

Term Funding Scheme with additional incentives for SMEs Operating Procedures

Contents

1	Introduction	1
2	Participants	3
3	Data reporting and certification	5
4	Advances under the TFSME	10
5	TFSME Collateral & Payments.....	16
6	Communications with the Bank	17

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1 Introduction

- 1.1 These Term Funding Scheme with additional incentives for SMEs (TFSME) Operating Procedures (the TFSME Operating Procedures) govern participation in the TFSME and explain the operational procedures involved.¹ They supplement the Operating Procedures for the Bank's Sterling Monetary Framework (the SMF Operating Procedures), which also apply to TFSME Advances, where relevant.
- 1.2 The TFSME will:
- i) help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;
 - ii) provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
 - iii) incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
 - iv) provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.
- 1.3 These TFSME Operating Procedures should be read in conjunction with the other parts of the Documentation relating to the TFSME, including the TFSME Terms and Conditions (including, for Loan Collateral, any relevant Annexes) (the Terms and Conditions) and any relevant Market Notices which form part of the Documentation, and by which all TFSME Advances referred to in these TFSME Operating Procedures are governed. A guide to Loan Collateral pre-positioning is also available on the Bank's website.²
- 1.4 In the event of any conflict between the Terms and Conditions and these TFSME Operating Procedures, the Terms and Conditions prevail. In the event of any conflict between any Market Notice and these TFSME Operating Procedures or the Terms and Conditions, the Market Notice shall prevail. In the event of any conflict between these TFSME Operating Procedures and the SMF Operating Procedures, these TFSME Operating Procedures shall prevail.
- 1.5 In some cases, these TFSME 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 TFSME Advances described in these TFSME Operating Procedures, which is determined by the Terms and Conditions.
- 1.6 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 includes having its beneficial interest re-assigned in accordance with the Terms and Conditions and these TFSME 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

¹ Some Bank of England operational documentation will refer to TFSME as "TFS2". For the avoidance of doubt, these are one and the same.

² See loan collateral guidance documents on <https://www.bankofengland.co.uk/markets/eligible-collateral>.

TFSME OPERATING PROCEDURES

circumstances, the Bank may require the Participant to grant a security interest (first fixed charge) over the Loan. Loans that are governed by Scottish law will be subject to a Scottish Declaration of Trust and Scottish Transfer.

- 1.7 Participants should note that the procedures relating to collateral eligibility, valuation, delivery and maintenance in the TFSME are the same as for the SMF, as described in the SMF Operating Procedures, which are available on the Bank's website at:
<https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/operating-procedures>
- 1.8 The Bank may amend these TFSME Operating Procedures generally or in particular circumstances from time to time. Any such amendment will take effect at a time specified by the Bank and shall, unless the Bank specifies otherwise, apply to TFSME Advances 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. 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.
- 1.9 All references to times are London time, unless stated otherwise.
- 1.10 References in these TFSME Operating Procedures to:
 - the Bank are to the Bank of England; and
 - CREST are to the CREST settlement system operated by Euroclear UK & Ireland Limited;
- 1.11 All capitalised terms in these TFSME Operating Procedures have the meaning given in the Terms and Conditions and in any Market Notice (and 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

Eligibility

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

Admission to the TFSME

- 2.2 In order to apply for admission to the TFSME, an institution should complete an application form for the TFSME (the TFSME Application Form) available on the Bank's website³ and submit it to applications@bankofengland.co.uk.
- 2.3 An institution will need to sign a Scheme Letter to be admitted to the TFSME, which must 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. By signing the Scheme Letter, Participants enter into a legal relationship with the Bank.
- 2.4 For institutions that are incorporated outside the United Kingdom, the Scheme Letter may amend the Terms and Conditions to take account of the law of that institution's country of incorporation. Before being admitted, the institution may also be required to provide one or more legal opinions confirming, among other things, they have the legal capacity to enter into the Documentation and that the terms and conditions set out in the Documentation constitute valid and legally binding obligations of the institution enforceable in accordance with their terms
- 2.5 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.
- 2.6 As part of the sign up process to the TFSME, institutions should submit the following information, which should be updated on an ongoing basis as necessary, and as and when required by the Bank:
- i) the Authorised Signatory Evidence Form which lists the names of persons duly authorised to sign documentation required in connection with the TFSME on behalf of the Participant (including but not limited to any TFSME Drawdown Requests and the Scheme Letter). The Form NL Certificate 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; and
 - ii) details of standard settlement instructions (SSIs) where these may have changed since the Participant last provided these to the Bank. The process to update SSIs is available

³ <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-applicants>

on the Bank's website.⁴

- 2.7 Institutions which wish to participate in the TFSME but which are not already SMF participants, and/or which are not signed up to the DWF, should visit the Bank's website⁵ for further information on the SMF applications process or contact applications@bankofengland.co.uk.
- 2.8 Further information on the TFSME application process is available on the Bank's website⁶, together with the Authorised Signatory Evidence Form and pro forma documentation, including the application form, Scheme Letter, parental guarantee, legal opinion on the guarantee and legal capacity and country opinions.

Extension of the TFSME

- 2.9 The Bank announced a six month extension to the TFSME on 17 December 2020⁷ (the TFSME Extension). The changes affect both the TFSME Drawdown Period and the Reference Period as follows:
- i) The extended TFSME Drawdown Period will run until 31 October 2021 (the Extended TFSME Drawdown Period).
 - ii) The extended Reference Period will run from 31 December 2019 to 30 June 2021 (originally 31 December 2020).
- 2.10 As set out in the Market Notice dated 17 December 2020, all Participants will automatically be included in the TFSME Extension unless they opt out.
- 2.11 In order to opt out, an authorised signatory specified on the Authorised Signatory Evidence Form on behalf of a Participant should notify the Bank by e-mail to applications@bankofengland.co.uk by 26 February 2021 that they wish to opt out of TFSME Extension, and the Bank will send an e-mail (or other form of communication determined by the Bank) to the Participant confirming that the Participant has opted out of the TFSME Extension.
- 2.12 Any Participant that has opted out of the extension will not be able to drawdown after the end of the Original TFSME Drawdown Period (as defined in paragraph 4.2 below), and will not be required to provide data beyond the Original Reference Period (as defined in paragraph 3.9 below).
- 2.13 Any institution which has not been admitted to the TFSME by 26 February 2021 will not be able to opt out of the extension.
- 2.14 For the avoidance of doubt, Participants that want to participate in the extension are required to provide additional lending data to cover the Extended Reference Period in order to utilise the Extended TFSME Drawdown Period.

⁴ <https://www.bankofengland.co.uk/markets/collateral-and-settlement>

⁵ <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-applicants>

⁶ <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-applicants>

⁷ <https://www.bankofengland.co.uk/markets/market-notice/2020/extension-of-the-tfs-with-additional-incentives-for-smes-tfsme>

3 Data reporting and certification

Reporting entities

- 3.1 The quantity and price of funding available from the TFSME will be based on the quantity of sterling loans⁸ as reported to the Bank by a Participant's TFSME Group.
- 3.2 A Participant's TFSME Group is defined as:-
- i) all Monetary Financial Institutions⁹ (MFIs) and Specialist Mortgage Lenders¹⁰ within a Group that are required to report statistical lending data to the Bank; and
 - ii) Non-Bank Credit Providers (NBCPs) which are part of the Participant's 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)".¹¹
- provided that:
- i) if a Participant is a "ring-fenced body" as defined in Part 9B of FSMA, any other member of the Participant's TFSME Group must also be a ring-fenced body; and
 - ii) if a Participant is not a ring-fenced body, but is part of a Group containing ring-fenced bodies, then any other member of its TFSME Group must also not be a ring-fenced body.
- 3.3 To help identify all NBCPs within a group, the Bank may request information from Participants on all potentially eligible UK-resident entities within their group.
- 3.4 The Bank will inform a Participant of the entities comprising its respective TFSME Group during the application process.

Reportable lending

- 3.5 The TFSME lending measure covers sterling loans to:
- i) UK-resident households;
 - ii) certain NBCPs which are not part of the Participant's Group; and
 - iii) private non-financial corporations (PNFCs), which should be disaggregated into small and medium sized enterprises (SMEs) and Large Corporates.
- 3.6 SMEs are defined here as both PNFCs with an annual debit turnover of less than £25mn 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 £25mn on the business account. UBs are defined as unincorporated businesses resident in the UK (e.g. sole traders). Lending to UBs should not include buy to let lending. The amount lent to UBs as part of overall lending to UK resident households will need to be disaggregated. The Bank

⁸ See <https://www.bankofengland.co.uk/Statistics/data-collection>.

⁹ Monetary Financial Institutions means the subsector defined in the [Classification of Accounts Guide](#) paragraph Part III.2 (in conformity with paragraph 2.75 of the European System of National and Regional Accounts, known as ESA2010).

¹⁰ <https://www.bankofengland.co.uk/statistics/details/further-details-about-total-lending-to-individuals-data>.

¹¹ See definitions for 15A, 15D and 15E within Parts IV.1 and IV.2 of the Classification of Accounts Guide: <https://www.bankofengland.co.uk/-/media/boe/files/statistics/data-collection/cag201310>.

acknowledges that it may be difficult to disaggregate data according to these exact definitions and would expect to agree appropriate reporting procedures with each TFSME Group. For the sake of clarity, loans made through the British Business Bank's Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loans Scheme (BBLs) that meet these definitions should be included in reported lending. In addition, sterling loans made through CBILS to PNFs with a turnover of between £25mn and £45mn can also be included as lending to SMEs. If a Participant wishes to include such lending in its reported lending to SMEs, it should note in its Form NL Certificate how much of the reported lending to SMEs is accounted for by such loans.

- 3.7 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.
- 3.8 Data for each MFI, Specialist Mortgage Lender and NBCP within a TFSME Group must be reported to the Bank using Form NL, based on the definitions provided in the Form NL Guidelines, available from the Bank's website¹². The Form NL 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).
- 3.9 TFSME Group lending will be monitored during reference periods running from 31 December 2019 to 31 December 2020 (the Original Reference Period) and, if applicable, 31 December 2019 to 30 June 2021 (the Extended Reference Period). The Extended Reference Period is only applicable to those Participants who do not opt out of the TFSME Extension (the Original Reference Period and the Extended Reference Period are each referred to as the Reference Period).

Reporting frequency

- 3.10 Participants must ensure that data for the relevant Reference Period for each entity in a TFSME Group are submitted to the Bank using Form NL each calendar quarter. The data provided in Form NL must include the amount of relevant loans outstanding at the end of the previous calendar quarter (e.g. 30 March 2020) and at the end of the current calendar quarter (e.g. 30 June 2020), and net lending in the current calendar quarter (e.g. 1 April to 30 June 2020).
- 3.11 Participants must submit Form NL by the fifth working day of the second month after the end of the calendar quarter (e.g. for the calendar quarter ending 30 June 2020, Form NL must be submitted by 7 August 2020).

Certification process

- 3.12 The Bank requires a Form NL Certificate to confirm that the data provided in Form NL are, in all material respects, accurate and complete at the date referenced, as set out in the Form NL Guidelines.
- 3.13 Each entity in a TFSME Group may choose to either certify individually or, alternatively, one entity may certify on behalf of the TFSME Group, annexing the data required for each entity in the TFSME Group. Whether certifying individually or on behalf of the TFSME Group, all

¹² <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

certifications and data for the TFSME Group must be collated and sent to the Bank in a single communication by one of the TFSME Group's Participants.

- 3.14 Each Form NL Certificate should be signed by a board member, such as the finance director or chief operating officer.
- 3.15 The first certification is different from other certifications. A Base Stock of applicable loans for TFSME Group entities as at 31 December 2019 must be certified using Form NL. Applicable loans for the TFSME are defined as all loans set out in the TFSME lending measure in paragraph 3.5. For this purpose, in Form NL, all rows corresponding to the amount outstanding at the current reporting date need to be completed for each entity.
- 3.16 In order to enable Participants to drawdown in the TFSME quickly, the Bank will, at its discretion and upon request, permit Participants to draw against a preliminary Borrowing Allowance, in advance of the submission and verification of the Base Stock as described in paragraph 3.15. In order to obtain a preliminary Borrowing Allowance, the Participant must contact the Bank at TFSME-transactions@bankofengland.co.uk for more details of the process to be followed.
- 3.17 In the event that drawings against a preliminary Borrowing Allowance results in an excess of drawings above the Initial Allowance determined by the Form NL Certificate, the Participant will be required to agree with the Bank a plan to repay any such excess drawings over an appropriate timeframe. Any excess drawings will also attract the fee for excess drawings (see paragraph 4.29).
- 3.18 Data for the end of the Extended Reference Period (ending 30 June 2021) may not have been certified until quite close to the end of the Extended TFSME Drawdown Period (ending 31 October 2021). Therefore, Participants in a TFSME Group may be permitted, at the discretion of the Bank, to borrow an aggregate amount above the TFSME Group's most recent Borrowing Allowance. For Participants who opt out of the TFSME Extension, the Original Reference Period end date (31 December 2020) and Original TFSME Drawdown Date (30 April 2021) apply here.
- 3.19 Such a drawing request would need to be supported by evidence in a form to the Bank's satisfaction that the TFSME Group's Borrowing Allowance is likely to increase by a sufficient amount, once the Form NL Certificate has been completed for the relevant reporting period ending either 30 June 2021 or 31 December 2020 for Participants who opt out of the TFSME Extension. Such evidence may include a statistical return provided to the Bank reporting equivalent data.
- 3.20 In the event that a drawing as described in the preceding paragraphs results in an excess of drawings above the Borrowing Allowance determined by the final Form NL Certificate, the Participant will be required to agree with the Bank a plan to repay any such excess drawings over an appropriate timeframe. Any excess drawings will also attract the fee for excess drawings (see paragraph 4.29).
- 3.21 The Bank reserves the right to require independent audits of the data provided to the Bank at any time. After the drawdown window relevant to the Participant has closed, Participants will be required to provide an independent audit report, the "independent assurance report" on the accuracy of data provided to the Bank. The TFSME Independent Assurance Report Requirement Notice is available on request from the Bank.

Borrowing allowance

- 3.22 Participants in a TFSME Group may draw in aggregate up to the Borrowing Allowance for the TFSME Group. The Borrowing Allowance for each TFSME Group is equal to the Initial Allowance plus the Additional Allowance.
- 3.23 The Initial Allowance for each TFSME Group will be set at 10% of its Base Stock at the start of the Original Reference Period. The Additional Allowance will be equal to its one times Net Lending over the Reference Period to UK resident households, Large Corporates, and certain NBCPs (together, non-SMEs) that are not part of the TFSME Group plus five times Net Lending to SMEs over the Reference Period, subject to paragraph 3.24 below. For each TFSME Group, Net Lending during the Reference Period will be defined as new applicable loans net of repayment since 31 December 2019 which have been certified by the TFSME Group.
- 3.24 If a TFSME Group's non-SME Net Lending amount is negative at any time, its Additional Allowance is equal to five times Net Lending to SMEs. If a TFSME Group's Net Lending to SMEs is negative at any time, its Additional Allowance is equal to one times non-SME Net Lending. If both Net Lending to SMEs and non-SMEs are negative at any time, then the Additional Allowance is zero. In all cases, the Initial Allowance remains at 10% of Base Stock. The Bank will notify Participants of the Borrowing Allowance of their TFSME Group on request.
- 3.25 A TFSME Group's Borrowing Allowance will be revised by the Bank as soon as practicable after receiving the satisfactory Form NL Certificate(s) for the TFSME Group and once the data have been reviewed.
- 3.26 If the outstanding aggregate drawings of Participants in a TFSME Group exceeds the TFSME Group's Borrowing Allowance (e.g. if a TFSME Group's Borrowing Allowance has fallen following a reduction in Net Lending, but Participants in the TFSME Group have drawn up to the maximum amount of a previous higher Borrowing Allowance), then no further drawings will be permitted until the Borrowing Allowance has increased above the aggregate drawing amount. Any such 'excess' drawings will not be clawed back (except pursuant to section 3.21 above), but will affect the TFSME Interest (see sections 4.23 to 4.34 on TFSME Interest below).
- 3.27 Each pound of the TFSME Group's Borrowing Allowance may only be drawn once. For example, if a TFSME Group had made drawings up to its Borrowing Allowance, it would not be able to repay and then subsequently re-draw.
- 3.28 Worked examples that illustrate the quantity of borrowing available in various scenarios will be available on the Bank's website¹³.

Publication of Group lending and drawings data

- 3.29 The Bank will publish individual TFSME Group lending data and drawings data¹⁴ quarterly with a lag. Publication dates will be available on the Bank's website.
- 3.30 Participants should inform the Bank as early as practicable of any potential changes to its

¹³ See <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

¹⁴ Lending and drawings data, when published, will be available at <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>

group that may affect the definition of its TFSME Group. The Bank will advise on how the TFSME Group's Borrowing Allowance and TFSME Interest will be affected by the change.

- 3.31 The Bank expects TFSME 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 TFSME Group entities to re-submit and re-certify Form NL in these cases.
- 3.32 Revisions cannot be made to Form NL data following the final audit of lending data.
- 3.33 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 NL Certificate, a TFSME Group entity identifies revisions to its statistical reporting, it should re-submit those data to the Bank.
- 3.34 Any institution that is part of a TFSME Group may be required to submit additional statistical returns, including Form NL, Form BE or Form MM, where appropriate.
- 3.35 TFSME Groups must submit certified data by the deadlines set out in sections 3.10 and 3.11 above or as otherwise required by the Bank. If any TFSME Group entity does not meet these deadlines, Participants in that TFSME Group may not be permitted to make any further drawings until the Form NL Certificate is submitted and the Bank reserves the right to indicate in the published information that the TFSME Group had not provided the data by the deadline.

4 Advances under the TFSME

- 4.1 Under the terms of a TFSME Advance, Participants can borrow central bank reserves in exchange for Eligible Collateral during the TFSME Drawdown Period (being either the Original TFSME Drawdown Period or the Extended TFSME Drawdown Period, as applicable).
- 4.2 The Original TFSME Drawdown Period opened on 15 April 2020, and will run until 30 April 2021. The price and quantity of funding available during the Original TFSME Drawdown Period to Participants who opt out of the TFSME Extension depends on lending from 31 December 2019 to 31 December 2020.
- 4.3 The Extended TFSME Drawdown Period runs from 15 April 2020 to 31 October 2021. The price and quantity of funding available during the Extended TFSME Drawdown Period to Participants who do not opt out of the TFSME Extension depends on lending from 31 December 2019 to 30 June 2021.
- 4.4 Eligible Collateral consists of all collateral eligible in the SMF and may comprise either securities or loans or a combination of the two. TFSME Advances are made against a Participant's main collateral pool, alongside other official Bank operations. Under the Bank's collateral pooling model, collateral is not allocated to a particular TFSME Advance and excess collateral can be held in the main collateral pool to be returned upon request. Please see section 7-9 of the SMF Operating Procedures for further details on Eligible Collateral.
- 4.5 The term of a TFSME Advance is for 4 years from the date of drawdown. Participants may repay any TFSME Advances in part or in full, before the contractual maturity date, subject to giving two Business Days' notice in accordance with the Terms and Conditions. Participants in a TFSME Group that contains one or more accredited lenders under the British Business Bank's Bounce Back Loan Scheme (BBLs) will be able to extend the term of some TFSME Advances to align with the term of loans made through the BBLs. This extension will be conducted in two phases; the first phase will allow Participants to be able to extend TFSME Advances by up to 2 years, with a second phase which will allow Participants to extend TFSME Advances by up to a further 4 years. Further details are provided below.

Conducting a TFSME Advance

- 4.6 Drawdowns under the TFSME may be undertaken on each Business Day during the relevant TFSME Drawdown Period. Participants should note that there is a limit of one new TFSME Advance per Participant on each Business Day.
- 4.7 A Participant can request to enter into a TFSME Advance by completing a TFSME drawdown request¹⁵ and submitting it as set out below.
- 4.8 Information on delivering collateral to cover the TFSME Advance is provided in section 5. Participants should use the Collateral Management Portal (CMP) wherever possible. If they do not have access to the CMP, they should send a completed Confirmation Template¹⁶ by email to cmc.scp@bankofengland.co.uk.
- 4.9 TFSME Drawdown Requests must be sent by one of the methods set out below:

¹⁵ Available at <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

¹⁶ Available at <https://www.bankofengland.co.uk/markets/collateral-and-settlement>.

- i) delivery by hand to Bank of England, Threadneedle Street, London EC2R 8AH marked for the attention of the Head of Sterling Markets Division; or
 - ii) by email to TFSME-transactions@bankofengland.co.uk
- 4.10 Participants should also notify the Bank's sterling dealing desk by phone that they are submitting a request to use the TFSME.
- 4.11 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.
- 4.12 All drawings under the TFSME are subject to approval by the Bank.
- 4.13 The value of a TFSME Advance must be an increment of £100,000 and is subject to a minimum drawing size of £1,000,000.
- 4.14 Following receipt of a TFSME Drawdown Request, provided the TFSME Drawdown Request is received by 12:00pm (referred to as the Cut-Off Time in the Terms and Conditions) on a Business Day and subject to sufficient collateral having been provided, the Bank will aim to process the TFSME Drawdown Request that Business Day. If the TFSME Drawdown Request is received on a day that is not a Business Day, the Bank will aim to process the TFSME Drawdown Request on the next Business Day.
- 4.15 The Bank reserves the right to cancel a TFSME Advance before settlement of the payment of the TFSME Advance to the Participant.
- 4.16 The Bank will send an email (or other form of communication determined by the Bank) to the Participant confirming details of the agreed TFSME Advance (the TFSME Drawdown Notification). This TFSME Drawdown Notification will contain, for each TFSME Advance, (a) the Business Day on which the TFSME Advance is to commence (the TFSME Drawdown Date) and (b) the value of the TFSME Advance to be made by the Bank.

Refinancing TFS drawings in the TFSME

- 4.17 Participants in the Term Funding Scheme (TFS) launched in 2016 are permitted to refinance TFS drawings in order to redraw in the TFSME, subject to having sufficient Borrowing Allowance in the TFSME. Participants who wish to refinance TFS drawings must provide the sterling dealing desk with notice of the size of their refinancing request at least 5 Business Days in advance of the request either by emailing TFSME-Transactions@bankofengland.co.uk or calling the sterling dealing desk. The Bank will, as reasonably practicable, aim to process a refinancing request on the day a Participant requests, but reserves the right to postpone a request. Where the Bank is unable to process a refinancing request, the Bank will liaise with the Participant to arrange a new date to process the request as soon as is reasonably practicable.
- 4.18 Where a Participant has requested to refinance a TFS drawing, the Bank will net the payment for any requested TFSME Advance against the repayment of the outstanding TFS drawing. This will not include the TFS Interest or any TFS Fee (each as defined in the Bank of England's "Terms and Conditions for the Term Funding Scheme")¹⁷ which may be owed by

¹⁷ <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

the Participant to the Bank.

- 4.19 Participants will also be asked as part of the application process to provide the Bank with an indication of their proposed drawing plans in the TFSME, including plans for refinancing existing TFS drawings. Planned drawings should be balanced over the relevant TFSME Drawdown Period, and the Bank will agree drawings plans with each Participant.

Extending TFSME drawings to reflect BBLs lending

- 4.20 To support lending through the BBLs, Participants in a TFSME Group that contains one or more BBLs accredited lenders will be able to extend the original 4 year term of some TFSME Advances to align with the term of loans made through the BBLs. The extension of TFSME Advances will be conducted in two phases. In the first phase, Participants will be able to extend TFSME Advances by up to a further 2 years to 6 years in total. More detail on this phase can be found in paragraphs 4.21-4.23. In the second phase, Participants will be able to extend TFSME Advances by up to a further 4 years to 10 years in total. Further details on this second phase can be found in paragraph 4.24 and 4.25.
- 4.21 In the first phase, the total amount of drawings that can be extended (the Extension Amount) will be equal to the total amount of BBLs loans outstanding as at either 30 June 2021, or 31 March 2021 for Participants who opt out of the TFSME Extension, made by the relevant members of the TFSME Group. The maturity date of extended drawings will be the earlier of i) 6 years from the original drawdown date, and ii) 6 years after the closure of BBLs (currently 31 March 2021).
- 4.22 Participants and TFSME Groups who are eligible for an extension and that wish to have the option to extend the term of certain of their drawings will need to complete a 'TFSME BBLs Extension Request' form, including details of the amount of BBLs loans outstanding as at 30 June 2021, or 31 March 2021 for Participants who opt out of the extension, and submit this to NLFormReporting@bankofengland.co.uk by 31 August 2021. The TFSME BBLs Extension Request form can be found on the Bank's website¹⁸. The Bank reserves the right to request additional evidence for the amount of BBLs loans outstanding, including as part of the lending data audit described in paragraph 3.21. Once the Bank has verified this information, it will confirm to the Participant the provisional Extension Amount for its TFSME Group, subject to satisfactory completion of the independent audit (see section 3.21).
- 4.23 Participants in a TFSME Group will be able to extend the term of an amount of existing TFSME drawings up to the full value of the Extension Amount. Extensions should be of whole drawings, although one partial extension will be permitted if needed in order to allow firms to utilise the full Extension Amount. Participants will need to complete a 'TFSME Transaction Extension' form with details of the TFSME Advances it wishes to extend, and submit this to the Bank by 30 November 2021. The TFSME Transaction Extension form can be found on the Bank's website¹⁹. Once the Participant's independent audit report, (the "independent assurance report") has been received and verified by the Bank, the Bank will implement the extensions, and confirm the amended trade details to Participants. If the independent audit highlights any material inaccuracies in the BBLs data submitted by the Participant, the Participant may be required to submit a revised 'TFSME Transaction

¹⁸ See <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

¹⁹ See <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

Extension' form before extensions are processed.

- 4.24 In the second phase, eligible Participants will be able to further extend the term of their TFSME funding eligible for such an extension from 6 years to 10 years. The amount of TFSME drawings that can be extended (the Subsequent Extension Amount) will be capped to the total amount of BBLs loans outstanding as at 30 June 2024.
- 4.25 Participants and TFSME Groups who are eligible for an extension in the second phase, and that wish to have the option to extend the term of certain of their drawings will need to complete a 'TFSME BBLs Subsequent Extension Request' form, including details of the amount of BBLs loans outstanding as at 30 June 2024, and submit this to TFSME-Audit@bankofengland.co.uk by 31 July 2024. The TFSME BBLs Subsequent Extension Request form can be requested by emailing markets-smddealers@bankofengland.co.uk. The Bank reserves the right to request additional evidence for the amount of BBLs loans outstanding, including as part of the lending data described in section 3.2.1. Once the Bank has verified this information, it will confirm to the Participant the provisional Subsequent Extension Amount for its TFSME Group, subject to satisfactory completion of the independent audit (see section 3.21).

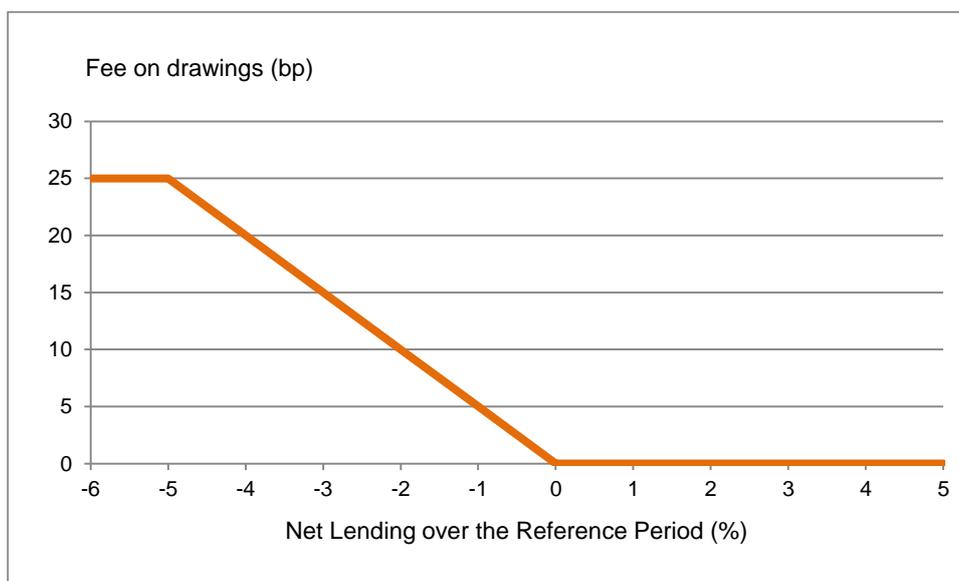
TFSME Interest

- 4.26 Participants pay TFSME Interest on TFSME Advances equal to Bank Rate plus a TFSME Fee, in accordance with the Terms and Conditions.
- 4.27 The Bank will send a payment invoice on the first Business Day of each calendar quarter for any TFSME Interest due. Participants are required to make the payment of TFSME Interest the same day that an invoice is received.
- 4.28 TFSME Interest invoices will be sent to Participants via email. TFSME Interest payable by the Participant must be paid to the nominated account as specified by the Bank. Where TFSME interest is payable by the Bank, this will be paid to the Participant via CHAPS on the first Business Day of the next fee quarter according to the SSIs provided by the Participant.
- 4.29 If the Participant fails to pay the TFSME Interest when due, it will pay interest on the unpaid amounts in accordance with clause 14.1 of the Terms and Conditions at the Overdraft Rate or such other rate as the Bank in its discretion may decide. In addition, the Bank reserves the right to suspend a Participant's access to the TFSME at any time, for any reason.
- 4.30 The TFSME Interest will be calculated daily based on Bank Rate and the Value of the outstanding TFSME Advances drawn by Participants in a TFSME Group. The TFSME Interest will be allocated between Participants in a TFSME Group in proportion to the Participants' drawings.
- 4.31 The TFSME Fee on aggregate TFSME Group drawings less than or equal to the Borrowing Allowance will be determined at the end of the relevant Reference Period based on Net Lending over the Reference Period. For TFSME Groups whose Net Lending over the Reference Period as a whole is greater than or equal to 0%, the TFSME Fee will be 0bp per annum. For TFSME Groups whose Net Lending over the Reference Period as a whole is negative, the TFSME Fee will increase linearly (to the nearest basis point) from 0bp per annum if lending is unchanged up to 25bp per annum if lending falls by 5%. If lending falls by more than 5%, the TFSME Fee will be 25bp per annum. Chart 1 illustrates the TFSME Fee

profile.

- 4.32 The TFSME Fee on aggregate TFSME Group drawings which are in excess of the Borrowing Allowance shall be 150bps per annum.
- 4.33 For the avoidance of doubt, the total TFSME Fee payable by a Participant will be the sum of:
 - i) the TFSME Fee on aggregate TFSME Group drawings which are less than or equal to the Borrowing Allowance; and
 - ii) the TFSME Fee on aggregate TFSME Group drawings which are in excess of the Borrowing Allowance (if applicable).

Chart 1: TFSME Fee on drawings up to the Borrowing Allowance



- 4.34 This TFSME Fee will apply daily to all drawings by Participants in a TFSME Group for the duration of the drawings. During the relevant TFSME Drawdown Period, Participants will accrue TFSME Interest based on Bank Rate and an initial flat TFSME Fee of 0bp per annum on their drawings, each calendar quarter in arrears. Any additional TFSME Interest required on drawings during the TFSME Drawdown Period, including any TFSME Fee for excess drawings, will be charged as a lump sum after the end of the TFSME Drawdown Period. After the end of the TFSME Drawdown Period, TFSME Interest will be charged quarterly in arrears.
- 4.35 When only a proportion of a TFSME Advance is repaid early, TFSME Interest on that TFSME Advance will be payable on the first Business Day of the following calendar quarter.
- 4.36 When a TFSME Advance is repaid in full, TFSME Interest accrued on that TFSME Advance becomes payable on the day of the repayment.

Repayment

- 4.37 When a TFSME Advance matures or the Bank requires early repayment under clause 6.7 of the Terms and Conditions, the Participant is required to repay the TFSME Advance and any TFSME Interest due. The Participant may also voluntarily repay a TFSME Advance (in whole or in part) with any TFSME Interest due under clause 6.8 of the Terms and Conditions. Once an amount repaid, it is not possible to redraw that amount in the TFSME.

- 4.38 The Participant may then transfer out any excess collateral it has posted with the Bank in accordance with clause 7.3 of the Terms and Conditions (subject to the point at section 6.46 below concerning loan portfolios).
- 4.39 Instead of transferring out excess Collateral Securities the Participant may choose to leave the securities in the main collateral pool to cover future drawings. Where the Bank transfers Equivalent Loan Collateral to the Participant, the Participant may pre-position the relevant loans again provided that the loans continue to satisfy the eligibility criteria.
- 4.40 If the Participant fails to repay the TFSME Advance and TFSME Interest due to the Bank on the due date it will be liable to pay a late transfer charge calculated in accordance with clause 14.1 of the Terms and Conditions.
- 4.41 If the Participant elects to terminate a TFSME Advance ahead of the contractual maturity date (in whole or in part), the Participant must give two Business Days' notice to the Bank. The Participant must submit a TFSME Repayment Notice on the day of the termination, in addition to notifying the Bank's sterling dealing desk by phone.²⁰

Liability for Charges

- 4.42 Under clause 13.3 of the Terms and Conditions, the Participant agrees to pay the Bank's charges and reimburse the Bank for all fees, costs, charges, penalties and expenses incurred by the Bank in connection with the TFSME and any TFSME Advance. These shall include without limitation:
- all and any amounts incurred in respect of holding or transferring collateral securities via settlement systems, clearing systems or with custodians, depositories or agents;
 - all and any amounts incurred in connection with the eligibility or pre-positioning process for loans;
 - all and any amounts 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; and
 - all and any amounts associated with the Bank's right to require an independent audit of data provided by the Participant or the Participant's TFSME Group to the Bank at any time.
- 4.43 The Bank will normally invoice Participants for such amounts on a monthly basis.

²⁰ The TFSME Repayment Notice is available on the Bank's website at <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

5 TFSME Collateral & Payments

- 5.1 Eligible Collateral for the TFSME consists of all collateral eligible²¹ for the SMF. The eligibility and procedures relating to collateral valuation, delivery and maintenance in the TFSME are the same as for the SMF, as described in the SMF Operating Procedures.
- 5.2 Participants must ensure they have sufficient Eligible Collateral to cover the drawing under a TFSME Advance and the anticipated TFSME Interest due to be paid in the next quarter. Participants must also ensure that a TFSME Advance will not result in the TFSME Group's Borrowing Allowance being exceeded.
- 5.3 Where Participants wish to deliver Loan Collateral to cover TFSME Advances, this must be pre-positioned with the Bank as set out in the SMF Operating Procedures.

Payment of funds by the Bank

- 5.4 All funds, including interest, will be paid or received via CHAPS, except where the Participant has opted to use the (Term) DBV against payment facility in CREST. In this case the principal can be paid through CREST, but interest upon maturity must still be paid via CHAPS. The Participant must therefore ensure that a zero interest rate is applied in such (Term) DBV instructions.
- 5.5 When requested by the Bank, Participants should provide information required for settlement purposes, including SSIs for payments. The Bank will only accept one set of SSIs per currency, and will need at least 24 hours' notice to implement any changes. Participants wishing to change their SSIs should complete the SSI Data Collection form available on the Bank's website²².
- 5.6 SSIs for facilities where the Bank is delivering sterling cash must be provided to the Collateral Management and Custody team (CMC). They can be updated by providing a revised form to CMC (cmc.ssi@bankofengland.co.uk), signed by an authorised signatory. Where the Bank is delivering cash to a Reserves Account Participant, in certain circumstances and with prior agreement with the CMC, funds can be paid via the Bank's Real Time Gross Settlement System (RTGS) to the Participant's reserves account.

²¹ Further details of eligible collateral are available on the Bank's website at <https://www.bankofengland.co.uk/markets/collateral-and-settlement>.

²² <https://www.bankofengland.co.uk/markets/collateral-and-settlement>.

6 Communications with the Bank

6.1 The table below sets out contact details for specific queries and actions.

Table 1: Contact details

Action	Contact
Queries on applications for admission to TFSME	applications@bankofengland.co.uk or Sterling dealing desk, via direct line or 020 3461 5000
Initiate a TFSME Advance, terminate an existing TFSME Advance early (in part or in full), or extend TFSME Advances to reflect BBLs lending	Sterling dealing desk: TFSME-transactions@bankofengland.co.uk via direct line or 020 3461 5000
Substitutions, margin calls and returns of collateral	cmc.scp@bankofengland.co.uk or 0203 461 5700
Securities settlement and corporate actions	<i>Securities settlement</i> cmc.scp@bankofengland.co.uk or 0203 461 5700 <i>Corporate actions</i> cmc.asset servicing@bankofengland.co.uk or 0203 461 5477
Security collateral eligibility and haircuts	Middle Office Eligible.securities@bankofengland.co.uk
Loan collateral eligibility	Middle Office Loans.data@bankofengland.co.uk
Loan collateral data management	Middle Office Loans.data@bankofengland.co.uk
Pre-positioning notices	Middle Office Loans.data@bankofengland.co.uk
Data reporting and certification	Monetary Statistics Team NLFormReporting@bankofengland.co.uk or 020 3461 4376

6.2 The inclusion of telephone contact details above does not override the requirement in clause 25.1 of the Terms and Conditions for notices to the Bank to be given in writing. All telephone conversations with the Bank's sterling dealing desk and the CMC team are recorded. In the event of a dispute, reference will be made to the archive of recordings.