance of doubt, the Guarantee does not cover the Profit due or any Additional Charge imposed on a Participant from time to time and which is deducted or to be deducted from the amount deposited by a Participant in the ALF in accordance with the Terms and Conditions.

### Certification

- 2.6 The ALF has been designed to enable banks which are subject to formal restrictions on engaging in interest-bearing activity, such as Islamic banks, to participate in the facility. However, as set out in the Terms and Conditions, Participants must make their own determination as to whether the ALF, the Documentation and contemplated transactions are in compliance with Shari'ah principles. None of the Bank, BEALF or any of their respective agents, employees, directors, officers, or advisors provide any representation, warranty or assurance as to the compliance of the ALF, the Documentation or the transactions contemplated by them with the principles of Shari'ah.

### 3 Participant Eligibility

- 3.1 All Participants must be eligible under and comply with the Eligibility Criteria that are detailed in the Terms and Conditions.<sup>5</sup>
- 3.2 Participants that are able to open an interest-bearing reserves account under the Sterling Monetary Framework are not eligible to access the ALF.
- 3.3 Eligible institutions wishing to apply for access to participate in the ALF should complete an application form, available to download from the Bank's website.<sup>6</sup> BEALF may waive, add to, or vary any or all of the Eligibility Criteria in relation to any institution or institutions at any time.
- 3.4 The ALF is set up to have a maximum size. To operate within that limited capacity, the Bank uses an allocation mechanism to ensure the equitable distribution of capacity in the facility across all Participants. The Bank allocates ALF capacity at its sole and absolute discretion. The calculation of a Participant's individual allocation takes as an input Net Liquidity Outflow data that is provided by Participants to the Prudential Regulation Authority (PRA), plus any Pillar 2 Add On judged necessary by PRA supervisors.
- 3.5 It is therefore a necessary precondition for Participants to have provided sufficient data to the PRA, and for the Bank to have confirmed, via the quarterly update as set out in Section 5, the base deposit allocated to the Participant before they can take part in the ALF.

### Participation Fee

- 3.6 Banks and Building Societies which are not required under the Bank of England Act 1998 to make a Levy payment to the Bank – i.e. are not Levy payers – but which have been granted access to the ALF are required to pay the Participation Fee. The Bank, as agent for BEALF, will review the level of the Participation Fee from time to time and may amend it, any such amendment taking effect at a time specified by the Bank.
- 3.7 The Participation Fee will be £10,000 per annum, and will be payable by a Participant by CHAPS into an account designated by the Bank.
- 3.8 The Participation Fee should be paid in advance in two equal instalments, in early June and December each year. If by the respective payment date a Participant becomes a Levy payer, it will no longer be required to pay the Participation Fee. If by a payment date a Participant is no longer required to make a Levy payment to the Bank it will be required to pay the Participation Fee instead.
- 3.9 The Participation Fee for the initial six-month period in which a Participant is admitted to the ALF is payable in advance, and will be pro-rated to reflect that Participant's date of admission.
- 3.10 The Bank will send an advance notice to the Participant before the first payment is due, confirming the amount of the Participation Fee, its due date and frequency of payments. The Bank will send further notices to the Participant if the amount of the Participation Fee, its due

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<sup>5</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/alternative-liquidity-facility/terms-and-conditions.pdf>

<sup>6</sup> [Information for applicants | Bank of England](#)

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date or required frequency of the payment changes.

- 3.11 Any payment made in respect of a Participation Fee is not refundable, including in the event that a Participant merges or amalgamates with another entity, ceases to be a Participant, becomes or ceases to be a Levy payer, or in the event of its participation in the ALF being suspended or terminated in accordance with clause 12 of the Terms and Conditions.
- 3.12 Where a Participant fails to pay the Participation Fee, the Bank reserves the right to suspend the Participant's access to the ALF.

## 4 Deposit Operations

- 4.1 The Bank expects to run ALF deposit operations once a week, whereby Participants are invited to state the amount (“bid”) they would like to deposit in the facility. Participants are able to subsequently withdraw their Deposits as specified in the Terms and Conditions and Section 6, but can only deposit funds if their bid is confirmed by the Bank as set out below.

Parameter	Description
<b>Timing</b>	Deposit requests must be received by 1pm on Thursday
<b>Size</b>	Up to £200mn of deposits will be accepted in aggregate across all Participants
<b>Maximum bids per Participant</b>	Restricted to 1 bid per Participant
<b>Allocation</b>	Participants will have a base deposit amount which they can place, which is calculated by the Bank and will be kept under review. Bids over and above this amount can be made, and will be allocated by the Bank, if there is capacity, using a weighting mechanism. The Bank will notify Participants of their total allocation value equal to their base deposit amount plus the amount of any accepted bids
<b>Announcement</b>	The Bank will confirm allocation to Participants via e-mail and MT320, by 2pm
<b>Rates</b>	An Expected Profit Rate will be announced at the start of each quarter. A Profit Amount or Adjusted Profit Amount (if applicable) is paid to Participants on the maturity date of each weekly operation.
<b>Settlement</b>	T+0 days
<b>Maturity</b>	7 calendar days or next Business Day thereafter where day 7 is not a Business Day, unless otherwise specified by the Bank

### Conducting deposit operations

- 4.2 In addition to the details in the table above, the timetable for the deposit operations and a summary of the parameters of each operation are published on the Bank’s website.<sup>7</sup>
- 4.3 Bids may be submitted on Thursdays and must be received by the Bank by 1pm. Participants are not permitted to send bids to the Bank in advance of a Thursday. Participants must bid each week if they wish to place a deposit for the week ahead – previous week bids are not automatically rolled over.
- 4.4 Participants bid by submitting a signed deposit notice to the Bank’s Sterling Markets Division via e-mail/e-mailing the Bank’s Sterling Markets Division at [ALFTransactions@bankofengland.co.uk](mailto:ALFTransactions@bankofengland.co.uk).
- 4.5 The Bank will accept bids by telephoning the Sterling Markets Division on 0203 461 5000 in the event that e-mail is unavailable. In the case of a telephone bid, the Bank will call back to the Participant’s pre-designated telephone number<sup>8</sup> to confirm the bid.
- 4.6 If the Bank is unable to authenticate a contingency telephone bid, then a valid instruction will be deemed not have been received. In this scenario, if the Participant has an existing Deposit, that Deposit will mature and be repaid as set out in the Terms and Conditions and Section 6.
- 4.7 The Bank will confirm allocated bids to Participants via e-mail shortly after the deposit

<sup>7</sup> [Information for participants | Bank of England](#).

<sup>8</sup> Submitted to the Bank via the Front Office Contact Form

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operation closes, and at the very latest by 2pm.

- 4.8 Notwithstanding any provision in the Terms and Conditions and these Operating Procedures, the Bank reserves the right to reject bids at its sole discretion.

## 5 Allocation and Profit Rates

### Allocation

- 5.1 The ALF will have a maximum deposit capacity as set out in Section 4 (Deposit Operations). The total size of the facility will be kept under review by the Bank.
- 5.2 In order to ensure that all Participants will be able to take part in the operation the Bank will, at its sole and absolute discretion, calculate a base deposit amount for each Participant using a pre-determined weighting factor. Participants will be able to place their base deposit amount in each weekly deposit operation, and may bid in excess of this to obtain any spare capacity which may periodically become available. Base amounts will be kept under regular review.
- 5.3 The weighting factor will initially be based on the aggregate of: Participant's HQLA requirements using a rolling average of Net Liquidity Outflow data submitted by Participants to the PRA; and any Pillar 2 Add On applied by the PRA. The Bank reserves the sole right to adjust how it sets base deposit amounts to account for changes in the facility and its users.
- 5.4 The Bank will confirm Participants' base deposit amounts in advance of the first operation in which the Participant will be able to take part. The Bank will update weightings for these base deposit amounts on a quarterly basis, on the first Business Days of February, May, August and November, and confirm the base deposit size to the Participant.
- 5.5 In the event that there is excess capacity in the facility following a deposit operation, the Bank will allocate the remaining capacity between those Participants which have bid for more than their base amount. This allocation will be based on the ratio of Participant(s) weighting factors and will be determined by the Bank in its sole and absolute discretion.
- 5.6 If the maximum deposit capacity is not exceeded in a deposit operation, and no Participant has bid more than their base amounts, then the Bank, in its role as a residual co-depositor, will automatically place a deposit for the outstanding capacity to ensure that the facility remains fully utilised at all times.
- 5.7 If, as set out clause 12 of the Terms and Conditions, BEALF has suspended or terminated a Participant's access to the ALF or a Participant has terminated their access to the ALF, then the Bank will update the weightings and confirm the revised base deposit amounts to the remaining Participants, ahead of the next scheduled deposit operation.

### Profit Rates

- 5.8 Deposits held in the ALF are expected, but not guaranteed, to generate returns from a



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portfolio of Eligible Assets.<sup>9</sup> The Bank, as agent for BEALF, will announce quarterly the Expected Profit Rate (EPR) applicable to Deposits for each forthcoming quarter. The Actual Profit Rate will be determined by the Bank on behalf of BEALF on a weekly basis on each Profit Payment Date. In determining the APR, the Bank will take into account a range of factors including returns generated on Eligible Assets in the immediately preceding Expected Profit Rate Period, and general money market and monetary conditions as detailed in the Terms and Conditions.

- 5.9 The Bank, as agent for BEALF, will (if applicable) pay to Participants the Profit Amount or, in certain circumstances (see para 5.10) the Adjusted Profit Amount, in respect of their Deposit on a weekly basis on each Profit Payment Date. The Profit Amount, or the Adjusted Profit Amount, payable on each Profit Payment Date will be based on the Actual Profit Rate (APR) or, in the case of the Adjusted Profit Amount, the Adjusted Profit Rate (Adjusted PR).
- 5.10 Where the Bank, acting on behalf of BEALF, determines that an Impairment Event, such as an event of default in respect of an Eligible Asset in the portfolio or other event or circumstance as set out in the Terms and Conditions has occurred, the Bank will determine the Adjusted Profit Amount based on the Adjusted PR. In determining the Adjusted PR, the Bank will adjust the anticipated Actual Profit Rate to take into account a range of factors including the impact of an Impairment Event on the returns generated or expected to be generated by the Eligible Assets in the portfolio, as detailed in the Terms and Conditions.
- 5.11 The Bank, acting on behalf of BEALF, may from time to time impose Additional Charges on Participants as set out in the Terms and Conditions. The Additional Charges payable by Participants in respect of any Profit Period may be equal to or exceed any Profit Amount or Adjusted Profit Amount due to a Participant in respect of a given Profit Period. The Bank, on behalf of BEALF, may serve a written notice on a Participant for payment in respect of any Additional Charge. Alternatively any Additional Charge may be deducted from a Participant's Deposit in accordance with the Terms and Conditions. Where the Bank determines to impose an Additional Charge and deduct the Additional Charge from a Participant's Deposit, the Deposit will be reduced from the date the Bank makes such determination.
- 5.12 The EPR will be announced to Participants for the upcoming quarter on the first working days of February, May, August and November, via e-mail.
- 5.13 The Bank will confirm the APR, or the Adjusted PR, to Participants via e-mail and MT320 for the prior week's deposit operation on the maturity date. Any Profit Amount or Adjusted Profit Amount (as applicable) will then be paid directly to Participants on the maturity date. For the avoidance of doubt, it is not possible for Participants to roll over any Profit as part of their deposit held in the ALF.
- 5.14 The Profit Amount or the Adjusted Profit Amount will be calculated on a 365 day count basis as more particularly set out in the Terms and Conditions.

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<sup>9</sup> [Results and usage data | Bank of England](#)

## 6 Settlement, Withdrawals and Rolling Deposits

### Settlement

- 6.1 The settlement deadline for deposit operations is 4.30pm on the day of the operation (T+0 days).
- 6.2 If the deadline is not met, then the Bank will use reasonable endeavours to receive and accept the funds the Participant wishes to place as a Deposit. If settlement does not occur by 5pm, then the funds will not be accepted as a Deposit and any funds received will be repaid the following working day.
- 6.3 Participants are required to send an MT320 confirmation to the Bank following notification of their total allocation value. If a Participant does not send an MT320, then the funds will not be accepted as a Deposit and any funds will be repaid the following working day.
- 6.4 Participants must ensure that the correct payment amount is sent to the Bank, according to the value allocated in the operation.

### Payment of funds

- 6.5 All funds, including any Profit Amount or Adjusted Profit Amount, will be paid or received via CHAPS. The Profit Payment Date will be the maturity date, unless otherwise specified by the Bank.
- 6.6 In the event that the Bank issues an Acceleration Notice to the Participant, the Bank will repay the Participant's Deposit, including or net of any Profit due, on the day that the Acceleration Notice is served. If this is not possible, then the Bank will make the payment to the Participant early on the following Business Day.

### Standard Settlement Instructions (SSIs) and SWIFT messages

- 6.7 When requested by the Bank, Participants should promptly provide standard settlement instructions (SSIs) required for payment settlement purposes. SSIs should be sent to the Bank via authenticated SWIFT, marked for the attention of the Global Payments Team, Customer Banking Division.
- 6.8 The Bank will need at least 10 Business Days' notice to implement any changes to SSIs.
- 6.9 Participants must use a SWIFT message – either an MT202 or a pacs.009 which complies with the CHAPS schema - to make payments to the Bank, with specific formatting on certain fields. The Bank can provide examples of the requirements upon request.
- 6.10 Participants are required to use a SWIFT MT320 confirmation message when placing a new Deposit, rolling a Deposit or withdrawing a Deposit in part or in full. The Bank requires specific formatting on certain fields for each scenario, and can provide examples of this upon request.

### Maturity

- 6.11 Deposits will automatically mature after 7 calendar days or, where such calendar day is not a Business Day, the immediately succeeding Business Day, unless the Bank notifies

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Participants otherwise. If a Participant has not participated in a new deposit operation at the point of maturity, then the Bank will repay the Participant their original deposit or any portion of their original deposit which is in excess of any amount which is subject of a new deposit operation by that Participant (and Profit Amount or Adjusted Profit Amount if relevant) by close of business that day, to the account specified in the Participant's SSIs.

### Withdrawals

- 6.12 Participants are able to withdraw all or part of their Deposit on any Business Day, except for the day of a deposit operation. Participants are permitted to make multiple withdrawals within the same weekly operation period, but withdrawals are limited to one request per day. Where a Participant withdraws either all or part of their Deposit before the maturity date, the Bank, on behalf of BEALF, will repay the principal amount (or part thereof as the case may be) on that date and before CHAPS is closed. The principal amount (or part thereof as the case may be) will be repaid to the account specified in the Participant's SSIs. However, as noted in paragraph 6.5, Profit will only be paid on maturity dates – this includes when the Deposit has been withdrawn early, either partially or in full and any portion of a Deposit will cease to earn Profit from the date of such withdrawal.
- 6.13 Withdrawal requests should be made on the day the Participant wishes to withdraw.
- 6.14 Participants can instruct a Withdrawal by submitting a signed withdrawal notice via e-mail to: [ALFTransactions@bankofengland.co.uk](mailto:ALFTransactions@bankofengland.co.uk). If e-mail is not available, Participants can instruct by contacting the Bank on 0203 461 5000. In the case of a telephone withdrawal, the Bank will call back on the Participant's pre-designated telephone number to confirm the withdrawal amount.
- 6.15 The deadline for a withdrawal request is 1pm. The Bank will consider requests for withdrawals after 1pm, but may, at its own discretion, decline to process them.
- 6.16 The Bank may periodically carry out operational testing of the facility, by arranging test withdrawals of moderate value with Participants.

### Rolling Deposits

- 6.17 The Bank will net principal amounts of Participant Deposits after each weekly operation, in relation to any maturing deposits.
- 6.18 A Participant that bids in a new weekly operation and is allocated an equal value to their maturing deposit is not required to pay funds on the day of the new operation. Similarly, the Bank will not repay funds to the Participant for the maturing Deposit.
- 6.19 A Participant that bids in a new weekly operation and is allocated an amount that exceeds their maturing Deposit will be required to pay additional funds to the Bank to match the difference. The Bank will net the value of the maturing and new Deposits.
- 6.20 A Participant that bids in a new weekly operation and is allocated an amount less than the maturing Deposit will be paid by the Bank funds equal to the amount of the decrease.
- 6.21 As noted in paragraph 5.13 it is not possible for Participants to roll over any Profit as part of their deposit held in the ALF. Any Profit payable will be paid at the end of each weekly term.

### 7 Contingencies

- 7.1 This section sets out the Bank's specific operational contingency plans in relation to several contingency scenarios, including but not limited to those set out in paragraphs 7.3-7.6. The Bank's and BEALF's liability in respect of such scenarios is set out in clause 22 of the Terms and Conditions.
- 7.2 In a contingency scenario, the Bank would endeavour to inform all affected Participants as soon as possible, by telephone or e-mail, of the response it had decided to adopt in a contingency operation.
- 7.3 In the event of a disruption to the Bank's internal systems which renders them unavailable prior to the start of an operation, that operation will be postponed or cancelled. If the Bank's systems become available again later that same day, the operation may be run within this period, if the Bank determines it to be operationally feasible, particularly ensuring that sufficient time remains in the day to complete settlement.
- 7.4 In the event of a disruption to the Bank's internal systems, or market wide payment infrastructure such as CHAPS, which renders them unavailable on a day where a Participant had requested a Withdrawal, or the Bank was due to repay a Deposit or the Profit Amount or Adjusted Profit Amount, the Bank will with reasonable endeavours work to make the payment on that Business Day. If this is not possible, then the Bank will make the payment to the Participant early on the following Business Day.
- 7.5 If the operation cannot be run on the same day, or in the event of an unplanned non-business day or bank holiday on which a Deposit would otherwise have matured, the maturity date for all Deposits will be extended until the next Business Day.
- 7.6 If a Participant is unable to take part in a deposit operation due to an operational disruption such as a problem with their local telephone or e-mail, which means that they are unable to send or receive instructions to or from the Bank, then the Bank will repay any existing Deposit and relevant Profit Amount or Adjusted Profit Amount to the Participant's SSIs.

## Appendix A – Communication with the Bank

- A.1 Participants should understand that e-mail (whether encrypted or unencrypted) is not a secure method of communication, and that messages so delivered may be intercepted, lost, destroyed, corrupted or delayed in transmission. The Bank encourages all Participants that communicate with the Bank by e-mail to use encrypted e-mail only.
- A.2 All key electronic communications with the Bank are securely archived. Furthermore, all telephone conversations with the Bank’s Sterling dealing desk and back office are recorded. In the event of a dispute, reference will be made to the archive and recordings.
- A.3 Participants must supply the Bank’s Sterling dealing desk with contact names, e-mail addresses and telephone and fax numbers for their front and back offices, and for their contingency sites.
- A.4 The table below summarises contact details for specific queries and actions.

**Table A Telephone numbers and e-mail addresses for contacting the Bank**

Action	Contact
<b>Queries on admission to the ALF</b>	<a href="mailto:applications@bankofengland.co.uk">applications@bankofengland.co.uk</a> or <a href="mailto:Islamic.finance@bankofengland.co.uk">Islamic.finance@bankofengland.co.uk</a>
<b>Queries during a live Deposit Operation</b>	Sterling Markets Division <a href="mailto:ALFTransactions@bankofengland.co.uk">ALFTransactions@bankofengland.co.uk</a> 0203 461 5000
<b>Settlement queries</b>	Global Payments Team <a href="mailto:bsg-fx-operations@bankofengland.co.uk">bsg-fx-operations@bankofengland.co.uk</a> 0203 461 4796 Escalation:0203 461 5826 0203 461 5354 0203 461 3406
<b>Withdrawal requests</b>	Sterling Markets Division <a href="mailto:ALFTransactions@bankofengland.co.uk">ALFTransactions@bankofengland.co.uk</a> 0203 461 5000