



BANK OF ENGLAND

News release

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6 April 2017

Consultation paper: Shari'ah compliant liquidity facilities – establishing a fund based deposit facility

Today the Bank of England announces the publication of a consultation paper on the establishment of a Shari'ah compliant deposit facility. Based on market feedback and internal analysis, the Bank is minded to implement a deposit facility using a fund based model. This is one of the two deposit models originally outlined in the 2016 consultation exercise; the current paper provides more technical detail on how this model would work in practice.

The work to develop a Shari'ah compliant facility commenced in the second half of 2015, and is part of the Bank's more general approach to broadening market access to central bank liquidity facilities. The Bank recognises that Islamic banks are currently unable to use the Bank's existing facilities because they involve interest, which is not deemed Shari'ah compliant. In particular, the Sterling Monetary Framework is the mechanism by which the Bank sets interest rates.

As stated at the outset, the primary focus of the Bank's work is on establishing a deposit facility, as this is currently the area of greatest demand. Once the deposit facility is operational and has been evaluated, the Bank may commence work on an accompanying Shari'ah compliant liquidity insurance facility. However, the resource requirements for further work will necessarily be considered in the context of the Bank's wider priorities.

Views are sought from the UK Islamic banks in particular, but also from interested parties more generally. The deadline for responses is Tuesday 23rd May. Notwithstanding any material impediments arising, work will then commence on implementation. While work both to integrate the facility into the Bank's systems and processes, and to create a set of standardised terms and contractual documentation, will commence following the close of this consultation exercise, the deposit facility is unlikely to be ready before Spring 2018. Further details on implementation, including timeline, will be posted on the Bank's website in due course.

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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. Former 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>