

The establishment of the Bank of England Alternative Liquidity Facility (BEALF)

28 September 2018

Dave Ramsden, Deputy Governor, Markets and Banking¹, 28 September, announced that the Bank of England will establish a subsidiary to house the Shari'ah compliant facility (SCF). The SCF, once launched, will allow UK Islamic banks to hold sterling deposits at the Bank of England for the first time. Conventional banks can already hold reserves accounts at the Bank, so the SCF is an important development in enabling Islamic banks to do the same, providing them with greater flexibility to meet Basel III liquidity rules. The SCF will also be the first non-interest based liquidity facility to be offered by a major Western central bank, providing important structural support to the UK's Islamic finance sector, and further strengthening the UK's position as an international financial centre. Details of how the SCF will operate in practice can be found in this [consultation paper](#).

At its September meeting, the Bank's Court of Directors agreed that the subsidiary will take the form of a special purpose vehicle (SPV), called the Bank of England Alternative Liquidity Facility (BEALF). BEALF will be formally incorporated shortly, and will be a wholly owned subsidiary of the Bank. Members of the Bank's senior management will be appointed as its Directors.

Further work remains before the SCF can be launched, but the incorporation of BEALF marks an important milestone for this medium term project.

Andrew Hauser, the Bank's Executive Director for Markets and sponsor of the SCF project states: "Establishing BEALF demonstrates the Bank's commitment to delivering a non-interest based liquidity facility in the UK. As well as helping to level the playing field for the Islamic finance sector, this will be a first for a major Western central bank." The Bank will make further operational announcements regarding the facility in due course.

Explanatory notes:

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 Bank is working to establish a Shari'ah compliant facility (SCF), which will allow Islamic banks in the UK to hold sterling deposits guaranteed by the central bank, in a manner which does not involve paying or receiving interest. The SCF will provide Islamic banks with greater flexibility in meeting Basel III liquidity requirements, putting them on a more level playing field with conventional banks, which can already place deposits at the central bank. Further detail on the Bank's work, including the results of the previous two public consultation exercises, can be found in this Quarterly Bulletin article: <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2017/islamic-banks-and-central-banking.pdf?la=en&hash=15D94BD65C2EFA6962989D10E21543B7B7013C1C>.

¹ <https://www.bankofengland.co.uk/speech/2018/dave-ramsdens-society-of-professional-economists-annual-conference>