

ISDA response to the Bank of England Discussion Paper “Enhancing the resilience of the gilt repo market”

Executive Summary

We welcome the opportunity to provide comments to the Bank of England’s (BoE) discussion paper on potential measures to enhance gilt repo market resilience. ISDA shares the BoE’s objective of ensuring that core funding markets remain stable, deep and liquid, including in times of market stress.

Before introducing any significant policy changes impacting the functioning of the gilt repo market, we encourage the BoE to consider the prudential requirements on capital and liquidity in relation to repo transactions, in conjunction with monetary policy and financial stability, to avoid unintended and detrimental consequences for the UK gilt market and firms’ risk management practices. Changes related to clearing and introduction of minimum haircuts could drive up the cost of funding and have an adverse impact on market liquidity and overall demand for gilts. Instead, prudent risk management practices, in line with the BCBS guidelines on counterparty credit risk management and the Treasury Market Practices Group’s Best Practices, developed in the context of US Treasury markets, could serve as a reference point for gilt repo market participants.¹

The BoE could also achieve its stated objective to enhance the resilience of the gilt repo market by facilitating both participation in the BoE’s short-term repo (STR) and index long-term repo (ILTR) facilities, and onward transmission of this liquidity to the system, as well as considering whether to clear its own operations. We would also suggest considering how innovation may change the state of the market, for example through the development of a digital gilt, and whether this could address some of the concerns expressed by the BoE in the discussion paper.

On the measures discussed in the paper, we would make the following comments:

ISDA supports risk-appropriate **regulatory and capital-related incentives to make central clearing attractive**, if such measures ensure that market participants can decide when and where clearing is most efficient for them, and avoid penalizing the non-cleared repo market with prescriptive mandatory haircuts.

With that in mind, we highlight in our response a number of regulatory changes that could make voluntary clearing more attractive, considering:

- (i) removing the punitive treatment of the principal-to-principal clearing model for repos (compared to the agency model) under the leverage ratio and G-SIB framework,
- (ii) the required stable funding treatment of cleared repos under the Net Stable Funding Ratio,
- (iii) the recognition of cross-product netting in the capital framework,
- (iv) facilitating cross-margining between different CCPs in the UK CCP rulebook,

¹ [TMPG-best-practices-May-2025.pdf](#)

- (v) addressing barriers to collateral re-use by funds, and
- (vi) the BoE being active in the cleared market and providing liquidity as appropriate.

Even with a clearing mandate, **reforms in these areas would be required to ensure that banks have sufficient capacity to intermediate additional clearing** and that a set of diverse clients can access clearing efficiently. This may require changes to current rules on liquidity, capital and CCP requirements manifested in prudential regulations and the BoE's CCP rulebook. In addition, to ensure a level playing field and maximize impact, the above-mentioned changes to UK rules should ideally be accompanied by international cooperation with non-UK authorities, as non-UK firms or UK subsidiaries of non-UK firms are active participants in the UK gilt markets.

There are also **good reasons why some market participants elect not to clear**. For example, in some cases, clearing transactions will not generate additional netting benefits, such that it is more efficient to go bilateral. In other cases, a market participant can benefit from netting against other products in a netting set through a bilateral repo. In certain scenarios, clearing is the optimal solution, but equally sometimes it is not: preserving optionality between bilateral and cleared is therefore critical to allow investors and market participants to meet their individual needs and preserve market liquidity in both segments. Both routes serve their purposes and help the market in different ways, and the best option will be different for each type of investor depending on circumstances. We believe the optionality between cleared and uncleared will benefit market liquidity in both segments.

On the **impact of greater central clearing on dealers' balance-sheet capacity** in the context of UK gilt repos, we would highlight the difference between the UK gilt repo market and the US Treasury repo market. The US Treasury repo market is characterised by a two-way flow in short-dated Treasury repo transactions, a feature which is not observable in the UK gilt repo market. Because of this key difference, it is not evident that greater central clearing in the UK would unlock the same magnitude of netting opportunities as in the US. However, we suggest that the BoE explores the extent to which its own participation in central clearing for gilt repo operations may help generate more market liquidity and netting efficiencies.

On the **accessibility of gilt repo clearing for clients**, we note that the US market is working towards a clearing mandate for most cash US treasury transactions and repos. So far, there are still a number of practical obstacles to overcome for the whole market, especially clients, to access clearing in the most efficient manner. Before considering the introduction of any new mandates and obligations in the UK, the BoE should consider ways to facilitate greater client access to clearing and incentivize more voluntary clearing of repos.

On the **introduction of minimum haircuts**, we highlight that dealers typically risk manage and calculate margin at the level of a client's portfolio. Therefore, looking at transaction-level data might show zero-haircuts, while the client is risk-managed at portfolio level. Appropriate risk management practices, in line with those set out in the BCBS guidelines on counterparty credit risk management² and the Treasury Market Practices Group's Best Practices³, should address the BoE's concerns. The introduction of minimum haircuts would be an overly blunt

² [Guidelines for counterparty credit risk management](#)

³ [TMPG-best-practices-May-2025.pdf](#)

measure, as it would not appropriately reflect other forms of risk mitigation used by dealers such as portfolio margining, position limits, and netting agreements.⁴

On the **substantial changes which the UK gilt market structure and gilt market participants are currently implementing and adapting to**, especially in a period of transition away from Quantitative Easing to Quantitative Tightening, we would highlight three dynamics currently at play. First, the change currently steered by the BoE, as part of its monetary policy implementation, from an era of abundant reserves in the system to a demand-driven framework, underpinned by a repo-led operating framework for supplying central bank reserves⁵. Second, through the introduction of the Contingent Non-Bank Financial Institution Repo Facility (CNRF), which provides a backstop liquidity resource to eligible insurance companies, pension funds and LDI funds. Finally, as noted in the Financial Policy Committee (FPC) framework for LDI resilience set out in March 2023, the potential for sudden liquidity demand from LDI funds in times of stress is now largely mitigated.⁶ NBFIs are now maintaining some level of buffer to support market stress. Requiring them to post more margin to support a minimum haircut requirement would reduce such buffer for when a stress occurs the next time. Having NBFIs create such reserves impacts their general returns/yields, adding costs to the system. It would therefore be preferable to let the market adapt to the new policies, and await for evidence on their impact, rather than introducing additional structural changes such as a central clearing mandate or minimum haircuts.

On **practical implementation considerations**, we note that the introduction of a central clearing mandate and / or minimum haircuts would also come with a number of implementation challenges. Depending on how these are practically addressed, the impact on the market could vary. Developments in the UK could be informed by experiences in other jurisdictions, to the extent they are applicable. It already appears that mandatory clearing would be a large lift for banks and NBFIs, given the concurrent market transformations arising from the move to T+1 settlement and US Treasury clearing. To estimate the impact of potential policy measures, market participants would need to know how any mandate would be implemented (including the powers that would be used to implement the proposals). This would be necessary to understand the scope of counterparties subject to central clearing or minimum haircut obligations, and whether there would be exemptions for certain counterparties. The latter appears particularly relevant, especially as in the UK, pension funds are now permanently exempt from the derivatives clearing obligation, mainly due to their more long-term maturity profiles and associated liquidity requirements. It is also not clear whether and how overseas entities could be affected. In addition to the economic impact, imposing clearing mandates and/or minimum haircuts would create an administrative burden resulting from new systems and controls, new documentation and client repapering. These requirements would be idiosyncratic to the UK and are unlikely to provide benefits to UK market participants in other markets.

⁴ See TMPG FAQs, recognizing that non-zero haircuts are one tool to manage risk, but that other tools, such as netting agreements and portfolio margining are also available to market participants:

<https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/Treasury-Repurchase-Agreement-Risk-Management-Recommendation-FAQs.pdf>

⁵ [Let's get ready to repo! - speech by Victoria Saporta | Bank of England](#)

⁶ <https://www.bankofengland.co.uk/financial-policy-summary-and-record/2023/bank-staff-paper-ldi-minimum-resilience>

On the **potential unintended consequences**, we caution that mandates on clearing and/or minimum haircuts for non-cleared repos may lead to behavioural changes by market participants. Given that certain entities may not be within the scope of UK regulation, an unlevel playing field between in-scope and out-of-scope entities could emerge, including between UK and non-UK firms, likely putting UK firms at a competitive disadvantage in global markets. As noted in our response to the FSB consultation on leverage in NBFIs⁷, the imposition of margin requirements on repo markets may have the effect of rendering those markets ineffective for collateral transformation purposes. Such requirements could make it difficult for market participants to convert gilts into cash.

Finally, repo, securities lending and derivatives markets are intertwined, especially when managing collateral and liquidity. We recognize the importance of holistic collateral management, powered by operational and technological interoperability and industry-developed data standards, such as the Common Domain Model (CDM). These standards enable consistent data representation and streamlined processes across market participants, enhancing transparency, efficiency and regulatory alignment.

Responses to questions

Characteristics of the gilt repo market

Q1. Do you agree with assessment of the gilt repo market dynamics described in Section 2? Are there any further dynamics that you would highlight, beyond those identified above? Which of the issues described in Section 2 do you see as key risks to gilt repo market resilience, given current market structure?

We welcome that the BoE recognizes the existence of the multiple and various players present on the Gilt Repo Market and within the buy-side segment itself (e.g. LDI funds, DB Pension Funds, hedge funds managers, non-hedge funds managers).

In discussing risks from highly leveraged, concentrated positions, the BoE refers to the dynamics at play in the March 2020 “dash for cash” in relation to the unwind of the US Treasury cash-futures basis trade, and the LDI episode in September 2022. However, as noted in the FSB report on liquidity in core government bond markets (2022), “*the basis trade is not as prevalent in the UK [and euro area]*”.⁸ With regards to LDI funds’ more prominent borrowing of long-dated gilts, as noted in the DP, the Financial Policy Committee’s March 2023 resilience standard for LDI funds has already resulted in more prudent risk management of leverage in the sector. Besides, as noted in Box A, as a result of increases in government bond yields, UK defined benefits pension schemes’ leverage has reduced, and we can expect this dynamic to continue at the system-level as more pension schemes move away from a defined benefit model to a defined contribution model. In any case, longer dated repo transactions are unlikely to come with zero haircuts, as observed in the BoE staff working paper No 985.⁹ We understand that counterparties would be charged haircuts on longer dated financing arrangements, thereby highlighting the fact that lower haircuts are really only in the

⁷ [ISDA-response-to-FSB-consultation-on-leverage-in-NBFI.pdf](#)

⁸ [Liquidity in Core Government Bond Markets: Liquidity in Core Government Bond Markets](#)

⁹ [Bank of England Staff Working Paper No. 985](#)

overnight space. In light of this, we consider that further analysis of dynamics in gilt repo markets would be needed to justify the need for specific measures to address leverage in gilt repo markets. Instead, prudent risk management practices, in line with the BCBS guidelines on counterparty credit risk management and the Treasury Market Practices Group's Best Practices,¹⁰ developed in the context of US Treasury markets, could also serve as a reference point for gilt repo market participants.

In discussing previous episodes of market stress, such as the March 2020 “dash for cash”, the BoE observes the concurrent dynamics of increased demand for liquidity arising from margin calls or sudden deleveraging, and states that *“traditional liquidity providers such as banks may be limited in their ability or willingness to intermediate in cash government bond and repo markets, including to provide liquidity via gilt repo”*. As observed in the System Wide Explanatory Scenario (SWES), the bulk of liquidity needs in times of stress arises from variation margin calls.¹¹ This is a result of the post-Global Financial Crisis (GFC) reforms, which introduced greater collateralization in cleared and non-cleared derivatives markets and induced a shift from credit to liquidity risk. Such reforms, aimed at addressing the build-up of counterparty credit risk in the financial system, can lead to increased liquidity needs in times of stress and reduce dealer intermediation capacity. The BoE also observes that regulatory requirements, such as the leverage ratio, constrain dealers' balance-sheet capacity. These dealer balance-sheet constraints have been noted as a reason that may hold back some volume for the BoE's repo-led quantitative tightening effort with STR/ILTR usage, as dealers can only support so much tapping of the BoE facilities due to the leverage ratio.

Such reforms, which were aimed at addressing the build-up of counterparty credit risk in the financial system, can lead to increased liquidity needs in times of stress and reduce dealer intermediation capacity.

We acknowledge that in paragraph 75, the BoE notes that *“Given the need to consider wider microprudential and financial stability implications associated with resilient dealer balance sheets, this DP does not explore potential structural changes to the UK leverage ratio framework”*, but we would encourage greater consideration of the trade-off between counterparty credit risk mitigation and liquidity risk, especially as recent market stress events have been characterized by liquidity challenges rather than the spread of credit risk. We would encourage the BoE to consider the prudential requirements on capital and liquidity in conjunction with monetary policy and financial stability (and in coordination with non-UK authorities that supervise the non-UK market participants that participate in the UK market, either directly or through their UK subsidiaries), as this would help get ahead of unintended consequences arising from the interplay between various regulatory requirements, and enhance system-level resilience.

We also highlight that looking at haircuts on individual transactions might not portray the full picture: margin, other protections or risk management techniques may be applied by a dealer to a client at the portfolio level, rather than at the individual transaction level. While a transaction might show a zero haircut based on SFTR data, it shall not be concluded that a

¹⁰ [TMPG-best-practices-May-2025.pdf](#)

¹¹ Under the SWES scenario, approximately 85% of NBFIs' reported liquidity needs arise from variation margin calls. See Section 2.1, [The Bank of England's system-wide exploratory scenario exercise final report | Bank of England](#)

dealer is providing unfettered leverage to a counterparty, as banks may apply portfolio level margining. As observed in the BoE staff working paper no. 985, *“bilateral relationships explain large part of the variation in the probability of receiving a zero haircut. This finding indicates that banks filter out repo clients in conducting repo business and give preferential haircuts to certain counterparties”*.¹² Haircuts are determined by credit risk appetite, on overall portfolios, and haircuts also feed into the overall credit risk limit setting within a bank.

As regards further dynamics that we would highlight, we query how the newly introduced repo-led operating framework for supplying central bank reserves, mentioned in paragraph 6, will play out vis-à-vis the vulnerabilities in the gilt repo market highlighted in Section 2.1, and we would welcome further analysis of cost and benefits before introducing any structure shift in the gilt repo market while the system is moving away from a period of abundant reserves through quantitative tightening.

Finally, we would also suggest considering potential changes to the future structure of the market. With the proposed development of a digital gilt (DIGIT), it would be worth looking at the ways in which innovation such as DIGIT could change the market landscape and provide alternative means of addressing some of the BoE’s concerns (e.g. counterparty credit risk and operational efficiency), without the need to introduce a clearing mandate. In this respect, ISDA believes it would be desirable for any potential policy actions to be adequately future-proofed.

Potential measures to enhance gilt repo market resilience

Q2. What is your view on the potential benefits, risks and broader market implications of greater central clearing of gilt repo? To what extent do you expect greater central clearing, especially in the dealer-to-client segment, would expand dealers’ gilt repo intermediation capacity in normal times and in stress? To what extent would greater central clearing reduce counterparty credit risk exposures as well as uncertainty during periods of stress and counterparty defaults, and increase market participants’ appetite to extend further gilt repo lending? How do you expect dealers would deploy any additional capacity, both in stress and in stable market conditions?

We acknowledge the concerns that the BoE describes with regards to ensuring the resilience of the liquidity supply in the gilt repo market in times of stress, and related concerns about dealers’ intermediation capacity. Creating capacity for banks to support liquidity provision is important. A significant cost for banks to engage in liquidity provision arises from capital and liquidity requirements and therefore it is crucial that these are properly calibrated. Banks are also constrained by their credit risk and liquidity risk appetite, which are part of an overall prudent risk management framework.

However, it is not evident how greater central clearing would expand dealers’ gilt repo intermediation capacity given the specific dynamics of the UK gilt repo markets. Banks would only be able to unlock balance-sheet netting efficiencies arising from repo clearing if the cleared gilt repo market is a balanced, two-way market, with strong and symmetrical repo

¹² [Bank of England Staff Working Paper No. 985](#)

and reverse repo supply and demand that can be netted. In that regard, we note that the gilt repo market differs from the UST repo market: the UST repo market benefits from the liquidity provision from money market funds (MMFs), for which there is not an equivalent of the same order of magnitude in the UK. Due to the difference between UK and US market structure, the impact of increased netting through clearing might not be that material in the UK, with different tenor profiles in the UK vs the US.

As observed in a BoE Staff Working Paper (2023), the interdealer segment is almost entirely centrally cleared, with 70% of centrally cleared transactions nettable, based on 2021-2022 H1 data used in the paper.¹³ However, in the dealer-to-client segment, assuming clients could access clearing in a cost-effective manner, netting opportunities would only be found at shorter maturities, up to one month, while there would only be few netting opportunities in longer-dated repo, given that, as observed in the paper *“pension funds and LDI funds tend to borrow cash at term, but there are few non-dealers lending cash at term to offset those trades”*.

Netting of repo requires the counterparties to the transactions to agree on the maturity dates on each day. It is not a given that all participants will have the same tenor profile requirements. Whilst the main volume of gilt repos is on an overnight tenor, it may not be wise to encourage a push to this for the sake of seeing balance-sheet capacity. While such balance-sheet capacity may be required to support the repo-led framework, i.e., STR and ILTR, banks have other constraints to consider aside from leverage, such as their internal liquidity risk management.

We are also concerned that if clients access repo lending via a cleared model to generate cash for margin calls, some of these assets would actually have to be used for margins on repos and would not help in financing margin calls. Additionally, most clients would have some excess buffers at present, so additional margin calls from clearing and/or haircuts would take out some current buffer that can support stress times. However, we are aware that some CCPs accept securities in repo clearing, including corporate bonds and covered bonds.

Greater clearing would also require counterparties to have access to a CCP in the first place (see our responses to Q6 and Q7). Depending upon which client clearing access model is used, if the counterparty accesses the CCP as a client, the clearing member may have instances where they still retain full bilateral counterparty risk to the client. For clients outside of the sponsored model, clearing redistributes counterparty risk, but does not reduce it. Clients in a sponsored model can increase risk to the CCP itself. This is valid in both benign times and stressed periods but becomes more of a problem in stressed times.

Q3. How do you expect greater central clearing would impact the build-up and unwind of highly leveraged, concentrated trading strategies in the gilt repo market? Which market activities and types of participants do you expect would be most affected?

First, we note that central clearing is a mechanism to settle activity, risk manage and collateralise with a centralised mutual share of the risk between the parties involved. The actual leverage in the system is driven by the demand to hold securities, and parties requiring

¹³ [Bank of England Staff Working Paper No. 1,026](#)

financing to support their inventory. In theory, the amount of leverage in the system may not necessarily change just from a move to clearing.

Second, in paragraph 10, the BoE notes that *“zero or near-zero collateral haircuts in dealer-to-client repo mean that NBFIs can build up substantial levels of leverage at little cost”*. On this, we would note that leverage through repo borrowing is not necessarily a source of increased systemic risk: leverage also supports key functions performed by financial markets, such as financing, hedging and price discovery. The availability of leverage can also serve market stabilisation purposes through the entry of countercyclical behaviours, as observed in the BoE’s SWES exercise, which identified that the inability to access repo financing in times of stress might delay the entry of countercyclical investors looking to take advantage of falling prices. However, their entry – conditioned on their ability to access the financing that they need – would have stabilized the markets. As such, leverage should not be priced out. The BoE also refers to metrics showing concentration in net borrowing among certain subset of market participants, and notes that *“the build-up of highly leveraged, concentrated positions could lead to large or unexpected liquidity demands from collateral or margin calls”*. Such dynamics would most likely be exacerbated if a greater share of the gilt repo market were to be cleared, as market participants would have to meet initial margin increases in times of stress and daily – potential intraday – variation margin calls in cash on cleared repo positions, increasing the likelihood of fire sales in stress periods. This is where overall gilt activity might see some level of repricing, with potential impacts on participation in the market, with some retreating or re-evaluating whether to participate in the market. Even if the Bank wants to restrict leverage, mandating clearing would not only restrict leverage, but also restrict liquidity provision through the repo market for non-leveraged market participants.

Instead, robust risk management practices, through the implementation of the BCBS Guidelines on credit counterparty risk management, should go a long way in mitigating the build-up of excessively leveraged trading strategies, relying on banks’ counterparty credit risk management.

Q4. What would the largest impacts of greater central clearing be for market participants? How would it affect your business model/trading strategies and what actions would you take in response? How would greater central clearing impact cash gilt market liquidity and pricing? Please provide worked examples or quantitative evidence where possible.

On the second question, please note that we do not provide feedback on business model/trading strategies.

On the question with regards to the impacts of greater central clearing for market participants and on cash gilt market liquidity, we make the following comments.

If the cost of participating in gilt repo markets increases for certain NBFIs, through greater central clearing, some might step back from that market until they can readjust to make an equivalent return (i.e. greater discrepancies in yields from which they can generate greater returns to cover clearing costs). This could have implications for the smooth functioning of the cash market, given the growing importance of NBFIs today. Higher margin requirements, be it from haircuts or clearing, may lessen the yield some participants currently see from

playing an active role in the gilt repo market, such as lending their long inventory. The additional cost and/or operational aspects could be the potential trigger for them to reevaluate their participation in this market. This could lead to some withdrawal of market liquidity, cash and/or collateral.

Greater central clearing would have an impact on market structure as the current access models have been designed for larger clients. Currently, the setup built by EU and UK repo clearing CCPs de facto requires that every client becomes a sponsored member of the CCP. The sponsoring bank pays for the default fund for each client's portfolio independently of each other and might also have to pay additional margin. This can only work with a limited number of large clients. If all clients, regardless of size, have to clear, this would become very expensive for clearing members at the default fund level, even if the sponsoring bank has no trade exposure. On the other hand, smaller clients are unlikely to fulfil the requirements for a sponsored membership, such that central clearing of gilts could force out smaller market participants.

Q5. To what extent do you think market participants would be prepared to manage the potential increases in liquidity needs that could come with greater central clearing in the gilt repo market? Which policy initiatives might be able to help mitigate this risk?

Repo markets provide a source of liquidity to meet cash-collateral needs on their cleared derivatives positions. A major change in the structure of the repo markets, such as through greater central clearing, might affect the extent to which market participants may be able to rely on gilt repo markets to source liquidity to meet collateral needs. It might also further exacerbate the risk that margin calls in volatile times act as a stress amplification channel, given that (i) initial margin on cleared transactions would increase collateral demand at system-level and (ii) variation margin on cleared transactions would have to be met every day, and even intraday in times of higher volatility. Both those aspects would potentially reinforce “dash for cash” dynamics during a period of stress.

These risks may be mitigated through ensuring that CCPs provide appropriate transparency, following the CPMI-IOSCO report on intraday margining practices, to help market participants better prepare for increased margin calls in times of stress. Encouraging market participants to make use of wider collateral eligibility criteria for repo clearing at some CCPs may also help.

In times of market stress, as reported after the LDI crisis in 2022, operational efficiencies and access to quality data are paramount to manage liquidity and collateral effectively. Although the industry's operational challenges did not cause the market volatility, the lack of data standards and interoperability with counterparties and even with firm's internal systems across repo, securities lending, and derivatives may have contributed to intraday liquidity management challenges. The industry should continue to implement workflow automation with interoperability and data standards such as the Common Domain Model (CDM) to help mitigate the impact of future market volatility events.

Q6. Do you see any risks to financial stability generated by an increase in centrally cleared gilt repo activity at CCPs and, potentially, a limited number of sponsoring banks? In your view, how material are these risks, and how could they be best mitigated?

There is an overall scarcity in the number of clearing sponsors as under the current regulatory framework, there are no provisions for the sponsored activity within the capital treatment of counterparty credit risk. Regulators should first ensure a more favourable prudential treatment for sponsoring banks and clearing service provisions under other client clearing models, if they want to see more voluntary clearing activity – we further develop suggestions of targeted regulatory changes in response to Q7 and Q8.

With only a limited number of sponsoring banks, there is a risk that in the event of a default of one clearing member banks, clients' positions may not be ported if other clearing members do not have the capacity to absorb the defaulted clearing members position. This is a concern in derivatives clearing but would become even more relevant in the context of repos if clients were expected to clear their gilt repos while the number of sponsoring banks does not increase.

Q7. In your view and given your business model, what are the costs and benefits of different clearing models? What are the key features of a central clearing model which maximises benefits to market resilience and financial stability while minimising any potential increase in trading costs?

As noted in the CPMI-IOSCO report on client clearing, sponsored models or “guaranteed” sponsored models (whereby the agent bank assumes full liability for the liquidation loss of a sponsored member) might not address the needs of small and medium-sized clients, or might not even be available for such market participants.¹⁴ Currently, there are only a very limited number of sponsoring banks (as discussed in response to Q6). In addition, the depth and liquidity available through the cleared market at the moment might not match the maturity spectrum that clients are looking for.

Currently, most clients adopting the sponsored model are larger organisations.¹⁵ It is questionable whether this model can be extended to smaller clients. The experience with the US clearing mandate demonstrates the challenges involved in developing client clearing models that accommodate the entire market, particularly smaller participants. The US CCPs are still considering additional models, but these have not been tested and their viability would have to be considered within the UK's market structure and the UK regulatory framework. In particular, whilst the accounting treatment under US GAAP has been considered for such additional models, the IFRS treatment has not been finalized. In some instances, certain IFRS banks may still continue to include such activity on their accounting balance-sheet, thus disincentivizing such banks from offering this activity. The UK regulatory framework should be adjusted in light of market developments across clearing access models, to remove such disincentives and ensure there is a level playing field and regulatory capital treatment for the same activity. Other areas which are indirectly impacted by inclusion on accounting balance-sheet under IFRS include the GSIB score metrics, which should be revised in light of new access models to ensure providing clearing services is not penalized, agnostic of accounting balance-sheet treatment. It is worth bearing in mind that

¹⁴ <https://www.bis.org/cpmi/publ/d210.pdf>

¹⁵ There are at the time of writing 16 names in the membership list at LCH Ltd under the Sponsored Model: [LCH Ltd Membership - Search Members | LSEG](#)

the GSIB score and instructions were derived prior to such models being made available, such that it makes sense for these to be reviewed in light of new access models, to ensure clearing is not brought into scope, irrespective of the accounting model and treatment used.

Client clearing models under the European principal model might not be suitable, or be too expensive, as each client transaction appears in the clearing member's books twice: one leg between the client and the clearing member, and another leg between the clearing member and the CCP. For repos with exchange of principal, such a model would make client clearing very expensive in terms of capital requirements, leverage ratio, GSIB indicators and balance sheet usage. Work on other clearing models, either improvements of principal models or an adaptation of agency models is at a very early stage. The regulatory capital rules should be updated to consider the points raised above, as well as considering divergences in accounting treatment, amongst others points which may arise as the various clearing access models evolve, to ensure providing clearing services is not penalized.

A targeted regulatory change on the leverage ratio and GSIB indicators could reduce or eliminate the costs associated with clearing repos under the principal-to-principal model, ensuring a level playing field between the agency and the principal-to-principal model, to have a more cost effective and economically attractive principal model for market participants.

Leverage exposures, as with other regulatory capital metrics, may need to be revisited to ensure that where clearing services are provided, these are not additive to reported exposures (outside of counterparty credit risk add-ons as applicable), agnostic of accounting balance sheet treatment. Otherwise, the benefits of netting at the CCP are lost, if the clearing service providers are required to incur a leverage exposure facing the client.

Lastly, to prevent the emergence of an unlevel playing field and maximise impact, the above-mentioned rule changes should ideally be accompanied by international cooperation with non-UK authorities as non-UK firms or UK subsidiaries of non-UK firms are active participants in the UK gilt markets.

Q8. To what extent could incentives achieve a sufficient expansion in central clearing to deliver meaningful benefits to the resilience of the gilt repo market? Would a clearing mandate be necessary?

We do not consider that a clearing mandate would be necessary or helpful to deliver meaningful benefits to the resilience of the gilt repo market. Resilience is more about ensuring one or more participants do not upset the system, and this mostly comes down to liquidity risk management, i.e., ensuring that each participants can meet margin calls: in that regard, the FSB's recommendations on NBFIs liquidity preparedness for margin and collateral calls, which market participants largely already follow are an important source of resilience. As a last resort, the BoE's CNRF plays a key role.

Instead, ISDA supports incentives to clear, such that market participants can decide whether clearing is ideal for their risk management purposes. This should be decided by the client, taking into account the specifics of its portfolio and dealers' balance-sheet constraints. An expansion in central clearing in the gilt market could be supported through:

- facilitating increased access to indirect clearing for clients who desire it, addressing the impact of providing client clearing **on capital, leverage ratio, balance-sheet usage and GSIB indicators** (as outlined in response to Q7) and increased access to direct clearing for firms that meet applicable membership requirements;
- **clarifying the treatment of cleared repos in the Net Stable Funding Ratio (NSFR)**, as currently, exposures to CCPs receive the same required stable funding factor as any other financial institution. The favorable stable funding treatment that applies for repos from particular counterparties (e.g. public sector, corporates) is lost if the repo is centrally cleared. Providing a preferential stable funding treatment for cleared repos could serve as an incentive to clear;
- **addressing funds' restrictions on reuse and pledge back collateral** generated on the cleared repo market would also reduce frictions in funding markets and facilitate collateral mobilisation;
- **making cross-margining between cleared cash, repo and futures markets possible between different CCPs**, including at the client level – in that regard, we note that the current consultation by the BoE on “ensuring CCP resilience”¹⁶ includes further guidance on portfolio margining in a draft supervisory statement on CCP margin,¹⁷ which would appear to limit the application of portfolio margining to products cleared within the same CCP (as at the moment, gilt repo and gilt futures are not cleared at the same UK CCP), and, as per rule 2.12, that are *“covered by the same default fund unless the CCP has first received from the Bank a section 138BA permission permitting the application of portfolio margining to financial instruments covered by different default funds”*. It would be helpful if cross-margin agreements between different CCPs, as practiced in the US, for instance between FICC and CME, were allowed in the UK;
- **more appropriately reflecting the benefits of cross-product netting in the capital framework**, as highlighted in the joint ISDA-FIA-SIFMA letter on the enhanced supplementary leverage ratio reforms¹⁸ discussion paper on cross-product netting in the US regulatory framework. The same reasoning would apply in the UK and certain targeted changes to regulatory capital rules could help reflect the economics of cross-product netting arrangements with clients. This would involve treating repos as forward-settling interest rate derivatives for capital calculations purpose only (subject to ensuring that these remain excluded from clearing threshold calculations under EMIR by non-financial counterparties), and determining the exposure at default of a portfolio of repos and derivatives contracts subject to a qualifying cross-product master netting agreement under SA-CCR, to recognize this under standardised approach RWAs (including the output floor approach), large exposure and leverage exposure reporting. Whilst Internal Models Method (IMM) application to recognize such offsets is available, this is not understood to be widely utilised, if at all, so we would welcome feedback on affirming the ability to apply for IMM recognition of such exposures.

¹⁶ [Ensuring the resilience of CCPs | Bank of England](#)

¹⁷ [Draft supervisory statement on CCP margin | Bank of England](#)

¹⁸ [Joint-Letter-on-Enhanced-Supplementary-Leverage-Ratio-Reforms.pdf](#). See also the joint ISDA-SIFMA-FIA discussion paper on [Cross-product-Netting-Under-the-US-Regulatory-Capital-Framework.pdf](#)

Such targeted changes should make clearing of repos more attractive and economically viable, such that no mandate would be necessary.

Any mandate would raise important implementation questions with regards to the scope of instruments and counterparties. The design of the scope may trigger behavioural effects, such as substitution to out-of-scope products or execution of transactions with out-of-scope counterparties. This could have detrimental effects for UK gilt repo markets, such as an unlevel playing field disadvantaging UK firms. A mandate with a wider scope of counterparties may imply an inappropriate application of extraterritorial rules to non-UK firms, arguably not aligned with the UK's broader stance on financial services and the approach to overseas firms. On the counterparty scope, we would note that given that pension funds are now permanently exempt from the derivatives clearing obligation in the UK, as it was observed by HM Treasury that *"there was clear evidence that removing the exemption would reduce pension funds' ability to invest in productive assets, whilst the extent to which this would be of material benefit to financial stability was more difficult to evaluate"*.¹⁹ It appears therefore difficult to reconcile the soundness of introducing a clearing mandate in gilt repo markets, where pension funds are an important player for hedging reasons, while it was recognized by UK authorities that greater central clearing of OTC derivatives by pension funds would likely have negative consequences.

Q9. What is your view on the potential benefits, risks and broader market implications of introducing minimum haircut on non-centrally cleared gilt repo transactions? To what extent could minimum haircuts effectively address observed market failures around margining practices in the non-centrally cleared gilt repo market? To what extent would this measure reduce counterparty credit risk and uncertainty during periods of stress, and bolster market participants' appetite to extend further repo lending?

First, haircuts on collateral are a function of collateral risk and not counterparty credit risk. Counterparty credit risk would be priced into the repo rate. Counterparty credit risk is addressed through sound risk management practices, in line with the BCBS Guidelines on counterparty credit risk management.²⁰ Relatedly, as noted previously, while individual transactions might appear with a zero haircut, dealers might apply margin at portfolio-level, such that counterparty credit risks arising from repo exposures are addressed through portfolio-level margining, or other risk management techniques.

Second, no major jurisdiction has implemented the BCBS minimum haircut framework. In relation to the US Basel III implementation, as noted in the ISDA-SIFMA comment letter to the US Basel III Notice of Proposed Rulemaking²¹, jurisdictions such *"as Canada, the EU, Japan and the UK have not implemented minimum haircut floors. With respect to the EU, the EBA in particular has referenced a number of concerns regarding potential implementation of the minimum haircut floor framework, including with respect to (i) the overall scope of institutions and transactions that would be subject to the framework, (ii) the effects of the*

¹⁹ [The Pension Fund Clearing Obligation Exemption \(Amendment\) Regulations 2025](#)

²⁰ [Guidelines for counterparty credit risk management](#)

²¹ ISDA-SIFMA Basel III Endgame Comment Letter, available [here](#)

*framework on important financial markets, such as securities borrowing transactions, (iii) the anomalous results that may occur from applying the proposed minimum haircut floor formulae, and (iv) the application of the framework in the context of netting sets”.*²²

Accordingly, the EBA noted it “believes a cautious approach is warranted before proceeding with the implementation in the EU of the minimum haircut floors framework in the capital framework as designed in the Basel standards” and “[c]onsequently, the EBA recommends at this stage to withhold the implementation in the EU of the minimum haircut floors framework for SFTs in the capital framework as designed in the Basel III post-crisis reforms standards.”. Following this, the Vice Chair for Supervision confirmed in his speech on September 10, 2024 that the minimum haircut requirement would not be implemented. The fact that no major jurisdiction has implemented the minimum haircut requirements reflects the concerns that such a blunt tool would have significant unintended consequences on the repo market.

Moreover, we note that a minimum haircut requirement might exacerbate rather than mitigate some of the financial stability risks the BoE is trying to address. Deep and liquid repo markets are critical to ensure that market participants can access liquidity at all times, reducing the need for sudden deleveraging. However, introducing minimum haircuts would result in an increase in cost for a business that provides the means to exchange funds in a low risk and secured manner, and would have detrimental impacts on repo market liquidity. It might also further exacerbate dash-for-cash dynamics because in times of stress, more collateral will be needed to source liquidity.

Further, introducing minimum haircuts could have a detrimental impact on the cost of hedging and adverse effects on market liquidity, particularly when netting and/or cross-margining arrangements are not appropriately reflected. We note that government bond repos were specifically excluded from the FSB’s 2015 SFT minimum haircuts framework.²³ Including government securities would significantly expand the scope of the minimum haircuts framework and further exacerbate the concerns highlighted above.

Finally, the imposition of margin requirements on repos and eligible collateral requirements akin to those for derivative transactions may have the effect of rendering those repos ineffective for collateral transformation purposes and themselves become a drain on liquid eligible collateral.

Q10. To what extent could minimum haircuts help dampen procyclical increases in haircuts in stress? What is your view on the materiality of this benefit in the context of broader liquidity shocks that repo market participants may face?

The application of minimum haircuts in benign times might indeed result in more muted increases of haircuts in times of stress. However, we reiterate the potential significant unintended consequences that introducing minimum haircuts could have on the repo market, as noted above in response to Q9. Therefore, we question what the actual benefit of more

²² <https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2886865/870bbd5e-ae8f-4933-9f36-784c7183c7f4/Policy%20Advice%20on%20Basel%20III%20reforms%20-%20SFTs.pdf>

²³ <https://www.fsb.org/uploads/P070920-1.pdf>

mutated increases of haircuts in times of stress would be against the potential costs that minimum haircuts may have overall throughout the economic cycle – by increasing the cost of collateral transformation in a low risk and secured manner, impacting the cost of hedging, and adversely affecting market liquidity.

Q11. How do you expect minimum haircuts would impact the build-up of leveraged, concentrated trading strategies in the gilt repo market? Which strategies and types of market participants do you think would be most affected?

Minimum haircuts might not have any effect in reducing leverage or concentrated strategies, if minimum haircuts result in investors obtaining financing for the haircut value, to the extent that providing funding for the haircut value fits within a bank's risk limits and counterparty credit risk management. Additionally, if the BoE's objective is to address the build-up of leveraged, concentrated trading strategies, minimum haircuts, which would impact the whole market – including market participants that do not exhibit any pattern of excessive leverage – do not appear as the right tool.

The ultimate safeguard against excessive leverage resides in the combination of (i) bank's management of counterparty credit risk, in line with the BCBS Guidelines, and (ii) non-bank counterparties' preparedness to meet margin and collateral calls. On the latter, as noted in the ISDA response to the FSB consultation on recommendations for NBFIs liquidity preparedness,²⁴ the FSB's policy recommendations on liquidity risk management and governance, stress-testing and scenario design, and collateral management practices are appropriate, setting out what NBFIs can do – and largely already do – to improve their individual liquidity resilience to market stress events. To further facilitate adequate liquidity preparedness, and reduce the potential procyclical effect of the sudden unwinding of concentrated trading strategies, these initiatives should be supported by (i) increased transparency from CCPs on their margining practices, following the BCBS-CPMI-IOSCO proposals, (ii) easing the pressure arising from collateral demands.

Q12. What would the largest impacts of minimum haircuts be for market participants? How would they affect your business model/trading strategies and what actions would you take in response? How would minimum haircuts on gilt repo impact cash gilt market liquidity and pricing? Please provide worked examples or quantitative evidence where possible.

As noted in paragraph 63, *“minimum haircuts may result in the party giving collateral taking an unsecured credit exposure to the other party, at the margin resulting in additional counterparty credit risk”*. The impact of minimum haircuts would differ depending on the type of counterparties, type of leverage and maturity of the repo transaction. It might penalise counterparties that use repo market for bona fide hedging strategies, and where the concerns on leverage have been addressed through other risk-reducing measures (e.g. LDI funds), who would also then have to manage the increase in counterparty credit risk exposure from their side, arising from the haircut on the collateral provided.

As mentioned in our response to Q8 and similar to our comments on a central clearing mandate, the implementation of regulatory minimum haircuts may be subject to severe

²⁴ [ISDA-response-to-FSB-NBFI-consultation.pdf](#)

challenges. One possible effect may be that market participants substitute from in-scope products and counterparties to out-of-scope equivalents, possibly leading to a split of liquidity and an unlevel playing field which disadvantages UK firms.

Q13. Is there a particular model or calibration of minimum haircuts which maximises benefits to financial stability while minimising potential costs to market participants?

In line with our response to Q9, we reiterate the potential significant unintended consequences that introducing minimum haircuts could have on the repo market. As such, it would be premature to consider a particular model or calibration approach to determine minimum haircuts. The introduction of minimum haircuts could facilitate liquidity drying up in the repo market especially during a time of stress when the repo market is most needed. The 2008-9 financial crisis is an example of how close the repo market came to collapsing, even with the support of governments who then enjoyed much smaller balance-sheets. A new period of repo market stress, with governments hampered by their own funding challenges, could cause significant risks to financial stability. This is not a desired result.

Q14. Aside from greater central clearing and minimum haircuts in non-centrally cleared transactions, what are the measures, or combination of measures, that you think could effectively alleviate different constraints to the expansion of gilt repo lending in a stress?

Access to the short-term repo facility and liquidity intermediation

One way to facilitate the transmission of liquidity through the system would be to facilitate access by market participants to the BoE short-term repo facility, and onward transmission of liquidity raised through this channel to the system.

All-to-all platforms

The BoE suggests that “adopting market structures that expand the number and types of liquidity providers beyond the traditional group of repo dealers, for example via the development and adoption of all-to-all trading platforms”. While we do not have data for the gilt market, data from the US suggests that off-the run US Treasuries do not always trade often enough to be traded on an all-to-all platform, or even a central limit order book. A staff report from the New York Fed on all-to-all trading in the US Treasury market suggests that “only 19 percent of customer trading activity in off-the-run notes and bonds has offsetting activity in the same security within the same 15-minute interval, on average...”.²⁵ We assume that the gilt market exhibits similar characteristics. This would make all-to-all platforms potentially useful for more liquid, on-the-run gilts, suitable for central trading. However, all-to-all platforms do not allow for direct interaction between market participants and are therefore unsuited for bilateral trading practices.

Trading on an all-to-all trading platform would most likely require clearing of the transactions executed on this platform, as otherwise pricing would be affected by counterparty credit risk considerations. Some financial stability risk could be increased by a move to all-to-all trading in gilt repo markets, including as a result from concentrating

²⁵ [NY Fed Staff reports, No. 1036, October 2022, All-to-all trading in the US Treasury Market](#)

clearing and settlement exposures within platforms, counterparties not being able to monitor direct exposures as with bilateral transactions, and increased interconnectedness between participants, especially in times of one-sided trading behavior in stress scenarios.

Therefore, we suggest that the BoE considers the importance of trading protocol variety for market participants, and refrains from measures reducing flexibility for market participants.

Q15. In particular, what are the risks and benefits associated with greater private and public disclosures of leveraged positions generated via gilt repo? How do you expect market participants' behaviour to evolve as a result of these potential measures?

Regarding greater public disclosures

First, we note that SFTR data provides thorough information on gilt repo transactions to UK authorities. We appreciate that the BoE acknowledges the benefits stemming from the existence of the SFTR, which applies both in the UK and in EU jurisdictions, which allows the BoE to get data on the gilt repo market and promotes transparency on this market to a significant level. It is important to stress that such transparency did not exist in the US Treasury repo market and which required the recent regulatory evolutions (including the US SEC's requirement for mandatory clearing of the US Treasuries repo and cash markets).

While different in purpose from public disclosures, SFTR enables authorities to monitor gilt repo market dynamics, and by providing analysis through regular publications, e.g. as part of the BoE Financial Stability report, enhance the overall market's awareness of macro-level dynamics.

With regards to greater public disclosures, it is important to consider the costs and benefits of this. While transparency can be beneficial in some situations, in other cases, the application of public disclosure requirements can have negative impacts, including a possible reduction in participation and overall market liquidity and consideration of mitigations such as aggregation, anonymisation, publication delays etc. We think that a mix of disclosures to regulators and private disclosures to counterparties should remain the preferred option with respect to addressing possible concerns in relation to leverage risks. Any form of public disclosures should be subject to a stringent cost-benefit analysis, including an analysis of the impact of such measures on market liquidity, and only conducted in markets where the cited benefits truly outweigh possible negative side effects.

Public disclosures of aggregate positioning and market liquidity could expose market participants to undue risk, especially in concentrated markets. Therefore, any public disclosures should only be made where they enhance risk managers' understanding of risks while strictly ensuring that public disclosures cannot lead to reverse engineering of entities' positions, which may more likely occur in less liquid and concentrated markets. In principle, any of such disclosures should be subject to appropriately calibrated frequency and not be too granular.

Regarding greater private disclosures

A significant amount of work has been and is being done to continuously improve counterparty risk management, including disclosures. It is important that disclosures: (1) be proportionate, using a risk-based approach that incorporates the nature, scale and complexity of the risks that a given counterparty poses to its leverage provider, (2) be adaptable, and provide flexibility for leverage providers, based on specific circumstances and the requirements of their individual counterparties, while still maintaining the appropriate due diligence and risk management practices and (3) take into consideration the legal, regulatory and market issues affecting counterparties' ability to disclose information.

Q16. In your view, what is likely to be the most effective combination of potential reforms to effectively address the vulnerabilities in the gilt repo market and enhance its resilience?

We would suggest removing regulatory barriers and disincentives to clear (highlighted in more detail in response to Q7 and Q8), to facilitate better access to clearing by a broader range of market participants and ensuring that market participants can use CCPs cost effectively in case they choose to clear their repos, i.e., providing the industry with an economically viable option.

The flexibility to elect to transact bilaterally should be preserved, as it provides a source of additional resilience.

Separately, we would encourage the BoE to consider measures to facilitate banks' participation in its short-term repo operations, and the onward transmission of liquidity raised through this channel to the system.

We would also encourage the BoE to also not just think about current market structure but also future structure of the market. With the proposed development of a digital gilt (DIGIT), it would be worth looking at the ways in which innovation such as DIGIT could change the market landscape and provide an alternative means of addressing some of the BoE's concerns (e.g. counterparty credit risk and operational efficiency). In this respect, ISDA believes it would be desirable for any potential policy actions to be adequately future-proofed.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [LinkedIn](#) and [YouTube](#).