

# REQUIREMENT NOTICE

## INDEPENDENT ASSURANCE REPORT

To TFSME participant

This notice in writing in accordance with the market notice dated 11 March 2020<sup>1</sup> and the operating procedures<sup>2</sup> for the Term Funding Scheme with additional incentives for SMEs (“TFSME”) requires participants of the scheme (the “participants”) to provide the Bank of England (“the Bank”) with an independent assurance report on the accuracy of the data provided to the Bank (“the report”) for the period 31 December 2019 to 30 June 2021 and for participants who opted out of the TFSME extension, the period 31 December 2019 to 31 December 2020. The scope of the report is as set out in the attached annex to this notice.

As a condition of participation in the TFSME, participants are required to provide an independent assurance report on the accuracy of the data provided to the Bank for the TFSME.

### **Purpose of the report**

The purpose of the report is to provide an independent reasonable assurance opinion on the accuracy of the information provided by participants to the Bank for the TFSME in accordance with the International Standard on Assurance Engagements 3000 (Revised): *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board; and the Institute of Chartered Accountants of England and Wales’ Code of Ethics *Part 4B independence for assurance engagements other than audit engagements and review engagements*.

Certain specific procedures need to be carried out as set out in Annex A.

### **Contractual arrangements**

Participants are responsible for paying the fees and related expenses of the independent assurance provider and are expected to appoint a suitably qualified person(s). The Bank reserves the right to reject reports by those not suitably qualified. A firm that provides the participant’s internal audit function would not be eligible to undertake this assurance engagement.

### **Reporting arrangements**

The report must be completed and sent to the Bank by 31 January 2022. The independent assurance provider must send the Bank an electronic copy of the report at the same time it issues the report to the participant. Reports should be sent to [TFSME-audit@bankofengland.co.uk](mailto:TFSME-audit@bankofengland.co.uk).

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<sup>1</sup> See <https://www.bankofengland.co.uk/markets/market-notice/2020/term-funding-scheme-market-notice-mar-2020> for further information.

<sup>2</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/term-funding-scheme-sme/operating-procedures.pdf>

## Annex A

### Scope of Independent Assurance Report

#### 1. Background

As a condition of participation in the TFSME, as set out in the Market Notice dated 11 March 2020, participants are required to provide an independent assurance report on the accuracy of the data provided to the Bank for the TFSME after the close of the Reference Period.

Any TFSME participant that has drawn, or that plans to draw, during the TFSME drawdown period will be required to provide a report. This includes any participant that has subsequently repaid drawings.

#### 2. Key requirements of the review

The independent assurance provider is required to provide a reasonable assurance opinion that the participant's TFSME Group includes all eligible entities, and that no ineligible entities have been included in the TFSME Group. This should include an assessment of entities in the published financial accounts to ensure that all eligible entities, based on total balance sheet eligible lending at end-December 2019, have been included as part of the participant's TFSME Group. The Bank's published TFSME Terms and Conditions<sup>3</sup> set out the definition of a participant's TFSME Group and should be considered as the applicable criteria against which the group eligibility should be evaluated.

The independent assurance provider is also required to provide a reasonable assurance opinion on the data supplied by the participant in the quarterly Form NL. The scope of the engagement should enable the assurance provider to give assurance that:

- The Base Stock and net lending data reported in the quarterly Forms NL has been properly recorded in, and extracted from, the participant's books and records;
- Based on the lending data extracted, the Base Stock and net lending data has been reported to the Bank using Form NL, in accordance with the definitions provided in the Form NL Guidelines, available from the Bank's website.<sup>4</sup>

If applicable (i.e. where the participant has submitted a BBLs Extension Request form), the independent assurance provider should provide a reasonable assurance opinion on the data supplied by the participant for the BBLs Extension Request form. The scope of the engagement should enable the assurance provider to give assurance that the stock of TFSME eligible BBLs lending reported on the BBLs Extension Request form has been properly recorded in, and extracted from, the participant's books and records.

#### 3. Materiality

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<sup>3</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/term-funding-scheme-sme/terms-and-conditions.pdf>

<sup>4</sup> Please see <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation> for forms and definitions.

The lending data provided on the Forms NL is used to calculate a participant's total borrowing allowance and determine the fee paid.<sup>5</sup> The materiality of any inaccuracies in the lending data is determined by the impact on the borrowing allowance awarded and fee charged to a participant's TFSME Group. Any cumulative inaccuracies (extrapolated to represent the full data population) that would result in the following would be considered material:

- The total Base Stock of Loans being misstated by more than 5%.
- The cumulative net lending figure being misstated by the greater of 5% of cumulative net lending, or 0.1% of Base Stock of Loans.
- The cumulative net lending to SMEs figure being misstated by the greater of 5% of cumulative net lending to SMEs<sup>6</sup>, or 0.1% of the Base Stock of Loans.

The BBLs data provided by the participant on the BBLs Extension Request form is used to determine the amount of TFSME drawings of which terms can be extended. Any cumulative inaccuracies (extrapolated to represent the full data population) that would result in the amount of BBLs lending being misstated by more than 5% would be considered material.

#### **4. Report Structure**

The report should be structured as follows:

- an executive summary of the report's findings and recommendations, including the reasonable assurance opinion;
- an outline of the work that was undertaken to fulfil the requirements of the scope of the report, including where appropriate:
  - the nature and extent of documentation or other records examined; and
  - the nature and extent of reliance on the participant's staff.

#### **5. Further Guidance**

- Only one report is required for each TFSME Group, even if there are multiple TFSME participants or legal entities in that group. The independent assurance provider should provide a consolidated reasonable assurance opinion for the TFSME Group.
- TFSME participants that have made no drawings during the scheme (up to 31 October 2021, or 30 April 2021 for participants who have opted out of the TFSME extension) are not required to provide a report, given that they will not have benefited from funding obtained from the scheme.

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<sup>5</sup> See <https://www.bankofengland.co.uk/markets/market-notices/2020/term-funding-scheme-market-notice-mar-2020> (particularly paragraphs 22-25) for further information.

<sup>6</sup> For the purpose of the TFSME, Small and Medium-sized Enterprises (SMEs) are defined here as both private non-financial corporations with annual debit account turnover on the (bank or building society) main business account of less than £25 million. Sterling loans made to companies with a turnover of between £25 million and £45 million through the British Business Bank's CBILS scheme can also be included as lending to SMEs. In addition, for the purpose of the TFSME, the definition of SME, should also include unincorporated businesses. See <https://www.bankofengland.co.uk/-/media/boe/files/markets/term-funding-scheme-sme/form-nl-guidelines.pdf> for further guidance.