



News release

12 February 2016

Establishing Shari'ah compliant central bank liquidity facilities – consultation paper

Today the Bank of England announces the publication of a consultation paper on establishing Shari'ah compliant liquidity facilities. The paper presents the preliminary findings of the feasibility study it commenced in the second half of 2015, and seeks stakeholders' views on the options identified.

In October 2013 the Governor stated that the Bank is 'open for business,' and a broad range of firms now has access to the Bank's balance sheet. However, the Bank recognises that Islamic banks are currently unable to use its existing facilities. In particular, the Sterling Monetary Framework is the mechanism by which the Bank sets interest rates, and interest-based facilities are not deemed Shari'ah compliant.

Following preliminary analysis, the Bank is now seeking stakeholders' views on four potential models that could form the basis of future Shari'ah compliant central bank facilities.

- Two possible deposit facility models – which could help firms that cannot engage in interest-bearing activity to more flexibly meet and manage their liquid asset buffer requirements.
- Two possible liquidity insurance models – which could provide liquidity to a solvent and viable firm that is unable to engage in interest bearing activity, in the event of a liquidity stress.

Whilst the Bank is consulting on both types of model, its primary focus at this stage is to assess the feasibility of establishing Shari'ah compliant deposit facilities. The Bank understands that this is the area of greatest demand, given that a more limited range of liquid market instruments is available to Islamic banks compared with other banks.

Views are sought from the UK Islamic banks in particular, but also from interested parties more generally. The deadline for responses is Friday 29 April 2016. Following consultation and further analysis, the Bank will decide which model(s), if any, it considers feasible and is minded to implement.

ENDS

Notes to Editors

1. Islamic finance refers to activity deemed to be consistent with Islamic commercial jurisprudence. This jurisprudence is in turn informed by the high level principles of Islamic law ('Shari'ah'). Among these principles are: the Aristotelian notion that money has no intrinsic value and should serve only as a medium of exchange; an emphasis on real economy activity and consequent risk and reward sharing; a prohibition on involvement in what are considered to be socially detrimental activities; and, a prohibition on interest.
2. The consultation document can be found at:
<http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/shariah-compliant-facilities.aspx>
3. The Governor's speech, given on 24 October 2013, is available at the following link:
<http://www.bankofengland.co.uk/publications/Pages/speeches/2013/690.aspx>
4. Deputy Governor Minouche Shafik confirmed in a speech, given on 26 February 2015, that the Bank would commence work to assess the feasibility of establishing Shari'ah compliant facilities in the second half of 2015. The speech is available at the following link:
<http://www.bankofengland.co.uk/publications/Pages/speeches/2015/801.aspx>