

## ISDA response to the Bank of England’s consultation “Exempting post-trade risk reduction transactions from the clearing obligation”<sup>1</sup>

### Executive summary

We welcome the Bank of England’s proposed approach to exempting post-trade risk reduction (PTRR) transactions from the clearing obligation. We appreciate that the Bank has taken a principles-based approach to the definition of a PTRR service and to the eligibility criteria to benefit from the exemption from the clearing obligation. We suggest making the exemption immediately available once the rules instrument is finalised, so that market participants can choose to participate in PTRR exercises and benefit from risk reduction across their portfolios with no further delay.

### Question 1: Do you agree with the proposed definition of a PTRR service?

The Bank proposes to define a PTRR service as *“a service provided to two or more counterparties to derivatives transactions:*

- *For the purpose of reducing non-market risks in derivatives portfolios; and*
- *That does not give rise to any transactions contributing to the price discovery process.”*

We appreciate that this definition is aligned with the one adopted by the FCA in its PTRR services Rules Instrument 2025<sup>2</sup>, on which ISDA commented during the consultation.<sup>3</sup>

We agree with this definition, which appropriately characterizes PTRR services in a principles-based manner.

In addition of the definition of PTRR service, we note that the draft rules instrument in the Annex of the consultation paper (CP) includes a definition of portfolio compression specifically (part 1.1 of the draft rules instrument<sup>4</sup>). The CP also includes definitions of portfolio rebalancing and basis risk optimisation.

As noted in our response to IOSCO’s PTRR services consultation,<sup>5</sup> PTRR services are being developed and improved continuously, and it should be expected that the demand for new types of PTRR services will arise. Although the PTRR services definition needs to be specific enough to give regulators comfort, it needs to be principles-based to allow for further development and improvement of PTRR services over time.

While not in the rules instrument, we note that the definition of portfolio rebalancing in paragraph 22 claims that *“These trades aim to change the non-market risk in each set of transactions with a view to reducing non-market risk of the whole portfolio.”* While the market risk in the overall portfolio of each participant does not change in aggregate, the targeted non-market risk (i.e. counterparty credit risk) in

<sup>1</sup> [Exempting post-trade risk reduction transactions from the clearing obligation | Bank of England](#)

<sup>2</sup> [PS25/2: Derivatives trading obligation and post-trade risk reduction services](#)

<sup>3</sup> [ISDA-Response-to-UK-FCA-Consultation-on-DTO-and-PTRRS.pdf](#)

<sup>4</sup> [Exempting post-trade risk reduction transactions from the clearing obligation: Annex](#)

<sup>5</sup> [ISDA-response-to-IOSCO-PTRRS-consultation-0324.pdf](#)

each “set of transactions” (i.e. transactions with one particular counterparty) should be targeted to reduce, and should reduce, stay the same, or increase within small tolerances (to enable a better overall result across the entire portfolio).

**Question 2: Do you agree with the proposed exemption from the clearing obligation?**

We agree with the eligibility criteria defined by the Bank for PTRR transactions to benefit from the exemption from the clearing obligation. We note that this includes the requirement that the transactions are carried out by a PTRR provider, and as part of an eligible agreement, as defined in the draft Bank rules instrument (and which aligns with the FCA rules instrument definition).

We also note that the exemption is conditioned on satisfaction of the notification conditions, applicable to the post-trade risk reduction service provider, defined in Chapter 3 of the draft rules instrument. We agree with the notification conditions.

**Question 3: Do you agree with the proposed implementation period?**

The Bank proposes a 3-month implementation period. We suggest making the exemption immediately available after publication of the final rules, to allow market participants to benefit from the exemption with no further delay.

**Question 4: Do you have any comments on the CBA undertaken by the Bank?**

We appreciate that the Bank has provided a CBA in its consultation paper. We agree with the Bank that PTRR exercises reduce risk, which in turn may reduce the capital market participants need to hold for these positions. PTRR exercises also reduce the overall demand for collateral. With collateral requirements being a proxy for risk, reduced collateral requirements stems from the reduction of risk in the system. Also, less collateral requirements will enhance the resilience of the system, by reducing the overall demand for collateral. This may mitigate the risk of “dash-for-cash” or “dash-for-collateral” dynamics in times of stress, enhancing financial stability. As such, we welcome that the Bank’s approach to the exemption of PTRR transactions from the clearing obligation is pragmatic, making it easier for market participants to benefit from such exercises.

## 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 76 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](http://www.isda.org). Follow us on [LinkedIn](#) and [YouTube](#).