

## TFS Operating Procedures

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# 1 Introduction

- 1.1 These Term Funding Scheme Operating Procedures (TFS Operating Procedures) govern participation in the Term Funding Scheme (TFS) and explain the operational procedures involved. They supplement the Bank's standard SMF Operating Procedures, which also apply to TFS Advances, where relevant.
- 1.2 The TFS is a monetary policy tool<sup>1</sup> of the Monetary Policy Committee. The TFS Operating Procedures should be read in conjunction with the other parts of the Documentation relating to the TFS, including the TFS Terms and Conditions (including, for Loan Collateral, any relevant Annexes) SMF Operating Procedures and any relevant Market Notices which form part of the Documentation, and by which all TFS Advances referred to in these TFS Operating Procedures are governed. A guide to Loan Collateral pre-positioning is also available on request<sup>2</sup>.
- 1.3 In the event of any conflict between the Terms and Conditions and these TFS Operating Procedures, the Terms and Conditions prevail. In the event of any conflict between any Market Notice and these TFS Operating Procedures or the Terms and Conditions, the Market Notice shall prevail. In the event of any conflict between these TFS Operating Procedures and the SMF Operating Procedures, these TFS Operating Procedures shall prevail.
- 1.4 In some cases these TFS 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 TFS Advances described in these TFS Operating Procedures, which is determined by the Terms and Conditions.
- 1.5 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 TFS 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) over the Loan. Loans that are governed by Scottish law will be subject to a Scottish Declaration of Trust and Scottish Transfer.
- 1.6 Participants should note that the procedures relating to collateral eligibility, valuation, delivery and maintenance in the TFS 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>
- 1.7 The Bank may amend these TFS 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 TFS 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

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<sup>1</sup> The TFS was announced on 4 August 2016, as part of a package of measures to support the UK economy. More information on the purpose and rationale behind the TFS is provided in the August 2016 Inflation Report, available at <https://www.bankofengland.co.uk/inflation-report/2016/august-2016>.

<sup>2</sup> Please contact [applications@bankofengland.co.uk](mailto:applications@bankofengland.co.uk).

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vary the operational timetable or vary or omit any of the procedures described on any particular day.

1.8 All references to times are London time, unless stated otherwise.

1.9 References in these TFS Operating Procedures to:

- the Bank are to the Bank of England;
- 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; and
- CCBM are to the Correspondent Central Banking Model.

1.10 All capitalised terms in these TFS Operating Procedures have the meaning given in the Terms and Conditions and in any Market Notice (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

### Eligibility

- 2.1 Institutions eligible to participate in the TFS will be banks and building societies that are participants in the Bank's Sterling Monetary Framework (SMF) and 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 TFS will be dependent upon a Participant and other members of its TFS Group acting, in the opinion of the Bank, in good faith and in a manner consistent with the objectives of the TFS.

## 3 Communications with the Bank

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

**Table 1: Contact details**

Action	Contact
Terminate an existing TFS Advance early (in part or in full)	Sterling dealing desk <a href="mailto:TFS.Transactions@bankofengland.co.uk">TFS.Transactions@bankofengland.co.uk</a> , via direct line or 020 3461 5000
Substitutions, margin calls and returns of collateral	Collateral Management and Custody (CMC) <a href="mailto:tfs.team@bankofengland.co.uk">tfs.team@bankofengland.co.uk</a>
Securities settlement and corporate actions	CMC <a href="mailto:tfs.team@bankofengland.co.uk">tfs.team@bankofengland.co.uk</a>
Security collateral eligibility and haircuts	Middle Office <a href="mailto:eligible.securities@bankofengland.co.uk">eligible.securities@bankofengland.co.uk</a>
Loan collateral eligibility	Middle Office <a href="mailto:eligible.loans@bankofengland.co.uk">eligible.loans@bankofengland.co.uk</a>
Loan collateral data management	Middle Office <a href="mailto:loansdata@bankofengland.co.uk">loansdata@bankofengland.co.uk</a>
Pre-positioning notices	CMC <a href="mailto:tfs.team@bankofengland.co.uk">tfs.team@bankofengland.co.uk</a>
Data reporting and certification	Monetary Statistics Team <a href="mailto:TFSReporting@bankofengland.co.uk">TFSReporting@bankofengland.co.uk</a> or 020 3461 4376

- 3.2 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 Collateral Management and Custody Team (CMC) are recorded. In the event of a dispute, reference will be made to the archive of recordings.

## 4 Data reporting and certification

### Reporting entities

- 4.1 The quantity and price of funding available from the TFS will be based on the quantity of sterling loans<sup>3</sup> as reported to the Bank by a Participant's TFS Group.
- 4.2 A Participant's TFS Group is defined as:-
- i) all Monetary Financial Institutions<sup>4</sup> (MFIs) and Specialist Mortgage Lenders<sup>5</sup> 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 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)"<sup>6</sup>.
- 4.3 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.
- 4.4 The Bank will inform a Participant of the entities comprising its respective TFS Group.

### Reportable lending

- 4.5 The TFS lending measure covers sterling loans to UK-resident households, private non-financial corporations (PNFCs) and certain NBCPs which are not part of the Participant's Group. 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.
- 4.6 Data for each MFI, Specialist Mortgage Lender and NBCP within a TFS Group must be reported to the Bank using Form TF, based on the definitions provided in the Form TF Guidelines, available from the Bank's website<sup>7</sup>. The Form TF 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).
- 4.7 TFS Group lending will be monitored during a Reference Period running from 30 June 2016 to 31 December 2017.

### Reporting frequency

- 4.8 Participants must ensure that data for the Reference Period for each entity in a TFS Group are submitted to the Bank using Form TF each calendar quarter. The data provided in Form TF include the amount of relevant loans outstanding at the end of the previous calendar quarter (e.g. 30 June 2016) and at the end of the current calendar quarter (e.g. 30 September

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<sup>3</sup> See <https://www.bankofengland.co.uk/Statistics/data-collection>.

<sup>4</sup> Monetary Financial Institutions means the subsector defined in section 2.31 of Annex A to Council Regulation (EU) No. 549/2013, known as ESA10.

<sup>5</sup> <https://www.bankofengland.co.uk/statistics/details/further-details-about-total-lending-to-individuals-data>.

<sup>6</sup> 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>.

<sup>7</sup> <https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility>.

2016), and net lending in the calendar quarter (e.g. 1 July to 30 September 2016).

- 4.9 Participants must submit Form TF by the fifth working day of the second month after the end of the calendar quarter (e.g. for the calendar quarter ending 30 September 2016, Form TF must be submitted by 7 November 2016).

### Certification process

- 4.10 The Bank requires a Form TF Certificate to confirm that the data provided in Form TF are, in all material respects, accurate and complete at the date referenced, as set out in the Guidelines for Form TF on the Bank's website<sup>8</sup>.
- 4.11 Each entity in a TFS Group may choose to either certify individually or, alternatively, one entity may certify on behalf of the TFS Group, annexing the data required for each entity in the TFS Group. Whether certifying individually or on behalf of the TFS Group, all certifications and data for the TFS Group must be collated and sent to the Bank in a single communication by one of the TFS Group's Participants.
- 4.12 Each Form TF Certificate should be signed by a board member, such as the finance director or chief operating officer.
- 4.13 The first certification is different from other certifications. Before Participants can draw in the TFS, a Base Stock of applicable loans for TFS Group entities as at 30 June 2016 must be certified using Form TF. For this purpose, in Form TF, only the rows corresponding to the amount outstanding at the current reporting date (rows 4, 12 and 20) need to be completed for each entity.
- 4.14 Data for the end of the Reference Period (ending 31 December 2017) may not have been certified until quite close to the end of the Drawdown Period (ending 28 February 2018). Therefore, Participants in a TFS Group may be permitted, at the discretion of the Bank, to borrow an aggregate amount above the TFS Group's most recent Borrowing Allowance.
- 4.15 Such a drawing request would need to be supported by evidence in a form to the Bank's satisfaction that the TFS Group's Borrowing Allowance is likely to increase by a sufficient amount, once the Form TF Certificate has been completed for the reporting period ending 31 December 2017. Such evidence may include a statistical return provided to the Bank reporting equivalent data.
- 4.16 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 TF 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 section 5.11)
- 4.17 The Bank reserves the right to require independent audits of the data provided to the Bank at any time. After the drawdown window has closed, Participants will be required to provide an independent audit report on the accuracy of the 31 December 2017 Net Lending data to the Bank. Further details will be published on the Bank's website in due course.

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<sup>8</sup> <https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility>.

### Publication of Group lending and drawings data

- 4.18 The Bank will publish individual TFS Group lending data and drawings data<sup>9</sup> quarterly. Publication dates will be available on the Bank's website.
- 4.19 Participants should inform the Bank as early as practicable of any potential changes to its group that may affect the definition of its TFS Group. The Bank will advise on how the TFS Group's Borrowing Allowance and TFS Interest will be affected by the change.

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<sup>9</sup> Lending and drawings data, and provisional publication dates, will be available at <https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility>.



## 5 Advances under the TFS

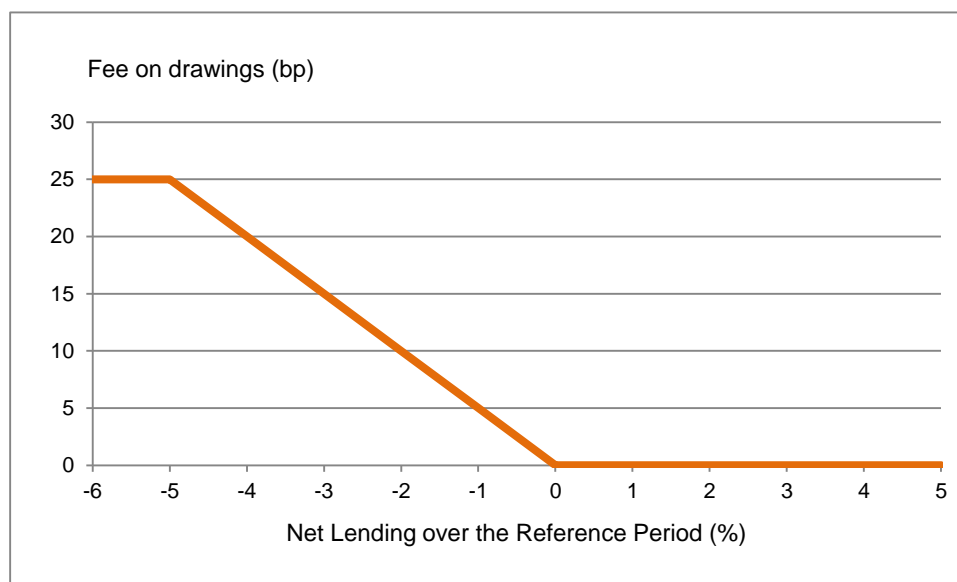
- 5.1 Under the terms of a TFS Advance, Participants can borrow central bank reserves in exchange for eligible collateral during the Drawdown Period.
- 5.2 The TFS Drawdown Period ran from 19 September 2016 to 28 February 2018. The price and quantity of funding available during the TFS depended on lending from 30 June 2016 to 31 December 2017 (the "Reference Period").
- 5.3 Eligible Collateral consists of all collateral eligible in the SMF and may comprise either securities or loans or a combination of the two. TFS advances appear in a Participants main collateral pool, alongside other official Bank operations. Under the Bank's collateral pooling model collateral is not allocated to a particular TFS or SMF Advance, 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.
- 5.4 The term of a TFS Advance is for 4 years from the date of drawdown. Participants may repay any TFS 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.

### TFS Interest

- 5.5 Participants pay TFS Interest on TFS Advances equal to Bank Rate plus a TFS Fee, in accordance with the Terms and Conditions.
- 5.6 The Bank will send a payment invoice on the first Business Day of each calendar quarter for any TFS Interest due. Participants are required to make the payment of TFS Interest the same day.
- 5.7 TFS Interest invoices will be sent to Participants via email. TFS Interest must be paid to the nominated account as specified by the Bank.
- 5.8 If the Participant fails to pay the TFS 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 their discretion may decide. In addition, the Bank reserves the right to suspend a Participant's access to the TFS at any time, for any reason.
- 5.9 The TFS Interest will be calculated daily based on Bank Rate and the Value of the outstanding TFS Advances drawn by Participants in a TFS Group. The TFS Interest will be allocated between Participants in a TFS Group in proportion to the Participants' drawings.
- 5.10 The TFS Fee on aggregate TFS Group drawings less than or equal to the Borrowing Allowance will be determined at the end of the Reference Period, based on Net Lending over the Reference Period. For TFS Groups whose Net Lending over the Reference Period as a whole is positive, the TFS Fee will be 0bp per annum. For TFS Groups whose Net Lending over the Reference Period as a whole is negative, the TFS 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 TFS Fee will be 25bp per annum. Chart 1 illustrates the TFS Fee profile.
- 5.11 The TFS Fee on aggregate TFS Group drawings which are in excess of the Borrowing Allowance shall be 150bps per annum.
- 5.12 For the avoidance of doubt, the total TFS Fee payable by a Participant will be the sum of:

- i) the TFS Fee on aggregate TFS Group drawings which are less than or equal to the Borrowing Allowance; and
- ii) the TFS Fee on aggregate TFS Group drawings which are in excess of the Borrowing Allowance (if applicable).

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



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

**Repayment**

- 5.16 When a TFS Advance matures or the Bank requires early repayment under clause 6.7 of the Terms and Conditions, the Participant is required to repay the TFS Advance and any Interest due. The Participant may also voluntarily prepay a TFS Advance (in whole or in part) with any Interest due under clause 6.8 of the Terms and Conditions.
- 5.17 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).
- 5.18 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.

- 5.19 If the Participant fails to repay the TFS Advance and 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.
- 5.20 If the Participant elects to terminate a TFS 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 TFS Repayment Notice on the day of the termination, in addition to notifying the Bank's sterling dealing desk by phone.<sup>10</sup>

### Liability for Charges

- 5.21 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 and expenses incurred by the Bank in connection with the TFS and any TFS Advance. These costs shall include without limitation:
- all and any costs incurred through holding collateral 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; and
  - 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 TFS Group to the Bank at any time.
- 5.22 The Bank will normally invoice Participants for such amounts on a monthly basis.

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<sup>10</sup> The TFS Repayment Notice is available on the Bank's website at <https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility>.

## 6 TFS Collateral & Payments

- 6.1 Eligible collateral for the TFS consists of all collateral eligible<sup>11</sup> for the SMF. The eligibility and procedures relating to collateral valuation, delivery and maintenance in the TFS are the same as for the SMF, as described in the SMF Operating Procedures.

### Payment of funds by the Bank

- 6.2 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.
- 6.3 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 website<sup>12</sup>.
- 6.4 SSIs for facilities where the Bank is delivering sterling cash must be provided to CMC ([cmc.ssi@bankofengland.co.uk](mailto:cmc.ssi@bankofengland.co.uk)). They can be updated by providing a revised form to CMC ([cmc.ssi@bankofengland.co.uk](mailto: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 Collateral Management and Custody Team (CMC), funds can be paid via the Bank's Real Time Gross Settlement System (RTGS) to the Participant's reserves account.

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<sup>11</sup> Further details of eligible collateral are available on the Bank's website at <https://www.bankofengland.co.uk/markets/collateral-and-settlement>.

<sup>12</sup> <https://www.bankofengland.co.uk/markets/collateral-and-settlement>.