



**BANK OF ENGLAND**

**THE BANK OF ENGLAND'S OPERATIONS UNDER  
THE FUNDING FOR LENDING SCHEME –  
OPERATING PROCEDURES**

**21 January 2019**

# THE BANK OF ENGLAND'S OPERATIONS UNDER THE FUNDING FOR LENDING SCHEME – OPERATING PROCEDURES

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## 1 INTRODUCTION

- (i) These Funding for Lending Scheme Operating Procedures (the “FLS Operating Procedures”) set out terms which govern participation by Participants in the Funding for Lending Scheme (the “FLS”), including its extension announced on 24 April 2013 and amended on 28 November 2013, 2 December 2014, and 30 November 2015, and explain the operational procedures involved. FLS Operating Procedures should be read in conjunction with the other parts of the Documentation relating to the FLS, including the FLS Terms and Conditions (including, for Loan Collateral, any relevant Annexes) and any relevant Market Notices which form part of the Documentation, and by which all FLS Transactions referred to in these FLS Operating Procedures are governed. In addition, the Bank has produced Explanatory Notes on the Funding for Lending Scheme which are available at <http://www.bankofengland.co.uk/markets/Pages/FLS/default.aspx>. A guide to Loan Collateral pre-positioning is also available on request from [applications@bankofengland.co.uk](mailto:applications@bankofengland.co.uk).
- (ii) In the event of any conflict between the Terms and Conditions and these FLS Operating Procedures, the Terms and Conditions prevail. In the event of any conflict between any Market Notice and these FLS Operating Procedures or the Terms and Conditions, the Market Notice shall prevail.
- (iii) In some cases these FLS Operating Procedures follow market terminology in using expressions such as “drawing” and “substitution”. This is done for the sake of familiarity, but is not a reflection of the legal nature of the FLS Transactions described in these FLS Operating Procedures, which is determined by the Terms and Conditions under which full title to securities transferred under the Terms and Conditions passes to the recipient of those securities. The right of the party making the transfer is a right to receive Equivalent Securities or Equivalent Collateral in accordance with the Terms and Conditions and these FLS Operating Procedures.
- (iv) Reference is made in these FLS Operating Procedures to “coupons” being payable during the life of a security; this word is used for the sake of familiarity and has for bonds the same meaning as “Income” as used in the Terms and Conditions which excludes payments of principal on a full or partial redemption of a security.
- (v) Where a Participant provides Loans as Eligible Collateral, it will usually assign its beneficial interest in the loans and their related security; the right of the Participant is to

have its beneficial interest re-assigned in accordance with the Terms and Conditions and these FLS Operating Procedures. Where there are restrictions on the Participant's ability to assign a loan (e.g. because of a prohibition on assignment in the underlying loan agreement), the Participant will declare a trust over the relevant loan in favour of the Bank. In some circumstances, the Bank may require the Participant to grant a security interest (first fixed charge) in the Loan. Loans that are governed by Scots law will be subject to a Scottish Declaration of Trust and Scottish Transfer.

- (vi) Participants should note that the procedures relating to collateral eligibility, delivery and maintenance in the FLS are the same as for the SMF, as described in the SMF Operating Procedures, which are available on the Bank's website at: <http://www.bankofengland.co.uk/markets/Pages/money/documentation.aspx>.
- (vii) The Bank may amend these FLS Operating Procedures generally or in particular circumstances from time to time; any such amendment will take effect at a time specified by the Bank. Any such amendment shall, unless the Bank specifies otherwise, apply to FLS Transactions outstanding at the time at which the amendment is made. A link to copies of the Documentation as amended, or the relevant amended parts, will be circulated to Participants and posted on the Bank's website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>. The Bank will endeavour to give reasonable notice of any amendment, but reserves the right to introduce any amendment with immediate effect. The Bank may also vary the operational timetable or vary or omit any of the procedures described on any particular day.
- (viii) All references to times are London time, unless stated otherwise.
- (ix) References in these FLS Operating Procedures to:
  - Clearstream are to the settlement system of Clearstream Banking SA, Luxembourg;
  - Euroclear are to the Euroclear settlement system operated by Euroclear Bank SA/NV;
  - CREST are to the CREST settlement system operated by Euroclear UK & Ireland Limited;

- DTC are to the Depository Trust Company and associated settlement and custody systems, operated by the Depository Trust and Clearing Corporation;
  - JGBs are to Japanese Government Bonds;
  - FRBNY are to the Federal Reserve Bank of New York;
  - CCBM are to the Correspondent Central Banking Model.
- (x) All capitalised terms in these FLS Operating Procedures have the meaning given in the Terms and Conditions (or, in respect of Loan Collateral, in the Bank's Terms and Conditions for Participation in the Bank's Sterling Monetary Framework) unless otherwise defined herein.

## 2 PARTICIPANTS

### 2.1 Eligibility

#### 2.1.1 General

- (i) Institutions eligible to participate in the FLS will be banks and building societies that are participants in the Bank's Sterling Monetary Framework (SMF) and signed up to the Discount Window Facility (DWF). The Bank may waive, add to or vary the eligibility requirements. Eligibility and continued access to the FLS will be dependent upon a Participant and other members of its FLS Group acting, in the opinion of the Bank, in good faith and in a manner consistent with the objectives of the FLS.

#### 2.1.2 Admission to the FLS

- (i) An institution will need to sign a Scheme Letter to be admitted to the FLS, and an Extension Letter to sign up to the second part of the FLS. For the purposes of the Terms and Conditions, an Extension Letter shall be treated as a "Scheme Letter". An institution can sign up to both parts of the FLS, or to either part separately. The Scheme Letter and the Extension Letter must each be signed by an authorised signatory on behalf of the institution and be accompanied by authorised signatory evidence in a form acceptable to the Bank.
- (ii) For institutions that are incorporated outside the United Kingdom, the Scheme Letter and/or the Extension Letter may amend the Terms and Conditions to take account of the law of the institution's country of incorporation. Before being admitted, the institution will also be required to provide relevant legal opinions on their legal capacity to enter into FLS Transactions. A country legal opinion may also be required. Pro forma legal capacity and country opinions are on the Bank's website at <http://www.bankofengland.co.uk/markets/Pages/FLS/applications.aspx>.
- (iii) Where an institution, whether or not incorporated in the United Kingdom, is not the primary entity within its Group, the Bank may require a guarantee from the primary entity in a form satisfactory to the Bank. It may also require a legal opinion on the guarantor's legal capacity and the enforceability of the guarantee. A pro forma guarantee and a pro forma legal opinion on the guarantee are available on the Bank's website at <http://www.bankofengland.co.uk/markets/Pages/money/applications.aspx>. Where the Bank does in principle require a guarantee, an FLS applicant may not be required to

provide a further guarantee if a guarantee has already been provided to the Bank which covers all of its obligations to the Bank.

- (iv) Institutions which wish to participate in the FLS but which are not already DWF participants should visit the Bank's website for further information on the applications process <http://www.bankofengland.co.uk/markets/Pages/money/applications.aspx>.
- (v) As part of the sign up process, institutions should submit the following information:
- The Authorised Signatory Evidence Form (available to download from <http://www.bankofengland.co.uk/markets/Pages/FLS/applications.aspx>) which lists the names of persons duly authorised to sign documentation required in connection with the FLS on behalf of the Participant (including but not limited to any FLS Transaction Requests). The Scheme Letter, the Extension Letter and the Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable) will be checked separately by the Bank and so Participants must provide authorised signatory evidence in a form and substance satisfactory to the Bank to accompany these.
  - Details of standard settlement instructions (SSIs).

This information should be updated on an ongoing basis as necessary. Institutions with questions on the admissions process for FLS should email [applications@bankofengland.co.uk](mailto:applications@bankofengland.co.uk) or call the Sterling Markets Division Dealing Desk on 020 7601 5000.

### 3 COMMUNICATIONS WITH THE BANK

#### 3.1 Summary of how to contact the Bank and key contacts

- (i) Any queries from Participants should be made to the Bank's Sterling Markets Division Dealing Desk on 020 7601 5000 or via email to [FLS-transactions@bankofengland.co.uk](mailto:FLS-transactions@bankofengland.co.uk).
- (ii) Once signed up to the FLS, communication with the Bank's Collateral Management and Custody Team ('CMC') in relation to the settlement of FLS Transactions and related back office activities such as pre-positioning of Eligible Collateral, substitutions of Eligible Collateral and corporate actions should be sent by email to CMC at [CMCSCP@bankofengland.gsi.gov.uk](mailto:CMCSCP@bankofengland.gsi.gov.uk).
- (iii) All telephone conversations with the Bank's Sterling Markets Division Dealing Desk and CMC are recorded. In the event of a dispute, reference will be made to the archive of recordings.
- (iv) All relevant telephone numbers, including for front and back offices and the Bank's contingency site, are provided to Participants in a separate document available on the secure section of the Bank's website (Participants should ask the Bank's Sterling Markets Division Dealing Desk for the URL and Password).
- (v) The table below summarises who should be contacted for specific queries/actions. The inclusion of telephone contact details below does not override the requirement in clause 24.1 of the Terms and Conditions for notices to the Bank to be given in writing:

Action	Contact
Queries on applications for admission to FLS	Sterling Markets Division Dealing Desk: <a href="mailto:applications@bankofengland.co.uk">applications@bankofengland.co.uk</a> , via direct line or 020 7601 5000
Initiate an FLS Transaction or terminate an existing FLS Transaction early (in part or in full)	Sterling Markets Division Dealing Desk: <a href="mailto:FLS-transactions@bankofengland.co.uk">FLS-transactions@bankofengland.co.uk</a> , via direct line or 020 7601 5000
Security Settlement queries	CMC: <a href="mailto:CMCSCP@bankofengland.gsi.gov.uk">CMCSCP@bankofengland.gsi.gov.uk</a>
Income, other Corporate Actions and Fees	CMC:



	<a href="mailto:CMC.Assetservicing@bankofengland.co.uk">CMC.Assetservicing@bankofengland.co.uk</a>
Security collateral eligibility	Risk Operations: <a href="mailto:eligible.securities@bankofengland.co.uk">eligible.securities@bankofengland.co.uk</a>
Loan collateral eligibility	Risk Operations: <a href="mailto:eligible.loans@bankofengland.co.uk">eligible.loans@bankofengland.co.uk</a>
Haircuts	Risk Operations: <a href="mailto:eligible.securities@bankofengland.co.uk">eligible.securities@bankofengland.co.uk</a>
Data reporting and certification	Monetary Statistics Team <a href="mailto:FLSreporting@bankofengland.co.uk">FLSreporting@bankofengland.co.uk</a> or 020 7601 3686

## 4 DATA REPORTING AND CERTIFICATION

### 4.1 Parts of the FLS

- (i) There are two parts to the FLS: the “first part of the FLS” and the “second part of the FLS”. Annex A (for the first part of the FLS) and Annex B (for the second part of the FLS) summarise how the price and quantity of funding available depends on lending.
- (ii) The Drawdown Period for the first part of the FLS runs from 1 August 2012 to 31 January 2014. The price and quantity of funding available during the first part of the FLS depends on lending from 30 June 2012 to 31 December 2013.
- (iii) The Drawdown Period for the second part of the FLS (the Extended Drawdown Period) runs from 3 February 2014 to 31 January 2018.<sup>1</sup> The quantity of funding available during the second part of the FLS depends on lending from 1 April 2013 to 31 December 2015, with the exception of New Groups (see 4.2(iv) below), for which it depends on lending from 1 January 2016 to 31 December 2017.

### 4.2 Reporting entities

- (i) The quantity and price of funding available from the FLS will be based on the quantity of sterling loans as reported to the Bank by a Participant’s FLS Group.
- (ii) For the first part of the FLS a Participant’s FLS Group is defined as all Monetary Financial Institutions (MFIs) and Specialist Mortgage Lenders within a Group that are required to report statistical lending data to the Bank, as determined by the Bank.
- (iii) For the second part of the FLS a Participant’s FLS Group as defined in section 4.2(ii) above is expanded to also include Non-Bank Credit Providers (NBCPs) which are part of the Participant’s broader group, as determined by the Bank. NBCPs are defined as “financial leasing corporations”, “factoring corporations” and “mortgage and housing credit corporations (excluding SPVs related to securitisation)”, as defined in the statistical definitions of Form AL.<sup>2</sup> To help identify all NBCPs within a group, the Bank may request information from Participants on all potentially eligible UK-resident entities

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<sup>1</sup> Prior to the amendments made on 2 December 2014, the drawdown period for the second part of the FLS ended on 30 January 2015. Existing participants in the second part of the FLS were able to opt-out of the changes made on 2 December 2014. Such participants are not able to draw from the FLS after 30 January 2015.

<sup>2</sup>See definitions for 15A, 15D and 15E of the Industrial Classification Guide: <https://www.bankofengland.co.uk/Statistics/data-collection>

within their group. Participants may also opt to include NBCPs in their FLS Group from Q2-Q4 2013 of the first part of the FLS (see section 4.3.2(i) below).

- (iv) Applicants to the second part of the FLS may apply to have their FLS Group designated a “New Group”. Banks eligible for this designation will be those that have been authorised or had a significant change in control since 1 April 2013, and whose prospective FLS Group had a stock of sterling lending to UK households, Private Non-Financial Corporations (PNFCs) and NBCPs of no more than £50mn as at end-2015. This designation will be granted at the Bank’s discretion.
- (v) The Bank will inform Participants of the entities comprising its FLS Group for the relevant part of the FLS.

### **4.3 Reportable lending**

#### 4.3.1 Eligible lending

- (i) For the first part of the FLS, the lending measure covers sterling loans to UK resident households and PNFCs. In all cases, lending will be in the form of drawn loans. Entities’ holdings of securities, commercial paper, bills and acceptances will not be included.
- (ii) For the first part of the FLS, data for each MFI and Specialist Mortgage Lender within an FLS Group must be reported to the Bank using Form FL, based on the definitions provided in the Form FL Guidelines, available from the Bank’s website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>. For information, the Form FL Guidelines explain how these definitions correspond to those that MFIs and Specialist Mortgage Lenders already report in their statistical returns (e.g. in Form BE and Form MM).
- (iii) For the second part of the FLS, the lending measure set out in section 4.3.1(i) above is expanded to also include drawn sterling loans to certain NBCPs that are not part of the Participant’s group. Participants may also opt to include lending to non-intragroup NBCPs in their reported lending from Q2-Q4 2013 in the first part of the FLS (see section 4.3.2(i) below).
- (iv) The quantity of funding available in the second part of the FLS will depend on the sectors to which lending is provided by the FLS Group. For this reason, Participants will

need to provide lending data for PNFCs disaggregated into Small and Medium Sized Enterprises (“SMEs”) and “Large Corporates”. SMEs are defined here as both PNFCs with an annual debit turnover of less than £25 million on the business account and Unincorporated Businesses (“UBs”). “Large Corporates” are defined as PNFCs with an annual debit turnover of greater than or equal to £25 million on the business account. The amounts lent to UBs as part of overall lending to UK resident households will need to be disaggregated. The Bank acknowledges that it may be difficult to disaggregate data according to exactly these definitions, and would expect to agree appropriate reporting procedures with each FLS Group.

- (v) For the second part of the FLS, data for each entity within an FLS Group (with the exception of New Groups) must be reported to the Bank using Form FLC (for Q2-Q4 2013 lending), Form FLD (for 2014 lending) and Form FLE (for 2015 lending), based on the definitions provided in the Form FLC/Form FLD/Form FLE Guidelines, available from the Bank’s website at: <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>. For New Groups, data for each entity within the FLS Group must be reported to the Bank using form FLC (for Q1 2016 – Q4 2017).
- (vi) Participants are advised to telephone the Bank’s Monetary Statistics Team on 020 7601 3686 or email [FLSreporting@bankofengland.co.uk](mailto:FLSreporting@bankofengland.co.uk) for clarifications and queries.

#### 4.3.2 Optional Expansion

- (i) The expansion to cover NBCPs as set out in sections 4.2(iii) and 4.3.1(iii) above was also optional in the first part of the FLS for lending from 1 April 2013 to 31 December 2013. Such lending would count towards the FLS Group’s Net Lending for this period, but would not alter the 30 June 2012 Base Stock of loans. Participants wishing to activate this option had to notify the Bank of their intention to do so, and were required to submit the relevant lending data for Q2, Q3 and Q4 2013 using Form FLB (in place of Form FL), based on the definitions provided in the Form FLB Guidelines, available from the Bank’s website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>.

### 4.4 Reporting frequency

- (i) Participants must ensure that data for the relevant period, for each entity in an FLS Group, are submitted to the Bank using Form FL/Form FLB/Form FLC/Form FLD/Form

FLE (as applicable) for each calendar quarter. The data provided includes the amount of relevant loans outstanding at the end of the previous calendar quarter (e.g. 30 June 2012) and at the end of the current calendar quarter (e.g. 30 September 2012), and net lending in the calendar quarter (e.g. 1 July to 30 September 2012).

- (ii) For the first part of the FLS, Participants must submit Form FL/Form FLB (as applicable) by the tenth working day of the second month after the end of the calendar quarter (e.g. for the calendar quarter ending 30 September 2012, Form FL must be submitted by 14 November 2012).
- (iii) For the second part of the FLS, Participants must submit Form FLC data for Q2, Q3 and Q4 2013 by 7 February 2014. From Q1 2014 onwards, Participants must submit Form FLD/Form FLE/Form FLC (as applicable) by the fifth working day of the second month after the end of the calendar quarter.
- (iv) Subject to the Bank's agreement, Participants in the first part of the FLS may choose to submit Form FL on a monthly basis. In that case, the data provided in Form FL would include the amount of relevant loans outstanding at the end of the previous month and at the end of the current month, and net lending in the month. These Participants must submit Form FL by the tenth working day of the second calendar month after the end of the month (e.g. for the month ending 31 October 2012, Form FL must be submitted by 14 December 2012). For the second part of the FLS, Form FLC/Form FLD/Form FLE (as applicable) can only be submitted on a quarterly basis.

#### **4.5 Certification process**

- (i) The Bank requires a Form FL/Form FLB/Form FLC/Form FLD/Form FLE Certificate (as applicable) to confirm that the data provided in Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable) are, in all material respects, accurate and complete at the date referenced, as set out on the Bank's website at: <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>.
- (ii) Each entity in an FLS Group may choose to either certify individually or, alternatively, one entity may certify on behalf of the FLS Group, annexing the data required for each entity in the FLS Group. Whether certifying individually or on behalf of the FLS Group, all certifications and data for the FLS Group must be collated and sent to the Bank all together by one of the FLS Group's Participants.

- (iii) Each Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable) should be signed by a board member, such as the finance director or chief operating officer.
- (iv) The first certification in the first part of the FLS is different from other certifications. Before Participants can draw in the FLS, a Base Stock of applicable loans for FLS Group entities as at 30 June 2012 must be certified using Form FL. For this purpose, in Form FL, only the rows corresponding to the amount outstanding at the current reporting date (rows 4 and 12) need to be completed for each entity.
- (v) For the first part of the FLS, data for the end of the Reference Period (ending 31 December 2013) may not have been certified before the end of the Drawdown Period (ending 31 January 2014). Therefore, Participants in an FLS Group may be permitted, at the discretion of the Bank, to borrow an aggregate amount above the FLS Group's most recent Borrowing Allowance. Such a drawing request would need to be supported by evidence in a form to the Bank's satisfaction that the FLS Group's Borrowing Allowance is likely to increase by a sufficient amount, once the Form FL Certificate has been completed for the reporting period ending 31 December 2013. Such evidence may include a statistical return provided to the Bank reporting equivalent data. Any excess drawings above the Borrowing Allowance determined by the final Form FL Certificate for the reporting period ending 31 December 2013 will attract the fee for excess drawings.
- (vi) For the second part of the FLS, a similar arrangement will apply in the last month of the Extended Drawdown Period, during which a Participant in a New Group may be permitted to borrow in excess of its New Group Borrowing Allowance if its net lending is expected to increase sufficiently.
- (vii) The Bank reserves the right to require independent audits of the data provided to the Bank at any time. For the first part of the FLS, Participants will be required to provide an independent audit report on the accuracy of the 31 December 2013 Net Lending data provided to the Bank by 14 March 2014. For the second part of the FLS, Participants will be required to provide an independent audit report on the accuracy of the lending data, after the submission of the final period of lending data (which will be the data for the period Q4 2015 for FLS Groups that are not New Groups, and Q4 2017 for New Groups). More detailed requirements, including the applicable deadline, will be provided to Participants in a separate Audit Requirement Notice.

## 4.6 Other

### 4.6.1 Published information

- (i) The Bank will publish individual FLS Group lending data and drawings data on its website at: <http://www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx>. Data will be published around two months after the end of the relevant period. Provisional publication dates are available via the above website. The published data will include a sectoral breakdown of the lending figures.

### 4.6.2 Changes in groups

- (i) Participants should inform the Bank as early as practicable of any potential changes to its group that may affect the definition of its FLS Group. The Bank will advise on how the FLS Group's Borrowing Allowance and Fee will be affected by the change.

### 4.6.3 Data provision

- (i) The Bank expects FLS Group entities to take due care and attention over the submission and certification of their data. Data revisions may be necessary from time to time but must be discussed with the Bank, including an explanation of which data have changed and the reason for any changes. The Bank may require FLS Group entities to re-submit and re-certify Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable) in these cases.
- (ii) Revisions cannot be made to Form FL/Form FLB data (as applicable) following the audit due by 14 March 2014, or to Form FLC/Form FLD/Form FLE data following the audit pertaining to the second part of the FLS.
- (iii) Data on regular Bank of England statistical forms should continue to be provided and revised in the normal way. If, in the process of producing a Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable), an FLS Group entity identifies revisions to its statistical reporting, it should re-submit those data to the Bank.
- (iv) Any institution that is part of an FLS Group may be required to submit additional statistical returns, including Form BE or Form MM, where appropriate.
- (v) For further information relating to Bank of England forms, including Form FL, Form FLB, Form FLC, Form FLD, Form FLE, Form BE or Form MM, Participants should telephone

the Bank's Monetary Statistics Team on 020 7601 3686 or email [FLSreporting@bankofengland.co.uk](mailto:FLSreporting@bankofengland.co.uk).

#### 4.6.4 Late data submission

- (i) FLS Groups must submit certified data by the deadlines set out in section 4.4 above. If any FLS Group entity does not meet this deadline, Participants in that FLS Group may not be permitted to make any further drawings until the Form FL/Form FLB/Form FLC/Form FLD/Form FLE Certificate (as applicable) is submitted and the Bank reserves the right to indicate in the published information that the FLS Group had not provided the data by the deadline.

#### 4.6.5 Borrowing allowance

- (i) For the first part of the FLS, Participants in an FLS Group may draw in aggregate up to the Borrowing Allowance for the FLS Group. The Borrowing Allowance for each FLS Group will be set at 5% of its Base Stock plus an amount equal to its most recent Net Lending amount. For each FLS Group, Net Lending during the Reference Period (30 June 2012 to 31 December 2013) will be defined as new applicable loans net of repayment since 30 June 2012 which have been certified by the FLS Group. If an FLS Group's Net Lending amount is negative at any time, its Borrowing Allowance remains at 5% of its Base Stock.
- (ii) For the second part of the FLS, Participants in an FLS Group (with the exception of New Groups) may draw in aggregate up to:
  - 1) The "Extended Borrowing Allowance" for the period 1 February 2014 to 31 July 2016. The Extended Borrowing Allowance will be equal to the "Initial Allowance" plus the "Additional Allowance" plus the "Further Allowance" (each as defined in these Operating Procedures); and
  - 2) The "Scaled Borrowing Allowance" for the period 1 August 2016 to 31 January 2018, providing the Scaled Borrowing Allowance is greater than total drawdowns made during the Extended Drawdown Period. The Scaled Borrowing Allowance is equal to a percentage of the Extended Borrowing Allowance: 75% for the period 1 August 2016 to 31 January 2017; 50% for the period 1 February 2017 to 31 July 2017; and 25% for the period 1 August 2017 to 31 January 2018.



- (iii) The Initial Allowance is determined by net lending (i.e. new applicable loans net of repayments) over the period 1 April 2013 to 31 December 2013. The Initial Allowance will be equal to the sum of net lending over this period to UK resident households (excluding UBs), Large Corporates, and certain NBCPs<sup>3</sup> that are not part of the FLS Group, plus ten times net lending to SMEs. If this weighted sum is negative, the Initial Allowance is zero.
- (iv) The Additional Allowance is determined by net lending during the period 1 January 2014 to 31 December 2014. The Additional Allowance will be equal to the sum of net lending over this period to UK resident Large Corporates and certain NBCPs<sup>3</sup> that are not part of the FLS Group, plus five times net lending to SMEs. If this weighted sum is negative, the Additional Allowance is zero.
- (v) The Further Allowance is determined by net lending during the period 1 January 2015 to 31 December 2015. The Further Allowance will be equal to the sum of net lending over this period to certain UK resident NBCPs<sup>3</sup> that are not part of the FLS Group, plus five times net lending to SMEs. If this weighted sum is negative, the Further Allowance is zero.
- (vi) For the second part of the FLS, Participants in a New Group may draw in aggregate up to the “New Group Borrowing Allowance” for the FLS Group. The New Group Borrowing Allowance is determined by net lending during the period 1 January 2016 to 31 December 2017. The New Group Borrowing Allowance will be equal to the sum of net lending over this period to UK resident households (excluding UBs), Large Corporates and certain NBCPs<sup>3</sup> that are not part of the FLS Group, plus five times net lending to UK resident SMEs. If this weighted sum is negative, the New Group Borrowing Allowance is zero.
- (vii) Each pound of the Extended Borrowing Allowance/Scaled Borrowing Allowance/New Group Borrowing Allowance may only be drawn once. For example, if an FLS Group had made drawings up to the applicable allowance, it would not be able to repay and then subsequently re-draw.
- (viii) The Bank will notify Participants of the Borrowing Allowance/Extended Borrowing Allowance/Scaled Borrowing Allowance/New Group Borrowing Allowance of their FLS

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<sup>3</sup> Including financial leasing corporations and factoring corporations but excluding mortgage and housing credit corporations as defined in the statistical definitions of Form AL.

Group on request. An FLS Group's Borrowing Allowance/Extended Borrowing Allowance/New Group Borrowing Allowance will be revised by the Bank as soon as practicable after receiving the satisfactory Form FL/Form FLB/Form FLC/Form FLD/Form FLE (as applicable) for the FLS Group and once the data have been reviewed. For the purposes of calculating the FLS Fee, an FLS Group's Borrowing Allowance/Extended Borrowing Allowance/New Group Borrowing Allowance will be revised from the day after the end of the reporting period (e.g. if a Participant submits certified lending data for the calendar quarter ending 30 September 2012 on 7 November 2012, the FLS Group Borrowing Allowance will be updated accordingly with effect from 1 October 2012).

- (ix) If the outstanding aggregate drawings of Participants in an FLS Group exceed the FLS Group's Borrowing Allowance/Extended Borrowing Allowance/New Group Borrowing Allowance (e.g. if an FLS Group's Borrowing Allowance/Extended Borrowing Allowance/New Group Borrowing Allowance has fallen following a reduction in net lending, but Participants in the FLS Group have drawn up to the maximum amount of a previous higher allowance), no further drawings will be permitted until the allowance has increased above the aggregate drawing amount. Any such 'excess' drawings will not be clawed back, but will affect the FLS Fee (see section 5.3 below).
- (x) For FLS Groups that are not New Groups, for the period 1 August 2016 to 31 January 2018, if the Scaled Borrowing Allowance drops below the aggregate drawdowns made by Participants in the Group, no further drawdowns can be made, but the drawdowns above the prevailing Scaled Borrowing Allowance will not be considered as 'excess' drawings, and will not affect the FLS Fee.

Worked examples that illustrate the quantity of borrowing available in various scenarios are available on the Bank's website at: [www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx](http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx).

## 5 TRANSACTIONS UNDER THE FLS

### 5.1 Nature of FLS Transactions

#### 5.1.1 FLS Transactions

- (i) Under an FLS Transaction, UK Treasury Bills will be lent by the Bank to the Participant against a pool of eligible collateral, as described below. UK Treasury Bills are defined as “FLS Securities” in the Terms and Conditions and are referred to as “Bills” in these Operating Procedures.
- (ii) Bills lent by the Bank under an FLS Transaction will have an original maturity of around 9 months and will have been issued within the month preceding the drawdown. Bills must be delivered back to the Bank before maturity and will be exchanged for further 9-month Bills. The Bank will publish dates for the “rollover window” for the return of maturing bills, which will open approximately four weeks before maturity and will close around 10 Business Days later. The Bills will normally be exchanged free of payment; although Participants may be permitted, at the sole and absolute discretion of the Bank, to exchange via delivery versus payment. The relevant form required to initiate the exchange, and quick reference guides describing the exchange process, can be found on the Bank’s website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>.
- (iii) Counterparties who intend to use Bills obtained from the FLS as collateral in another Bank facility over the rollover period should contact the Bank in advance of the rollover period to discuss options for exchange of Bills. Participants may be permitted, at the discretion of the Bank, to rollover Bills without the need to substitute in alternative collateral during the rollover.

#### 5.1.2 Eligible Collateral

- (i) Eligible Collateral for the FLS will consist of all collateral eligible for the SMF (Levels A, B and C), including loan collateral. Further details are available on the Bank’s website at <http://www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx>.
- (ii) Prior to 5 September 2016, collateral for the FLS was managed in a dedicated pool, separately from collateral for other Bank facilities. From 5 September 2016, collateral for the FLS is integrated into the main collateral pool, which consolidates exposures and

collateral holdings related to various Bank facilities, including certain SMF facilities. Accordingly, the procedures relating to collateral eligibility, delivery and maintenance in the FLS are the same as for the SMF, as described in the SMF Operating Procedures (available on the Bank's website<sup>4</sup>).

- (iii) Any collateral that had been transferred into the FLS pool prior to 5 September 2016 (including, for the avoidance of doubt, loan collateral transferred into the FLS pool using an FLS Loan Collateral Transfer Request Notice) was automatically moved into the main collateral pool on 5 September 2016, and thereafter encumbered wholly in the main collateral pool.

### 5.1.3 Drawdown Period

- (i) Drawdowns under the first part of the FLS may be undertaken on each Business Day during the Drawdown Period running from 1 August 2012 until 31 January 2014. Drawdowns under the second part of the FLS may be undertaken on each Business Day during the Extended Drawdown Period running from 3 February 2014 until 31 January 2018. Participants should make FLS drawdown requests to the Bank's Sterling Markets Division Dealing Desk in accordance with section 5.2 below. Participants should note that there is a limit of one FLS Transaction per Participant on each Business Day.

### 5.1.4 Term of Transactions

- (i) The term of an FLS Transaction will be for 4 years from the date of drawdown. Participants may repay particular FLS Transactions in part or in full, before the contractual maturity date (see section 5.5.2 below) by transferring Equivalent Securities (i.e. Bills) to the Bank, subject to giving two Business Days' notice in accordance with the Terms and Conditions.

## 5.2 Conducting an FLS Transaction

### 5.2.1 FLS Transaction Request

- (i) At any time prior to 12:00 (referred to as the "Cut-Off Time" in the Terms and Conditions) on a Business Day, a Participant can request the Bank to enter into an FLS

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<sup>4</sup><https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/operating-procedures.pdf?la=en&hash=BEC0921C8EA5309BE3496867AF0A90F8E72551ED>

Transaction by completing an FLS Transaction Request available on the Bank's website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx> and submitting it by one of the methods set out below:

- delivery by hand to Bank of England, Threadneedle Street, London EC2R 8AH marked for the attention of the Head of Sterling Markets Division; or
  - by email to [FLS-transactions@bankofengland.co.uk](mailto:FLS-transactions@bankofengland.co.uk).
- (ii) Participants should also notify the Bank's Sterling Markets Division Dealing Desk by phone that they are submitting a request to use the FLS (via their direct line or 020 7601 5000).
- (iii) Participants should understand that email (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 who communicate with the Bank by email to use encrypted email only.
- (iv) The value of an FLS transaction must be an increment of £100,000 and is subject to a minimum drawing size of £1,000,000.
- (v) Participants must ensure they have sufficient Eligible Collateral in the main collateral pool to cover the drawing under an FLS Transaction and the anticipated FLS Fee due to be paid in the next quarter. If any additional collateral will be required, Participants are encouraged to deliver this into the main collateral pool in advance of the date of a requested Drawdown. Participants must also ensure that an FLS Transaction will not result in the FLS Group's Borrowing Allowance/Extended Borrowing Allowance/Scaled Borrowing Allowance/New Group Borrowing Allowance being exceeded.

#### 5.2.2 Acceptance of a request

- (i) Following receipt of an FLS Transaction Request, the Bank will inform the Participant whether it will enter into the FLS Transaction on the terms specified in the FLS Transaction Request and will aim to do so on the day on which the FLS Transaction Request is received, if the FLS Transaction Request is received by 12:00 and subject to sufficient collateral having been provided.
- (ii) Where the Collateral proposed to be used to cover FLS Transactions includes loans to be transferred by way of declaration of trust (including Scottish loans), the relevant trust

documents need to be executed and provided to the Bank prior to the Bank delivering the Bills.

- (iii) Notwithstanding any other provision of these FLS Operating Procedures, the Bank reserves the right to reject any request to enter into an FLS Transaction.
- (iv) The Bank reserves the right to cancel an FLS Transaction before settlement of the transfer of the Bills to the Participant.

### 5.2.3 FLS Transaction Notification

- (i) Once an FLS Transaction is fully collateralised and agreed, the Bank will aim to deliver the Bills on the same Business Day, as set out in section 7.3 below.
- (ii) The Bank will send an email (or other form of communication determined by the Bank) to the Participant confirming details of the agreed FLS Transaction (the “FLS Transaction Notification”). This notification will contain, for each FLS Transaction, (a) the Business Day on which the FLS Transaction is to commence (the FLS Transaction Date) and (b) the nominal value and ISIN of Bills to be transferred by the Bank.

### 5.2.4 FLS Transaction Settlement

- (i) Once the Bank has confirmed an FLS Transaction, it will deliver Bills by Member-to-Member delivery in CREST (from CREST Account 1MMAY).
- (ii) Member-to-Member deliveries require the Participant to enter a matching instruction in CREST. The Bank will aim to make such deliveries by 14:55. However if this is not practicable, there is an additional settlement window in CREST between 17:30 and 18:00 where the deliveries can be made. If this settlement window is to be used, the Participant must use the highest priority in CREST to enable settlement to occur (90).

## **5.3 FLS Transaction maintenance**

### 5.3.1 Treasury Bill substitutions

- (i) At any time between the FLS Transaction Date and the Termination Date, the Bank may require that an FLS Transaction be varied by the transfer by the Participant to the Bank of securities equivalent to the Bills or such of the Bills as the Bank shall specify, in exchange for the transfer by the Bank to the Participant of other replacement Bills of

such amount and description as the Bank shall determine (being Bills with the same Value as the Equivalent Securities transferred by the Participant).

- (ii) Note that in accordance with clause 9.2 of the Terms and Conditions, where the scheduled maturity date of Bills is prior to the Termination Date for the relevant FLS Transaction, the Participant will be required to facilitate a substitution of those securities not less than 10 Business Days before the scheduled maturity date. The Bank will publish on its website provisional dates for 'rollover windows' during which each T-bill can be substituted for a new T-bill.

## **5.4 FLS Fee**

### 5.4.1 General

- (i) Participants pay an FLS Fee in accordance with the Terms and Conditions.
- (ii) The Bank will send a payment invoice on the first Business Day of each calendar quarter for any FLS Fees due. Participants are required to make the payment of FLS Fees the same day.
- (iii) FLS Fee invoices will be sent via email. FLS Fees must be paid to the nominated account as specified by the Bank.
- (iv) If the Participant fails to pay the FLS Fee when due, it will pay interest on the unpaid amounts in accordance with clause 15.1 of the Terms and Conditions at the Overdraft Rate or such other rate as the Bank may in its discretion decide. In addition, the Bank reserves the right to suspend access to the FLS.

### 5.4.2 Calculation of FLS Fee

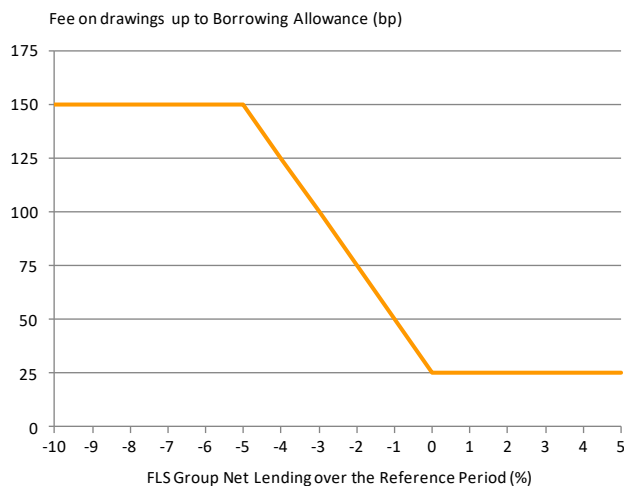
- (i) The FLS Fee will be calculated daily based on the Value of the Bills drawn by Participants in an FLS Group. The FLS Fee will be allocated between Participants in an FLS Group in proportion to the Participants' drawings.

#### 5.4.2.1 FLS Fee on drawings made during the first part of the FLS

- (i) The FLS Fee on drawings made during the first part of the FLS will be comprised of two parts:

- 1) The fee on aggregate FLS Group drawings up to the Borrowing Allowance will be determined at the end of the Reference Period (which runs from 30 June 2012 to 31 December 2013), based on Net Lending over the Reference Period. For FLS Groups whose Net Lending over the Reference Period as a whole is positive, the fee will be 25bp per annum. For FLS Groups whose Net Lending over the Reference Period as a whole is negative, the fee will increase linearly, from 25bp per annum if lending is unchanged up to 150bp per annum if lending falls by 5%, rounded up to the nearest whole basis point. If lending falls by more than 5%, the fee will be 150bp per annum. Chart 1 illustrates this fee profile.
- 2) The fee on aggregate FLS Group drawings in excess of the Borrowing Allowance will be 150bp per annum.

**Chart 1: FLS Fee on drawings up to the Borrowing Allowance**



Worked examples relating to the FLS Fee calculation can be found on the Bank's website: [www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx](http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx).

#### 5.4.2.2 FLS Fee on drawings made during the second part of the FLS

- (i) The FLS Fee on drawings made during the second part of the FLS will be comprised of two parts. For FLS Groups that are not New Groups, these are:
  - 1) The fee on aggregate FLS Group drawings up to the Extended Borrowing Allowance will be 25bp per annum;
  - 2) The fee on aggregate FLS Group drawings in excess of the Extended Borrowing Allowance will be 150bp per annum.



For New Groups, these are:

- 1) The fee on aggregate FLS Group drawings up to the New Group Borrowing Allowance will be 25bp per annum;
- 2) The fee on aggregate FLS Group drawings in excess of the New Group Borrowing Allowance will be 150bp per annum.

### 5.4.3 FLS Fee Payment

#### 5.4.3.1 FLS Fee payment on drawings made during the first part of the FLS

(i) During the Drawdown Period and up to 31 March 2014

Participants will pay a flat 25bp per annum on drawings during the Drawdown Period and up to 31 March 2014 quarterly in arrears on the first Business Day of the following calendar quarter.

(ii) Lump sum payment on 1 April 2014

Any additional amount required on drawings during the Drawdown Period and up to 31 March 2014 will be charged to Participants as a lump sum on 1 April 2014. The lump sum due will be the sum of daily FLS Fee amounts for the FLS Group up to and including 31 March 2014, taking into account the 25bp fee already charged, allocated between Participants in proportion to their drawings.

(iii) From 1 April 2014 onwards

The FLS Fee from 1 April 2014 is payable quarterly in arrears on the first Business Day of each subsequent calendar quarter.

#### 5.4.3.2 FLS Fee payment on drawings made during the second part of the FLS

(i) During the Extended Drawdown Period and up to the end of the quarter in which the lending data audit is completed

Participants will pay a flat 25bp per annum on drawings, quarterly in arrears on the first Business Day of the following calendar quarter.

(ii) Lump sum payment after the lending data audit (if required)

Any additional fee amount required on excess drawings during the Extended Drawdown Period and up to the end of the quarter in which the audit is completed (which is the point at which the lending data and relevant borrowing allowances are considered final and so the size of any prior excess drawings can be determined with certainty) will be charged to Participants as a lump sum on the first Business Day of the following calendar quarter. The lump sum due would be the sum of daily FLS Fee amounts for the FLS Group, taking into account the 25bp fee already charged.

(iii) After the lending data audit

After the end of the quarter in which the audit is completed, the FLS Fee is payable quarterly in arrears on the first Business Day of each subsequent calendar quarter.

(iv) FLS Fees on Early Termination

FLS Fees on an FLS Transaction that is terminated early will be paid by the Participant on the first Business Day of the following calendar quarter unless the final FLS Transaction is terminated, in which case all FLS Fees that have accrued to that point become payable.

## **5.5 Transfer of assets on termination**

### 5.5.1 General

- (i) When an FLS Transaction matures or where a Participant elects to terminate an FLS Transaction early or the Bank requires early termination under clause 6.7 of the Terms and Conditions, the Participant is required to transfer securities equivalent to the Bills transferred to it by the Bank.
- (ii) If the Participant fails to transfer Equivalent Securities to the Bank on the due date it will be liable to pay a late transfer charge calculated in accordance with clause 15.2 of the Terms and Conditions.

### 5.5.2 Early Termination

- (i) If the Participant elects to terminate an FLS Transaction ahead of the contractual maturity date (in whole or in part), the Participant must give two Business Days' notice to the Bank. An FLS Transaction Termination Notice is available on request from the Bank's Sterling Markets Division Dealing Desk (via [FLS-](#)

[transactions@bankofengland.co.uk](mailto:transactions@bankofengland.co.uk)) and on the Bank's website at <http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx>.

## 5.6 Liability for Charges

- (i) Under clause 14.3 of the Terms and Conditions, the Participant agrees to pay the Bank's charges and reimburse the Bank for all fees, costs, charges and expenses incurred by the Bank in connection with the Scheme and any FLS Transaction. These costs shall include without limitation:
- all and any costs incurred through holding the securities in settlement systems, clearing systems or with other custodians or agents;
  - all and any costs incurred in connection with the eligibility or pre-positioning process for loans;
  - all and any costs incurred with checking that collateral is Eligible Collateral and valuing collateral;
  - all and any legal expenses, transfer taxes, value added tax, registration charges and other similar taxes and charges;
  - all and any costs associated with the Bank's right to require an independent audit of data provided by the Participant or the Participant's FLS Group to the Bank at any time.
- (ii) The Bank will normally invoice Participants for such amounts monthly.

## ANNEX A: SUMMARY OF THE FIRST PART OF THE FLS

Drawdown Period [5.1.3]	Lending data reference period [4.1]	Lending data reported on	Eligible lending [4.2 and 4.3]		Quantity of funding available [4.6.5]	Price of funding available [5.3]
			FLS Group (entities by which lending counts)	Eligible loans (borrowers to whom lending counts)		
1 Aug 2012 – 31 Jan 2014	30 Jun 2012 – 31 Dec 2013	Form FL	Monetary Financial Institutions (MFIs) + Specialist Mortgage Lenders (SMLs) within a group	Drawn sterling loans to UK resident households (HHs) + private non-financial corporations (PNFCs)	5% of Base Stock of loans as at 30 June 2012 (reported on Form FL) + pound for pound with any increase in net lending from 30 Jun 2012 – 31 Dec 2013	Based on lending over the period 30 Jun 2012 – 31 Dec 2013: <ul style="list-style-type: none"> <li>- 25bp if net lending &gt; 0</li> <li>- 150bp if net lending &lt; -5%</li> <li>- Sliding scale from 25bp-150bp for net lending between 0 and -5%</li> </ul>
		Form FLB <sup>1</sup>	MFIs + SMLs + Non-Bank Credit Providers (NBCPs) within a group	Drawn sterling loans to UK resident HHs + PNFCs + non-intragroup NBCPs		

<sup>1</sup> optional for Q2-Q4 2013 lending data for those participants wishing to include lending related to NBCPs over this period

**Note: square bracketed references are to relevant sections in the FLS Operating Procedures.**

## ANNEX B: SUMMARY OF THE SECOND PART OF THE FLS

Drawdown Period [5.1.3]	Type of FLS Group [4.2]	Quantity of funding available [4.6.5]		Price of funding available [5.3]
		Period	Available borrowing allowance	
3 Feb 2014 – 31 Jan 2018 <sup>2</sup>	Not a New Group	3 Feb 2014 – 31 July 2016	<p><u>Extended Borrowing Allowance</u>, which is the sum of the following 3 components:</p> <p>i) <i>Initial Allowance</i> Based on net lending from 1 Apr 2013 – 31 Dec 2013: £10 for every £1 increase in net lending to SMEs + £1 for every £1 increase in net lending to UK resident Households (HHs), Large Corporates (LCs) and non-bank credit providers (NBCPs)</p> <p>ii) <i>Additional Allowance</i> Based on net lending from 1 Jan 2014 – 31 Dec 2014: £5 for every £1 increase in net lending to SMEs + £1 for every £1 increase in net lending to LCs and NBCPs</p> <p>iii) <i>Further Allowance</i> Based on net lending from 1 Jan 2015 – 31 Dec 2015: £5 for every £1 increase in net lending to SMEs + £1 for every £1 increase in net lending to NBCPs</p>	Flat fee of 25bps
		1 Aug 2016 – 31 Jan 2018	<p><u>Scaled Borrowing Allowance</u>, which is equal to a percentage of the Extended Borrowing Allowance:</p> <p>i) 75% for the period 1 Aug 2016 – 31 Jan 2017; ii) 50% for the period 1 Feb 2017 – 31 July 2017; iii) 25% for the period 1 Aug 2017 – 31 Jan 2018.</p>	
	New Group	1 Apr 2016 <sup>3</sup> – 31 Jan 2018	<p><u>New Group Borrowing Allowance</u> based on net lending from 1 Jan 2016 – 31 Dec 2017: £5 for every £1 increase in net lending to SMEs + £1 for every £1 increase in net lending to HHs, LCs and NBCPs</p>	

<sup>2</sup>existing participants in the second part of the FLS that did not wish to take part in its extension to Jan 2016 (announced in Dec 2014) were able to opt-out of this extension. Such participants are not required to submit form FLE lending data for 2015, and are not able to draw beyond 30 Jan 2015.

<sup>3</sup>In practice, 1 April 2016 is the earliest date a New Group could theoretically begin drawing, given the need to have submitted Q1 2016 lending data to generate a borrowing allowance.

**Note: square bracketed references are to relevant sections in the FLS Operating Procedures.**