UK Finance response to the Bank of England's consultation paper "Ensuring the resilience of CCPs"

November | 2025

Bank of England's consultation paper "Ensuring the resilience of CCPs"

UK Finance response | 18 November 2025

Submitted to the Executive Director of the Financial Market Infrastructure Directorate
Via email to: CP_ensuring_the_resilience_of_CCPs@bankofengland.co.uk

Dear Executive Director of the Financial Market Infrastructure Directorate

Please find enclosed the UK Finance response to the above paper.

We welcome this opportunity to thank the Bank of England for the insightful work and are at your disposal for further discussion.

Central counterparties (CCPs) are integral to the stability of the global financial system. By interposing themselves between buyers and sellers, they effectively mitigate counterparty credit risk, reduce the cost of financial intermediation, and uphold market confidence by limiting contagion during periods of stress. The resilience of UK CCPs is therefore indispensable to the orderly functioning of both domestic and international financial markets.

We fully support the Bank of England's objective of strengthening the resilience and stability of UK CCPs. Many of these proposed enhancements will reinforce sound practices at the CCP level and deliver meaningful benefits to our members, both as direct and indirect clearing members, by promoting robust market infrastructure and safeguarding systemic stability.

We note that the Bank of England aims to finalise and publish rules no earlier than the end of H1 2026, providing the CCPs six months to adapt and implement. In this regard, we advocate for a proportionate approach to implementation. This will prevent unintended consequences, such as clearing costs escalation, market fragmentation in products subject to the mandatory clearing obligation, and the potential diminished competitiveness of UK CCPs. Ensuring alignment with international standards and introducing greater flexibility in investment and collateral frameworks will further strengthen resiliency and support market liquidity.

We consent to the Bank of England referencing this UK Finance response.

If you have any questions in relation to the information within our submission, please do not hesitate to let us know.

Kind regards

Yvonne Deane Harte
Director of Secondary Markets & Post-Trade policy
UK Finance

Executive Summary

UK Finance members welcome this consultation on "Ensuring the resilience of the CCPs" as part of the Bank of England's wider suite of policy and guidance on financial market infrastructures. We strongly support the overarching aim of reinforcing the resilience and stability of UK CCPs, alongside the broader objective of safeguarding financial stability through a robust regulatory framework aligned with international standards. Furthermore, we endorse efforts to foster innovation by streamlining regulation, enhancing transparency, and ensuring the framework remains responsive to evolving market dynamics. The Bank of England plays an integral role in our financial markets and we welcome the open approach it has taken to engagement with the industry.

Our members are supportive of the Bank of England's (BoE) objectives and call for proportionate implementation to avoid unintended consequences, such as cost escalation, market fragmentation, and reduced competitiveness. Alignment with international standards (e.g., EU EMIR, CPMI-IOSCO) [1] is critical to maintain equivalence and financial stability, and greater flexibility in investment and collateral frameworks will enhance resiliency and liquidity.

UK Finance members appreciate the HM Treasury's (HMT) intention to keep clearing member-facing and client-facing requirements in Titles III, IV and V of UK EMIR generally in legislation for now, as indicated under **"Updating the UK's regulatory framework for central counterparties"** policy paper. As some of the other provisions in the Bank of England's proposed rules or the related draft SI (entitled The Central Counterparties (Amendment) Regulations 2025) might potentially touch on those requirements, our response to this consultation paper focuses on seven chapters most relevant to our members in their capacity as direct and/or indirect clearing members:

1. Chapter 5: Interpretation and general provisions

Our members endorse clearer interpretative standards to improve rulebook transparency and express their concerns around the scope of CCP emergency powers. Ambiguity in defining the term "emergency" and lack of limits on CCP authority could expose clearing members to unanticipated liabilities. We urge the BoE to provide precise definitions and safeguards.

[1] IOSCO and the Committee on Payments and Market Infrastructure (CMPI) enhance standards relating to clearing, settlement and reporting arrangements.

2. Chapter 14: Margin

UK Finance members support the enhancements to initial and variation margin requirements, including measures to mitigate procyclicality and improve resiliency. Our members also propose minimum quantitative standards for CCP margin models, i.e. the application of Historical Value at Risk (HVaR), a margin-period-of-risk (MPOR) of five to seven days, a confidence level of 99.5%, and look-back periods of, equal to or greater than,10 years.

Our members' key concerns, on the other hand, are potential disproportionate cost pass-through to smaller firms and the risk of discouraging voluntary clearing or shifting clearing activity offshore if costs rise significantly.

To mitigate these concerns, our members recommend an approval mechanism for CCPs by the BoE for fee adjustments linked to margin changes. Additionally, our members recommend retention of anti-procyclicality buffers and alignment with EMIR standards to preserve European alignment.

3. Chapter 15: Default procedures

UK Finance members support initiatives to improve portability (transferring the positions of a defaulting clearing member to a non-defaulting clearing member) but oppose mandatory porting (obliging a non-defaulting clearing member to take on client positions from a defaulting clearing member) due to operational, legal and regulatory constraints. Our members prefer encouraging backup clearing arrangements and increasing client responsibility.

While our members are supportive of the inclusion of porting in default management fire drills, the BoE's proposal to allow CCPs to port omnibus accounts without client consent is viewed as unlikely to improve outcomes materially.

4. Chapter 16: Default Fund

Our members question the effectiveness of factoring portability into default fund contributions and suggest alternative measures such as extending porting windows, standardising processes and client education to reduce complexity and increase the likelihood of success in porting.

5. Chapter 17: Default waterfall

UK Finance members are supportive of requiring CCPs to allocate an additional portion of their own resources as a tranche of the default waterfall as a buffer to be drawn upon after the initial default fund contribution, i.e. "second skin in the game" (SSIG), and recommend accelerated implementation.

6. Chapter 20: Investment Policy

Our members broadly support the proposed amendments to preserve scope and flexibility and advocate for the inclusion of money market funds (MMFs) backed by high quality liquid assets (HQLAs), and high-quality corporate bonds. Amendments to UK EMIR Articles 44 and 47 to reduce collateral fragmentation and improve liquidity by allowing banks, such as custodial banks, to accept non-cash collateral for the purposes of safekeeping and custody as margin are other recommended measures by our members to strengthen the resiliency of the UK clearing landscape.

7. Chapter 26: Eligible Collateral

UK Finance members welcome expanding the suite of eligible collateral to include uncollateralised bank guarantees (UBGs) under proportionate safeguards, such as issuer restrictions and irrevocability to mitigate risks.

We urge the BoE to recognise tokenised securities, such as DIGIT, as eligible collateral. More widely, we welcome the BoE's work in the digital securities landscape and were pleased that the design of Digital Securities Sandbox referenced many of UK Finance's recommendations. It is important that the UK continues to innovate, keep pace with financial markets and accept new forms of collateral. There are, however, dependencies and considerations for the industry, government and regulators to navigate. As a recommended next step for further discussion and sound market transition, we call on the HMT to appoint its Digital Markets Champion and establish the cross-industry taskforce, announce at Mansion House this year. UK Finance stands ready to play a strong supporting role.

The taskforce will provide a forum for sound collective discussions on integrating distributed ledger technology (DLT) based processes smoothing with existing market infrastructure, settlement finality, to support operational readiness with the right risk management and governance controls in place. The success of the UK's markets was central on community building. Momentum should not be lost in bringing together the correctly constituted and well-governed forum to build the UK's digital securities markets.

Ensuring the resilience of CCPs

Response to Chapter 5: Interpretations and general provisions

UK Finance members welcome the BoE initiative to introduce a set of interpretative and general requirements on CCPs in the Interpretation and General Provisions Part of the financial markets infrastructures (FMIs) rulebook to facilitate the clear interpretation and understanding of the rules that apply to a CCP in the BoE's FMI rulebook and the rules set out in this consultation.

While our members appreciate the intention to align emergency provision standards with those prevalent in the EU, it is paramount that clearing members (CMs) receive real-time notifications, given their direct and immediate exposure to the consequences of such events.

In our members' views, the need for immediate CM awareness has been vividly demonstrated by past incidents, including the challenges with CREST during its upgrades in both 2020 and 2021. Our members' experience, and their observations within the UK market (e.g., LME/LME Clear), indicate that the activation of broad emergency powers can introduce considerable ambiguity at times when adherence to established rules is most vital. Should a CCP invoke an "emergency" without a clear and pre-defined scope, it creates the potential for unilateral rulebook alterations, which could, in turn, expose CMs to unanticipated liabilities. The absence of a precise definition for what constitutes an "emergency" and the lack of explicit limitations on a CCP's authority in such circumstances raise significant concerns about the potential for arbitrary modifications to the operating framework.

Response to Chapter 14: Margin

Enhancements to initial margin and variation margin practices

UK Finance members welcome BoE's proposed enhancements to initial and variation margin requirements. We agree that these measures will reinforce the robust risk management standards applied to CCPs, ensuring their continued resilience in the face of client and CM defaults, as well as other stress events.

Our members support proposal one's improvements to initial margin (IM) requirements and proposal two's refinements to variation margin (VM) practices. They expect these enhancements to help, *inter alia*, mitigate procyclicality in margin requirements and strengthen market participants' preparedness in centrally cleared markets.

However, UK Finance members note that CCPs may seek to recover implementation costs through higher clearing fees. We urge the BoE to ensure any such cost pass-through is proportionate, clearly justified, and not used to support broader fee increases across UK clearing services. To safeguard against this, we propose that CCPs be required to submit detailed cost calculations to the BoE and obtain prior approval for any fee adjustments directly attributable to the proposed margin enhancements.

Our members acknowledge the cost-benefit analysis presented by the BoE in the consultation paper. While UK Finance members agree that these costs may not represent a significant increase for CCPs and most direct CMs, they emphasise that the impact could be more pronounced for certain indirect CMs and their clients. If these costs are passed on to CMs, they will absorb them for their own house positions. However, for client positions, the costs would cascade further down the chain to indirect CMs and their clients. Consequently, smaller firms may face a disproportionately higher burden compared to larger and well-resourced institutions.

Our members caution that any material increase in clearing costs, beyond the actual cost of implementing these proposals, could discourage voluntary central clearing for products not subject to mandatory clearing. For products that are subject to mandatory clearing, significant cost increases may incentivise a shift of clearing activity to CCPs in equivalent jurisdictions outside the UK. Such a shift could elevate counterparty credit risk and contribute to fragmentation in clearing, ultimately posing risks to financial stability.

In addition to the points outlined above, our members wish to emphasise the critical importance of the robustness of CCPs' margin models. These models play a pivotal role in determining the extent of loss mutualisation via the default fund and directly impact the resilience and sustainability of clearing mechanisms.

To strengthen these models, our members propose the following minimum quantitative standards for incorporation into CCP margin methodologies:

- **Historical Value at Risk (HVaR)**
- **Margin Period of Risk (MPOR): Five to seven days**
- **Confidence level: 99.5% for OTC derivatives**
- **Look-back period: Minimum of 10 years**

Events such as the Nasdaq Clearing incident, where insufficient margin led to the activation of the default fund, highlight the urgent need for robust IM frameworks.

Current EU EMIR standards are viewed as insufficient for certain products, particularly due to the limited five-year look-back period. This timeframe fails to capture key historical stress events, such as the European sovereign debt crisis and the collapse of Lehman Brothers. To address this, our members recommend using 2008 as a minimum baseline for margin calculations. This approach would result in higher margin requirements, thereby enhancing the financial stability of CMs.

Proposals on procyclicality

UK Finance members concur with the BoE's view that formalising the procyclicality assessment framework into binding regulatory requirements would enhance financial stability by strengthening UK standards for CCPs' margin practices. In our members' views, the preservation of a 25% anti-procyclicality buffer is important, aligning with the standard set forth in EU EMIR. Past market dislocations, such as the significant volatility experienced in 2020 where price declines surpassed 25%, vividly illustrate the buffer's efficacy in mitigating systemic risks. In instances where a member's IM proves inadequate, the default fund becomes the primary mechanism for covering the deficit, thereby triggering subsequent contributions from other participants. Consequently, this anti-procyclicality mechanism functions as an indispensable protection for the overall integrity of the clearing system and its diverse participants.

Significant deviations from established regulatory frameworks, such as EMIR, could jeopardise the recognition of UK CCPs by ESMA for third-country equivalence. To mitigate this risk, our members recommend leveraging proven, existing solutions wherever possible. Currently, both UK and EU EMIR provide three key mechanisms to strengthen CCP resilience and safeguard systemic stability, i.e. a 25% margin buffer, a 25% weighting for stressed observations within the margin lookback period, and a minimum initial margin based on a 10-year lookback period. These measures are designed to enhance market robustness and should inform UK's approach to achieving shared objectives of financial stability.

However, should CCPs respond by increasing IM levels during periods of market stability, particularly in conjunction with the additional costs arising from proposed enhancements to margin models, this could lead to a substantial rise in average margin costs. Such an outcome risks amplifying the adverse effects previously outlined.

Our members also have taken note of the BoE's discussion paper "Enhancing the Resilience of the Gilt Repo Market", particularly its proposal to promote greater central clearing. In seeking to harmonise cost structures between centrally cleared and non-centrally cleared markets to promote voluntary clearing, the BoE suggests introducing minimum haircuts or margins for non-centrally cleared gilt repo transactions. However, our members are concerned that, when combined with the potential increases in IM under the procyclicality framework and the broader enhancements to IM and VM practices, this approach could necessitate disproportionately high minimum haircuts in gilt repos to achieve cost alignment. Such measures, our members caution, may have unintended adverse consequences for both centrally and non-centrally cleared markets within the gilt repo segment.[2]

Response to Chapter 15: Default procedures

UK Finance members welcome the BoE's initiative to enhance portability in the event of a CM default. CCPs play a key role in connecting various parts of the financial system. Their primary function is to reduce counterparty credit risk by managing and distributing that risk among their CMs. These members are responsible for covering losses that arise from client defaults. They also contribute to a default fund, which the CCP can use if a CM defaults and its margin is insufficient to cover the resulting losses. This mechanism helps spread the risk across all members, promoting risk mutualisation. This risk mutualisation underscores the importance of a smooth and efficient default management process.

UK Finance members strongly support clients establishing CM relationships and encourage proactive porting arrangements. However, they do not advocate for mandatory porting, i.e. obliging non-defaulting CMs to take the positions of defaulting CMs. Our members highlight the following considerations against mandatory porting in a default scenario:

1. Porting cannot be guaranteed

By its nature, porting can never be assured, particularly during a default-related stress event.

[2] UK Finance will be submitting a thematic response to the BoE's discussion paper "Enhancing the resilience of the gilt repo market", deadline 28 November 2025.

2. Operational complexities

Mandating porting would disregard significant operational challenges faced by CMs and the broader market.

3. Know-your-customer (KYC) limitations

Each CM maintains its own KYC framework. Relying on another CM's KYC, especially that of a defaulting CM, is impractical. Standards vary widely across institutions, even within the same jurisdiction.

4. Regulatory alignment

Current frameworks in major jurisdictions (e.g., US and EU) do not require porting in every case, acknowledging these practical constraints.

5. Risks to non-defaulting CMs

A non-defaulting CM should not be forced to take on client positions from a defaulting CM, especially during stressed market conditions. Requiring the CMs to accept portfolios in a stressed market, potentially from a distressed client, exposes these firms to underwriting undue market risk. This could put the interests of a distressed client ahead of existing clients who have exercised prudent risk management and paid for these services. Such a mandate could also disincentivise CMs from taking on porting clients from a defaulting CM due to increased risk exposure.

6. Contractual and risk management obligations

From a contractual perspective, have the ability to reject new client positions, based on a range of factors including, but not limited to, liquidity concerns, concentration limits, and operational or credit considerations. Our members strongly oppose any mandatory porting requirements to cut across this. CMs also have their own risk management obligations under a range of regulations (e.g., MiFID), and our members urge the BoE to ensure that any requirements do not contradict these.

In our members' views, encouraging backup arrangements and client responsibility would mitigate downside risks, such as forced close-outs under stressed conditions, significant financial losses, additional costs to re-establish positions and disruption of hedging strategies, especially for pension funds and insurers using long-dated instruments. If clients regularly assess the costs and benefits of maintaining backup clearing relationships and understand that regulators cannot guarantee success in all scenarios, they can improve their chances by maintaining an active backup account (e.g., Individual Segregated Account (ISA)) and pre-arranging a replacement CM which in turn would lead to an increased probability of porting.

UK Finance members are supportive of proposal one requiring CCPs to include porting in default management fire drills and recognise the complexity of porting in a default scenario as it spans several areas, such as risk management frameworks and prudential treatment,[3] and involves multiple parties operating under tight timelines and operational constraints.

Robust protection mechanisms are in place for effective porting in the current UK porting regime under, *inter alia*, UK EMIR and Part VII of the Companies Act 1989, but porting of retail and indirect-clearing clients' positions are operationally more challenging for a new CM to manage. Indirect-clearing models introduce an extra layer of complexity as positions are normally held by intermediaries who often net positions across clients by pooling them into an omnibus account which in turn prolongs the time for tracing positions during a default to an individual client. Porting of a retail client's position requires extra verification and auditing steps.

However, our members are not convinced that proposal two, allowing CCPs to trigger porting to a pre-agreed backup CM designated by all clients in an omnibus account, without proactively seeking client consent during the porting window, would significantly contribute to the likelihood of success in porting in a default scenario. This approach may be particularly problematic for listed products, which are typically pooled in an omnibus account and take much longer to port under normal business conditions. Transferring an omnibus account necessitates moving the entire balance, which can introduce delays while awaiting liquidators. This delay is problematic as market conditions can shift unfavourably during this period. Furthermore, CCPs face difficulties in porting clients if their individual accounts are not discernible; omnibus structures obscure client identities, complicating the CCP's porting efforts. It is also worth noting the impracticality of opening numerous new accounts within a single day and the fact that CCPs' default provisions generally allow only 24 hours from the default announcement to transfer positions; a process that can take weeks to complete under normal circumstances.

Finally, porting may not be the most desirable solution in all situations, i.e. some clients prefer liquidation, as outlined by International Swaps and Derivatives Association's (ISDA) paper "Addressing Porting Challenges".

[3] Client accounts with illiquid or concentrated positions in the defaulting CCP's client portfolios may be particularly challenging to port as these positions often do not have favourable capital treatment.

Response to Chapter 16: Default fund

UK Finance members remain unconvinced that incorporating portability into the calculation of default fund contributions would meaningfully incentivise CMs to facilitate client porting in the event of a default. The default fund operates on the principle of mutualisation, reflecting the aggregated risk introduced by CMs and their clients. It is understood that attracting more clients would naturally expand the default fund due to increased risk, thereby necessitating greater liquidity commitments from CMs for their default fund contributions. Furthermore, most CCP rulebooks mandate active CM participation in the default auction process, with non-participating CMs facing initial exposure of their default fund. In a default scenario, if a non-defaulting CM takes on a portfolio of porting clients, their default fund contribution should not be at risk for loss mutualisation or at lower order of default loss mutualisation – juniorisation, similar to a CM's successful bids at the auction process. The current BoE's proposal on this matter requires further clarification to properly address these concerns and facilitate effective risk management.

Rather than increasing default fund contributions for clearing members whose clients' positions are less likely to be ported, UK Finance members propose that the BoE explores alternative measures to reduce the complexity of porting. These could include extending the porting window by enabling direct margin payments by clients to CCPs and encouraging greater standardisation and automation within the porting process.

Additionally, enhancing client education is essential. Raising awareness of the limitations and risks associated with porting would empower clients to make more informed decisions about their clearing arrangements, including the potential benefits of maintaining relationships with multiple CCPs to improve resiliency. A clearer understanding of account structures and collateral implications would better equip clients to assess whether porting or liquidation is more appropriate for their portfolios.

Further measures to simplify porting in a default scenario, aligned with recommendations from the CPMI-IOSCO report on access and portability, could include regulatory forbearance (such as temporary relief from capital or KYC requirements) and revised decision-making protocols for CMs.

Response to Chapter 17: Default waterfall

UK Finance members are supportive of the BoE's proposal to introduce a requirement for CCPs to allocate an additional portion of their own resources as a tranche of the default waterfall. However, our members advocate for an expedited implementation schedule. Specifically, they propose that CCPs should be required to hold 50% of the stipulated capital within six months following the effective date of the new rules, with complete compliance achieved no later than the end of the first year of implementation.

Response to Chapter 20: Investment policy

UK Finance members are broadly supportive of the BoE's proposal to revise Commission Delegated Regulation (CDR) 153/2013 Articles 44(1)(b) and (c), and 45(1)(b)(i) and (ii). They agree that the proposed amendments preserve the current scope and do not interfere with CCPs' investment policies.

More generally, our members would welcome greater flexibility in CCPs' investment frameworks, allowing for a broader range of eligible financial instruments. While maintaining robust risk management practices is paramount, our members endorse the inclusion of money market funds (MMFs) backed by sovereign debt or other high-quality liquid assets (HQLAs), as endorsed by International Swaps and Derivatives Association's (ISDA) response to the EMSA's consultation paper on EMIR Article 85(3a(e)). These instruments tend to perform reliably during periods of market volatility and offer operational advantages, particularly for smaller CCPs or those managing exposures across multiple currencies.

Additionally, corporate bonds, provided they meet stringent criteria regarding liquidity, credit quality, and concentration limits, could be considered as eligible financial instruments for the CCPs to invest in.

To reduce fragmentation in liquidity pools in the UK and to increase the efficiency and mobility of collateral, our members propose an amendment to UK EMIR Article 47, paragraph 3, which restricts where CCPs can hold non-cash collateral. If this was to be amended, so that CCPs have greater optionality on where they can hold non-cash collateral, then it could introduce increased market efficiencies, competition, and resilience in the UK market.

As it stands, UK EMIR Article 47.3 has direct market impacts, such as the creation of separate collateral pools, as the restrictions on the choice of location push CCP participants to hold securities in more than one location. This creates fragmented liquidity pools in the UK, reducing the efficiency and mobility of collateral.

In addition, maintaining and supporting market liquidity, both in ordinary times and in times of market stress, is a key policy objective. Especially in times of stress, market participants need to be able to easily use collateral to generate liquidity. Restrictions on the availability and on the use of collateral impede the generation of liquidity.

This restriction on the holding of securities collateral does not apply to cash collateral, as under EMIR Article 47, paragraph 4, CCPs can explicitly hold cash collateral with banks, including custodian banks. Therefore, our members recommend that non-cash collateral can be posted with banks, such as custodian banks, where the safeguarding of assets is central to their businesses, and should constitute 'highly secure arrangements', and propose the following amendments to the UK EMIR:

1/ Level 1: "Regulation on OTC Derivatives, CCPs and Trade Repositories" (EMIR)

Article 47

Investment policy

…

3. Financial instruments posted as margins or as default fund contributions shall~~, where available,~~ be deposited with operators of securities settlement systems that ensure the full protection of those financial instruments. Alternatively, other highly secure arrangements with authorised financial institutions may be used.

4. Cash deposits of a CCP shall be performed through highly secure arrangements with authorised financial institutions or, alternatively, through the use of the standing deposit facilities of central banks or other comparable means provided for by central banks.

2/ Level 2 - EMIR Delegated Regulation 153/2013

As part of the onshoring of EU rules, the TECHNICAL STANDARDS (EUROPEAN MARKET INFRASTRUCTURE) (AMENDMENT ETC.) (EU EXIT) (No. 1) INSTRUMENT 2019 amended several of the EMIR Level 2 texts, including Article 44 of the EMIR Delegated Regulation 153/2013:

Article 44

Highly secured arrangements for the deposit of financial instruments

1. *If a CCP does not~~is unable to~~ deposit the financial instruments referred to in Article 45 or those posted to it as margins, default fund contributions or contributions to other financial resources, both by way of title transfer and security interest, with the operator of a securities settlement system that ensures the full protection of those instruments then such financial instruments shall be deposited with any of the following:*

   . . .

   (b) an authorised credit institution as defined in Article 4(1)(1) of Regulation (EU) No 575/2013~~under Directive 2006/48/EC of the European Parliament and of the Council (9)~~ that ensures the full segregation and protection of those instruments, enables the CCP prompt access to the financial instruments when required and that the CCP can demonstrate has low credit risk based upon an internal assessment by the CCP. In performing such an assessment, the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country;

   (c) a third country financial institution that is subject to and complies with prudential rules considered by the relevant competent authorities to be at least as stringent as those laid down in Regulation (EU) No 575/2013 and those imposed in a law of the United Kingdom (or any part of it) which, immediately before exit day, implemented Directive 2013/36/EU~~Directive 2006/48/EC,~~ and its implementing measures, as that law has effect on exit day, and which has robust accounting practices, safekeeping procedures, and internal controls and that ensures the full segregation and protection of those instruments, enables the CCP prompt access to the financial instruments when required and that the CCP can demonstrate to have low credit risk based upon an internal assessment by the CCP. In performing such an assessment, the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country. [4]

Using the services of non-UK central securities depositories (CSDs) for the purposes of safekeeping and custody of non-cash collateral as margin would be an alternative solution which would also necessitate some legislative changes.

[4] The above proposals are recommended and for good order would need to be checked and verified from a legal perspective by the Bank of England's legal team.

Response to Chapter 26: Eligible collateral – Uncollateralised bank guarantees (for discussion)

Uncollateralised bank guarantees

UK Finance members welcome the BoE's proposal to broaden the range of eligible collateral for CCPs under UK EMIR to include uncollateralised bank guarantees (UBGs). Our members share the BoE's view that UBGs could provide clearing members and their clients with additional funding sources during periods of stress, improve liquidity management beyond reliance on cash or HQLA, and strengthen financial stability by alleviating liquidity pressures and mitigating systemic risk in volatile markets.

While UK Finance members acknowledge the inherent risks associated with UBGs and agree that safeguards are necessary, they advocate for a targeted and proportionate approach. Applying the full suite of measures outlined in the consultation could result in only a very limited number of UBGs qualifying as acceptable collateral. The same concern applies to overly conservative implementation of individual safeguards.

One key risk is the wrong-way risk. Limiting UBG usage per client, clearing member, or CCP could help mitigate this. Furthermore, our members believe that restricting issuers to authorised credit institutions with strong regulatory oversight and robust risk management frameworks would significantly reduce the likelihood of an issuing bank failing to provide cash in the event of a clearing member default. This, in turn, would make the introduction of stringent contractual standards, minimum haircuts, and concentration monitoring at the CCP level less compelling.

UK Finance members suggest the energy sector as particularly suitable for the application of UBGs. This is driven by the sector's distinctive seasonal risk profile, which can manifest as temporary but significant liquidity pressures, particularly during periods of heightened winter energy demand. Inclusion of UBGs in the financial sector specifically, would potentially introduce systemic vulnerabilities, particularly in environments marked by widespread credit downgrades. Consequently, the deployment of UBGs as collateral needs to be governed by robust conditions, such as from a pre-approved list of financial institutions, and CCPs must retain authority to select and approve which banks are eligible.

Our members believe that UBGs should be irrevocable to qualify as valid collateral for CCPs, ensuring counterparties' obligations remain firmly secured and mitigating unexpected risks in the event of default. Furthermore, the BoE may retain discretion to restrict their use as collateral to products experiencing stress during periods of heightened volatility, as evidenced by prevailing market conditions.

Tokenised assets

We welcome the BoE's work in the digital securities landscape and were pleased that the design of the Digital Securities Sandbox reflected many of UK Finance's recommendations.

When it comes to tokenised securities, that is the digital representation of securities on distributed ledger technology (DLT) that already meet the definition of those securities under Financial Services and Markets Act (FSMA) and that are regulated products, including both newly minted digitally native tokenised securities or digital representations (mirror images) of existing securities that exist separately off-chain, we refer the BoE to our recommendations of our Digital Gilt Roadmap, 2023 Unlocking the power of securities tokenisation 2023 report and our 2025 response to HMT's engagement on DIGIT.[5]

Firstly, we call on the BoE to recognise the upcoming DIGIT (and any subsequent series) as a valid form of collateral that can be used for liquidity management purposes. In this regard, repurchase agreements (repos) will be instrumental in achieving liquidity within this market, serving various critical functions such as providing short term funding, facilitating market making, supporting collateral management, and serving as a tool for monetary policy operations. We have also called for efforts to be made to ensure that DIGIT qualifies as HQLA. Section 5.2 of our Digital Gilt Roadmap sets out more insight on the risk assessment that would be made by the BoE.

Our industry is also considering, and largely in support of, the FCA's proposals in CP25/28 looking at how tokenised money market funds (MMFs) can be used as collateral via the UK regime for non-centrally cleared derivative contracts, being conscious of the fact that this consultation is on the resiliency of the CCPs in centrally cleared segment of the markets.

[5] Note that while terms vary in industry, UK Finance's work on securities tokenisation and references to securities tokenisation refers collectively to both digital representations of securities that exist separately off-chain and securities issued natively on the blockchain.

It is important that the UK continues to innovate and keep pace with financial markets. UK Finance members recognise there is an opportunity for the UK to become established as a market-leading hub for crypto assets and digital finance, particularly when we can leverage the longstanding role of London as a leading financial centre. In respect of new forms of collateral, there are dependencies and considerations for industry, government and regulators to navigate. Conditions for future adoption of different digital assets are being explored, with views varying within industry.[6]

To support a sound industry transition - where different functions and roles within our member banks can work in a coordinated way - like has been done with T+1 Accelerated Settlement, we would encourage the government to not delay in electing the **Digital Markets Champion** and in establishing the **cross-industry taskforce** announced at Mansion House.[7]

The taskforce would distinguish between use cases with discussions on the purposes for which different instruments will be acceptable. This will provide a framework for collective discussion to ensure that FMIs, banks, asset managers, gilt edged market makers, custodians, relevant technology providers and other financial services providers work together. Programs of work would focus on enabling the seamless integration of DLT with existing market infrastructure. Key priorities could include establishing robust governance and risk management frameworks across credit, liquidity, operational, and technological dimensions to ensure responsible adoption. Collectively, this work would aim to support operational readiness and interoperability, while safeguarding legal certainty and settlement finality as foundational principles. The success of the UK's financial markets has always centred on community building. More widely, we encourage the FCA, BoE, HMT and other key stakeholders to maintain close coordination for a centralised approach, on matters such as regulatory reform, so that there is a demonstrable roadmap and vision in place for the UK.

[6] While collateral is not explored in respect of the following, for stablecoins, please refer to UK Finance's response to the FCA's 'Stablecoin issuance' consultation (CP25/14) where the potential of stablecoins (where they are soundly regulated, subject to oversight, backed by predominantly fiat currencies, and used predominantly for systemic payment purposes) is explored. In respect of unbacked cryptocurrencies, please refer to both our response to HM Treasury's Draft Crypto Assets Order and our response to the FCA's paper on the application of the FCA Handbook for regulated crypto activities. Wherever possible, we are seeking to ensure that requirements for the emerging stablecoin and crypto asset ecosystem do not unintentionally undermine or cut across well-established and well-regulated market practices and procedures that exist today. This will also help to ensure that traditional market participants can enter into this space (e.g. as custodians). Separately, UK Finance looks forward to responding to the Bank of England regarding its proposals for potential sterling-denominated systemic stablecoins.

[7] https://www.gov.uk/government/publications/wholesale-financial-markets-digital-strategy/wholesale-financial-markets-digital-strategy.

We thank the Bank of England for the insightful work and are at your disposal for further discussion.

About UK Finance:

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, it seeks to enhance competitiveness, support customers and facilitate innovation. Our primary role is to help our members ensure that the UK retains its position as a global leader in financial services. To do this, we facilitate industry-wide collaboration, provide data and evidence-backed representation with policy makers and regulators, and promote the actions necessary to protect the financial system. UK Finance's operational activity enhances members' own services in situations where collective industry action adds value. Our members include both large and small firms, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. More information is available on our website.

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