

## ISDA's response to the Bank of England Consultation Paper: "Ensuring the resilience of CCPs"<sup>1</sup>

### Executive summary

ISDA welcomes the Bank of England's pragmatic approach to establishing the UK CCP rulebook, which largely restates existing UK EMIR requirements while introducing targeted reforms to enhance resilience and operational effectiveness. The response supports the majority of the Bank's proposals, with a focus on transparency, proportionality, and the facilitation of innovation, while highlighting areas for further clarification and improvement.

#### Key Points:

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- **Implementation & Transitional Arrangements:** ISDA supports the proposed implementation timelines, including extended periods for "second tranche of skin in the game" (SSITG) and margin simulation tools, and finds them overall sensible, but questions the length of the implementation period for the SSITG.
- **Innovation & Collateral:** While no current requirements are seen as barriers to innovation, ISDA advocates for targeted amendments to enable wider collateral eligibility, including tokenised assets, subject to robust risk management.
- **Cost Transparency:** ISDA emphasizes the need for CCPs to provide transparent disclosure of any additional costs passed to clearing members (CM), in line with UK EMIR and the new rulebook.
- **Emergency Provisions:** ISDA welcomes the codification of emergency provisions but requests further clarity on their scope, communication protocols, and explicit exclusions to safeguard market participants' interests.
- **Capital & Default Management:** ISDA supports the current approach to capital requirements and highlights that CCPs should bear the cost of non-default losses. The introduction of a SSITG is welcomed, but ISDA calls for a review of sizing methodologies to better align incentives and ensure robust risk management.
- **Margin Framework:** ISDA endorses the alignment with BCBS-CPMI-IOSCO recommendations, particularly on margin transparency, procyclicality, and portfolio margining. The response calls for enhanced consultation with CMs and greater public disclosure of margin model performance.
- **Porting & Default Fund:** ISDA supports measures to improve porting outcomes but highlights persistent challenges, including CM capacity and regulatory constraints. The response suggests further industry engagement and proposes to seniorise the default fund contributions for CMs that accepted ported clients.

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<sup>1</sup> [Ensuring the resilience of CCPs | Bank of England](#)

- Collateral Policy: ISDA recommends a cautious approach to uncollateralised bank guarantees, recommending strict eligibility conditions and concentration limits. The response encourages the Bank to consider public guarantees and to explore the eligibility of tokenised assets, ETFs, and money market funds (MMF), with appropriate risk management standards.
  - Interoperability: ISDA supports extending interoperability arrangements to derivatives, noting the change is largely formalizing existing guidance. The response agrees that material changes to interoperability should require Bank approval and CM consultation.
  - Other Areas: ISDA welcomes the Bank's approach to business continuity, operational resilience, investment policy, and supervisory processes, while offering targeted suggestions to enhance clarity, flexibility, and market functioning.
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We are looking forward to further dialogue with the Bank.

This paper covers the positions of our members on the buy-side and sell-side. The paper does not reflect the views of many CCPs, and many of the CCPs are in disagreement with the views.

## Chapter 1: Overview

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**Question:** Do you have any comments on the implementation timelines and transitional periods?

We agree with the proposed approach, with a general 6-month implementation period and 12 months for the development of margin simulation tools.

It is worth questioning whether CCPs genuinely require two years to implement a SSITG, particularly since this process does not involve IT implementation. All UK CCPs should possess sufficient financial strength to raise the necessary funds within a shorter timeframe, such as one year.

**Question:** Do any existing requirements or policy proposals set out in this CP act as an unnecessary barrier to innovation for CCPs? Please provide examples.

While we have not identified any requirements or policy proposals set out in this CP that could be considered as acting as an unnecessary barrier to innovation for CCPs, we would support targeted amendments to the framework to facilitate wider collateral eligibility and use of tokenised assets as collateral at CCPs, as further developed in our responses to the questions set out under Chapter 26.

## Chapter 2: Restatement of assimilated law

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No question under this section

## Chapter 3: Areas of Policy Reform - Overview

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**Question:** Do you have any comments on the cost benefit analysis undertaken by the Bank?

We note that the Bank provides an estimation of implementation costs to CCPs, including an estimate of the yearly incremental capital cost to comply with the SSITG proposal. The Bank also notes that “CCPs may pass any additional costs through to CMs via higher fees”. In relation to this, we note that CCPs should provide the expected transparency on any such additional costs, as required under Article 38(1) of UK EMIR, as replaced by the proposed BoE rulebook part “Conduct of business”, 4.1, 3.9 and 4.2. We recommend that any pass-through of costs incurred due to regulatory changes be subject to rigorous transparency and governance frameworks. This is important to avoid a general increase of clearing costs in the UK.

## Chapter 4: Glossary

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**Question:** Do you have any comments on the Bank’s proposed definitions?

We do not have any comments on the proposed definitions, and welcome that much of the existing definitions under UK EMIR have been kept unchanged. We also welcome the establishment of a glossary.

## Chapter 5: Interpretation and General Provisions

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**Question:** Do you have any comments on the Bank’s proposed rules related to Interpretation and General Provisions?

We welcome the introduction of that section.

With regards to the introduction of a set of emergency provisions to give CCPs clarity on how the CCP rules will apply “in an emergency situation”, which the Bank explains is aimed to address situations where it is impractical for a CCP to comply with a rule, we would welcome further clarity as to:

- what public communication the Bank, or the CCP, would provide in regard to the application of this emergency provision – given that a temporary disapplication of the rules can also have an impact on the market participants that the CCP serves.
- the circumstances in which the Bank would foresee that such flexibility – to effectively not comply with a rule – would be used, for example providing examples of scenarios that would constitute “an emergency situation”.

- which rules in particular the Bank would envisage that a CCP would not be able to comply with, in such scenarios.
- the explicit exclusion of all rule changes that would alter market participants' financial outcomes in such an emergency situation, including explicitly ruling out changes that would result in a defaulted member's position allocation to non-defaulted members in the event of a default that is not covered by rulebook provisions.

We appreciate that these provisions are effectively codifying existing practice, and that, as stated in the rule, the CCP “must notify the Bank of the emergency and the steps they are taking to deal with the consequences of the emergency”.

We also note that the flexibility can only be used in respect of rules that cannot reasonably be complied with because of an emergency, as set out in rule 3.1 of the draft instrument. We also note that, as set out under rule 3.2(2), the CCP would have to demonstrate “that it is taking all practicable steps [...] to mitigate losses and potential losses arising as result of these consequences”, which we understand to mean that this flexibility could not reasonably be used in respect of rules on CM funds (initial margin (IM) and default fund contributions).

**Question:** Do you have any comments on the Bank's proposals that a UK CCP is not required to obtain a section 138BA permission where it held an authorisation or regulatory approval under a provision of UK EMIR before that provision was revoked?

We do not have any comments on this and support this as a pragmatic approach.

## Chapter 6: Capital Requirements

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**Question:** Do you have any comments on the Bank's proposed restatement of capital requirements?

We appreciate that the Bank is not proposing to update the CCP capital requirements in light of ongoing CPMI-IOSCO work on FMIs- management of general business risk, and we are ready to provide further input, in line with previous discussions on the matter, with regards to the sizing of capital requirements for CCPs to address non-default losses (NDL). As an overarching principle, CCPs should bear the cost of NDL, whether through ex-ante capital provisioning or otherwise.

For simplicity and comparability, we would suggest aligning the cross-references to the bank capital rules to harmonise them with those used in the EU version of EMIR.

## Chapter 7: Management and Governance

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**Question:** Do you have any comments on the Bank's proposed rules related to Management and Governance?

We do not have any comments on this.

## Chapter 8: Change in Control

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**Question:** Do you have any comments on the Bank's proposed rules related to Change in Control?

We do not have any comments on this.

## Chapter 9: Record Keeping

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**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to Record Keeping?

We do not have any comments on this.

## Chapter 10: Business Continuity

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**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to business continuity?

We do not have any comments on this.

## Chapter 11: Operational Resilience

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**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to operational resilience?

We welcome that the requirements have been kept.

## Chapter 12: Conduct of Business

**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to Conduct of Business?

We do not have any comments on this.

## Chapter 13: Exposure Management

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**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to exposure management?

We believe that the existing provisions from UK EMIR are appropriate and agree with the Bank's proposal not to change these provisions.

## Chapter 14: Margin

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**Question:** Do you agree with the Bank's proposal to enhance its margin framework in line with the final proposals and effective practices by BCBS-CPMI-IOSCO, as set out above?

**Question:** Do you have any views on the Bank's expectations in relation to margin procyclicality, portfolio margining, the provision of a margin simulation tool, or the monitoring of margin as set out in the draft supervisory statement on CCP margin (Annex 5)?

*We respond to these two questions below.*

We welcome that the BoE has followed the substance of the BCBS-CPMI-IOSCO recommendations on margin transparency, IM procyclicality and the CPMI-IOSCO effective practices on variation margining.

On each of the proposals:

*Proposal 1: Enhancement to initial margin practices*

*1. Provision of a margin simulation tool (reflecting Proposals 1 and 2 of the BCBS-CPMI-IOSCO report)*

The proposed approach on scenarios to be included in the tool, ("a number of the CCP's stress test scenarios, including key historical market stress tests for current and hypothetical portfolios"), however, would not yield usable output from the simulator, as most stress scenarios employed by CCPs comprise only a single step: transitioning from business as usual to stressed market conditions in one go. For purposes such as sizing the default fund or determining liquidity requirements, these one-step scenarios are adequate. However, the response function of initial margin (IM) is path-dependent: Most CCPs' models will produce significantly different IM requirements based on the

trajectory of market stress developments. Therefore, IM simulators required scenarios that “replay” day-by-day how the stress event of a scenario developed and uses this time-series as input for the margin model. We understand that some CCPs already use multi-step scenarios for liquidity stress testing.

Most systemically important CCPs, whose margin levels are particularly relevant for clearing users, employ some form of filtered historical value-at-risk (VaR) model to calculate their IM. These models have three pathways through which the different trajectories of a shock can influence margin levels:

- The number of stressed scenarios influencing the VaR calculation.
- The impact on the volatility estimate used for historical filtering.
- The compounding effect of overlapping returns for margin periods of risk longer than one day.

We note that anti-procyclicality (APC) tools employed by the CCP can somewhat dampen the day-by-day reactivity of a model to periods of stress. However, even in the presence of APC tools, a stress scenario that consists of only one step would be dampened more by an APC tool than a stressed that “replays” the crisis day by day. CCPs therefore need to simulate stress scenarios that are “multi-step”, i.e., simulate the stress period day by day. For instance, to use as an example the USD 1y swap rate during the COVID-19 shock, it is not sufficient to simulate the overall drop of two-thirds between 21 February and 9 March 2020 (from 1.513% to 0.5094%), but the market moves day by day between these two dates. Likewise, instead of simulating a one-day shock of 97bp of 10Y gilts yields during the UK gilt crisis, the stress scenario would need to simulate the market moves between 22 September and 10 October 2022. The length of the timeseries depends on the margin model and the APC tools utilised by the CCP. CCPs need to use a timeseries that is sufficient to produce the largest IM that would have been called in the stress scenario in question<sup>2</sup>.

For clarity, we do not oppose the choice of the scenarios that CCPs use for default fund sizing. We expect that many CCPs will utilise stress scenarios that mirror the Great Financial Crisis or the COVID shock. However, to simulate the impact on IM, these scenarios must include the day-by-day history as the stress events unfolded if the CCP is using a model that is path dependent. These scenarios would need to be extended to include multi-step day-by-day developments during the crisis. Sub-bullet (a)(ii) of the requirements for the market stress scenarios for the CCP margin simulation tool in the annex to the draft RTS states “They shall include appropriate periods of stress impacting market volatility and correlations of risk factors captured by initial margin models”. We believe that this could already acknowledge that the scenarios need to include a “period”, not just one step.

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<sup>2</sup> For instance, for some CCPs, the path of previous large market shocks feeding through their IM model looked like this:

- For a couple days to up to 2 weeks after market vol increases there is little change in IM as the model is still below the floor
- Around 1 week after shock, IM starts increasing – there is often a very pronounced lag as the “core” vol estimate needs to pass the margin floor
- Around 1 month after shock, IM increases for weeks as the new higher volatility regime feeds in
- Around 3 months after the shock, IM returns to pre-shock levels as market volatility normalizes

We would like to emphasise that this is not just a theoretical difference that would only have a negligible impact in practice. This is extremely material, and the magnitude of the difference between the margin increase simulating the true development of a stress compared to a “one-step” scenario can be two-to-three times. Therefore, using “one-step” CCP stress scenarios for simulators of CCPs that use path dependent IM models would give regulators and market participants false comfort and would lead to market participants being systematically underprepared for liquidity shocks.

More detail can be found in our paper [“Stress scenarios for forward looking CCP initial margin simulators”](#).

We welcome that the Bank proposes to require CCPs to provide margin simulation tools to CMs and, where requested, to clients of CMs, prospective CMs and their clients. Making this information openly accessible would improve transparency, support comparability, and boost operational efficiency – particularly for clients using several CSPs/CCPs.

*2 and 3. Qualitative and quantitative Information related to a CCP’s margin model, including anti-procyclicality tools (reflecting proposals 3 and 4 of the BCBS-CPMI-IOSCO report)*

We welcome that the Bank’s proposals appear to closely align with the BCBS-CPMI-IOSCO report. We support the Bank’s proposals for disclosing information about a CCP’s margin models, including its anti-procyclicality tools, and find the recommended level of detail—sufficient for replication—appropriate.

CCPs should produce the quantitative and qualitative information in a form that provides sufficient information for CMs and clients to reproduce margin models, including calibration and other margin components. This disclosure should also be the basis for clients to understand the CCP’s margin model. Effective CCP margin simulators could help users understand the model, or at least the IM impact on their portfolio, and could reduce the need for extensive documentation, especially for smaller clients.

*4. Analytical and governance framework for assessing margin procyclicality (reflecting proposal 7 of the BCBS-CPMI-IOSCO report)*

We welcome the specification of the analytical framework for assessing margin procyclicality, looking at margin coverage and margin cost. While we agree that there is a trade-off between these three dimensions, there should not be any compromises on coverage, at least not in the sense that the model does not achieve the required coverage.

We recommend setting an expectation that at least the CCP Risk Committee is consulted when defining the analytical framework and in the evaluation of the performance of IM models. At least parts of this framework should be made public.

*5 and 6. Governance for model overrides (reflecting proposal 8 of the BCBS-CPMI-IOSCO report)*

We welcome that Proposal 8 of the BCBS-CPMI-IOSCO Report is largely reflected in the rulebook.

We agree with proposal that the CCP should “articulate and define the instances and areas where such overrides may be warranted”. It would be ideal for the CCP to define qualitative and or quantitative criteria when applying overrides so that changes are less discretionary. The rationale must be communicated well in advance along with expected impacts.

Discretion is an indispensable tool for risk managers at both CCPs and CMs, though its application should primarily be reserved for unforeseeable events. While acknowledging the importance of CCPs retaining this discretion – which may be exercised for various reasons, such as a preventative measure or to rectifying backtesting breaches, we believe there should be also be a clear disclosure on the use of discretion (rationale, steps taken and impact), made publicly available. The Risk Committee should receive more detailed information concerning discretionary actions.

We also suggest making the aggregate size and duration of manual margin overrides public. Material impacts in percentages or absolute dollar terms at product- or portfolio-level should also be discussed with the Risk Committee and other committees and groups where risk-related matters are discussed and consulted on with CMs and/or clients. There should be a provision for scaling down overrides in case of unanimous push-back from the Risk Committee.

*Proposal 2: Enhancements to variation margin (VM) practices*

We welcome the introduction in the rulebook of a requirement that CCPs consider the impact of intraday collections on the liquidity positions of CMs, in line with Effective Practice 3 of the CPMI-IOSCO report. We also welcome the introduction of a requirement that CCPs provide certain information on their processes with regards to intraday VM calls. We would suggest adding an additional requirement to consult the CCP risk committee, so that CMs and their clients can provide their views on the CCP’s intraday VM practices.

*Proposal 3: Proposals on margin procyclicality*

We welcome the proposed implementation of the analytical framework defined in the BCBS-CPMI-IOSCO report in relation to procyclicality. We also welcome that the Bank proposes to require CCPs to define a tolerance for procyclicality. We would suggest that the Bank sets out explicitly that the CCP should consult CMs and their clients when defining this tolerance – this should be made explicit in the rulebook, as a requirement on CCPs to do so, and we would welcome further reference to this in the margin supervisory statement as well. We also recommend that the results of the monitoring of IM performance against an analytical framework be made publicly available.

## *Portfolio margining*

We overall agree with the Bank's proposal on portfolio margining subject to the following point:

We understand that under UK EMIR and under the future UK CCP rulebook, portfolio margining between different CCPs would not be possible. We would encourage changes in the rulebook to make it possible for CCPs to develop portfolio margining across different CCPs. This could allow market participants to cross-margin between products such as cash, repo and futures in the gilt markets. This would also serve as an incentive towards greater central clearing of gilt repos, which is relevant to the separate BoE initiative exploring measures to make the gilt repo market more resilient. It would be helpful if cross-margin agreements between different CCPs, as practiced in the US, for instance between FICC and CME, were permitted in the UK. This should in turn be accompanied by changes in the capital framework to appropriately reflect the benefits of cross product netting, as highlighted in the joint ISDA-FIA-SIFMA letter on the enhanced supplementary leverage ratio reforms<sup>3</sup> 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 Treasury repos as forward-settling interest rate derivatives for capital calculation purposes 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.

**Question:** Do you have any views on the Bank's proposed approach to margin permissions as set out in the SoP on 'The Bank of England's approach to supervisory processes (model changes, recognition orders and variations of recognition orders) and margin permissions' (Annex 4)?

We do not have any comments on this.

**Question:** Do you have any views on costs and benefits of the proposed changes to margin requirements?

We do not have any comments on this.

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<sup>3</sup> [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](#)

## Chapter 15: Default Procedures

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**Question:** Do you have any views on our proposals, and do you think there are other ways the Bank could support industry efforts to increase the likelihood of successful porting after a clearing member default?

### *On the proposals*

ISDA has extensively explored the issue around porting, through its 2023 whitepaper “Addressing Porting Challenges”<sup>4</sup> and its subsequent 2025 whitepaper “Raising Clients’ awareness on portability”<sup>5</sup>. We emphasise that a major difficulty in porting scenario is that balance-sheet capacity at non-defaulted CMs will be constrained – because of prudential requirements (hence our suggestion to introduce temporary relaxation on these in a porting scenario), but also because of credit risk limits, on-boarding procedures and appetite.

We welcome the changed requirement with regard to client consent, such that CCPs will be required to trigger porting further to the default of a CM without proactively seeking the consent of the CM’s clients. However, we would highlight that in practice, at the time of porting, client consent will nevertheless be needed as a client will need to enter into a legally binding clearing agreement with the receiving CM in order for the CM to be able to call margin and to establish rights in the event of a default. In addition, while we acknowledge the BoE’s desire to increase the portability of positions, in our view, even if the CCP does not have to wait for consent, there will still be significant challenges faced by the back-up CMs.

As noted in ISDA’s 2023 porting paper, CMs face multiple constraints on their ability to accommodate new client clearing business. Even when a client has an existing clearing arrangement with an alternate CM, porting cannot be guaranteed because of the impact of the ported positions on the alternate CCSP’s risk appetite, risk limits and scarce resources allocated to business lines (e.g., regulatory capital, liquidity and global systemically important bank (G-SIB) capacity). It can also be challenging for back-up CMs to conduct appropriate due diligence checks and credit reviews on clients to be ported. To lessen any constraints due to additional capital requirements and to accelerate onboarding, we would also encourage the PRA to provide for rules within its rulebook for PRA-regulated banks, to temporarily waive PRA-regulated banks from prudential and KYC/AML requirements for a short period of time, akin to the changes introduced in the EU with EMIR 3, where Article 48(8) provides such temporary relaxation for a period of 3 months.

### *On other ways to support industry efforts*

Clients have some agency in increasing the likelihood of successful porting, as highlighted in our whitepaper “Raising Clients’ awareness on portability”. With this whitepaper, ISDA has sought to outline the choices that clients can make with regards to the design of their clearing arrangements, and how those choices affect the portability of their positions. Therefore, we suggest that the Bank

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<sup>4</sup> [Addressing-Porting-Challenges.pdf](#)

<sup>5</sup> [Raising-Clients-Awareness-on-Portability.pdf](#)

could helpfully embed within its supervisory expectations on UK CCPs that they encourage the dissemination of information to raise awareness along the clearing chain, especially among clients, around portability.

In our whitepaper, we also note that the best way to address the porting obstacles is to avoid the need for porting altogether, underlining the importance, for clients, to stay alert to the creditworthiness of their CM(s), so that they can proactively move positions away from a CM before an event of default occurs. Similarly, raising awareness on this approach would be helpful.

Another avenue to address the issue around porting – also resulting in avoiding porting altogether – is to look into the interplay between bank resolution strategies, and porting. A scenario where porting is needed is a scenario where a CM will most likely be undergoing resolution proceedings. One of the objectives of resolution is to maintain the continuity of critical functions, per the 2014 FSB Key Attributes. As such, as part of resolution strategies, resolution authorities would seek to ensure the CM entity within a bank that has entered resolution would continue to meet all obligations placed by the CCP, as well as any additional requirements that the CCP may apply to a firm in resolution, and how the firm would meet these, as set out under Section 1.3 of the FSB Guidance<sup>6</sup>. If all obligations vis-à-vis the CCP are met by the CM, then the CCP would not need to declare a default<sup>7</sup>.

Because porting of positions can never be guaranteed, there appears to be a critical role for resolution authorities to play in ensuring that continuity of access to clearing can be maintained following the default of a CM.

As part of their resolution strategies, resolution authorities could carve out the client clearing business of a defaulted institution to ensure the continuity of clearing services by maintaining the CM entity's operations, at least for a short period of time. During that time, clients could elect to move their positions of their own volition. They would still rely on the CCP's porting functionality, but would benefit from a longer period of time to move positions.

**Question:** [Do you have any comments on the costs and benefits of the proposed changes related to porting?](#)

We do not have any comments on this.

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<sup>7</sup> We want to make it clear that we are not advocating for the introduction of additional regulatory bodies into the clearing broker default process. We also do not want to constrain either the resolution authority or the CCP in any way – our proposal aims to provide the best information for these entities to make decisions. We are aware that CCPs operate with sophisticated risk models and their expert judgment in managing defaults should not be constrained by external regulatory intervention, particularly when significant capital and market integrity are at stake.

## Chapter 16: Default Fund

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**Question:** Do you have any views about the proposal to factoring portability into the allocation of default fund contributions?

It can be argued that a higher probability of successful porting could reduce losses incurred from liquidating client portfolios under stress, potentially resulting in lower DF requirements. Nonetheless, as highlighted in our whitepaper “Porting Challenges,” significant barriers to porting remain, many of which are outside the control of any CM. In particular, limited clearing capacity and risk constraints among other CMs may become critical during times of market stress—precisely when the DF is intended to provide coverage.

We understand that the Bank leaves the details to CCPs to develop, but are concerned that inclusion of assumed portability might distort mutualisation. Such rules might also lead to unintended consequences on incentives that could worsen access to clearing for certain clients, for instance smaller clients that cannot afford a backup CM. Another unintended consequence could be that the receiving CM would be less likely to accept the porting as it would be subject to higher DF requirements, thus also having to assume that the (to be) ported portfolio posed a higher risk as well.

We also flag that the CPMI-IOSCO further guidance on the PFMI suggests that in determining MPORs for the purposes of IM, CCPs should consider portability. We believe that there shouldn't be any double-counting of the benefits of higher likelihood of successful porting.

We recommend exploring incentivization mechanisms whereby a non-defaulting CM that assumes a portfolio of ported clients receives a more favourable position in the default loss mutualization hierarchy. Specifically, such a CM's default fund contribution should be seniorized—aligned with the treatment of CMs that successfully bid during the auction process. These CMs should rank senior to other CMs that continue providing clearing services without accepting ported clients, yet remain junior to those CMs that do not clear for clients at all. We recognise that this proposal necessitates further analysis and may present challenges for incorporation into CCPs' rulebooks. For example, it raises considerations regarding the duration of a CM's juniorisation or seniorisation status, the interplay with juniorisation/seniorization stemming from the auction of the defaulted CM's portfolio, and the appropriate procedures in the event of multiple defaults.

**Question:** Do you have any comments on the costs and benefits of the proposed changes?

We do not have any comments on this.

## Chapter 17: Default Waterfall

**Question:** Do you have any feedback on our proposal to mandate CCPs to hold an additional tranche of resources, or SSITG?

We welcome the introduction of a SSITG. We have long advocated for a SSITG and welcome the inclusion of the tool in the proposed FMI rulebook. However, we believe that the Bank missed an opportunity to review the sizing of both tranches of SITG.

We believe that a CCP should expose a significant and dynamic part of its capital as part of the default management waterfall. Under the Bank's proposal, the second tranche of SITG would be based on the size of the first tranche. The first tranche is based on calculation methodology under the UK's onshored version of EMIR that is not sensitive to the quantum of cleared risk. In order to align incentives between the CCP owners and clearing participants (CMs and their clients), the SITG should be based on a percentage of the full default fund and/or linked to the default fund contribution of the largest CMs. The sizing of default fund reflects the level of business and risk a CCP has chosen to take on and so a calculation based on a percentage of the default fund or the contributions of the largest members is appropriate from the perspective of both aligning incentives and ensuing fairness in loss allocation. Many clearing participants ask for SITG to be set at a minimum of 8% and 10% of default fund or higher. More work on calibration needs to be done. This calibration could include other factors like products being cleared, profitability of the CCP or margin period of risk applied by the CCP. We believe that flooring SITG and SSITG at 25% of CCP capital requirements will result in a very low number that also does not grow with the CCP's business and is unlikely to provide a lot of incentives for prudent risk management for a CCP.

We agree that the second tranche should be at minimum the size of the first tranche. We also concur with the requirement for the second tranche to be pre-funded.

We also encourage the Bank to look at other ways to incentivise a CCP, for instance via bonus clawback schemes.

Reviewing the sizing of SITG and SSITG is especially important as UK CCPs, due to the requirement of only 25% of CCP capital requirements from EMIR, are not on the forefront of SITG as percentage of the funded default fund:

CCP	Country	Prefunded - Own Capital Before	Prefunded - Own Capital Alongside	Prefunded - Own Capital After	Prefunded - Aggregate Participant Contributions - Required	All SITG / DF
		4.1.1	4.1.2	4.1.3	4.1.4	
ASXCLF	Australia	78	98	118	131	224%
B3	Brazil	283			361	78%
SGX-DC	Singapore	75		50	295	42%
JSCC IRS	Japan	14	14		89	31%

CCP	Country	Prefunded - Own Capital Before	Prefunded - Own Capital Alongside	Prefunded - Own Capital After	Prefunded - Aggregate Participant Contributions - Required	All SITG / DF
		4.1.1	4.1.2	4.1.3	4.1.4	
CCIL Rupee Derivatives (MIBOR)	India	12		8	80	25%
CCIL Forex Forwards	India	115		76	765	25%
KRX Listed Derivatives	Korea	30		207	1075	22%
HKEX HKCC	Hong Kong	104			540	19%
HKEX OTC Clear	Hong Kong	19		83	890	11%
CME IRS	USA	150			1791	8%
ICUS_F&O	USA	75			1011	7%
ICEU_F&O	United Kingdom	197			3007	7%
ECC	Germany	41		18	1280	5%
LME	United Kingdom	29			1113	3%
Eurex Clearing	Germany	168		67	10218	2%
CME Base	USA	100			7604	1%
ICC_CDS	USA	50			5358	1%
LCH SwapClear Ltd	United Kingdom	73			8223	1%
LCH ForexClear	United Kingdom	18			2032	1%
LCH RepoClear	United Kingdom	12			1380	1%
LCH CDSClear SA	France	23		17	5719	1%

All numbers USDm, References in table heading are to Public Quantitative Disclosure fields as of 30/06/2025.

**Question:** Do you have any comments on the cost-benefit analysis related to the proposal to introduce SSITG?

We do not have any comments on the cost-benefit analysis related to the proposal to introduce SSITG.

## **Chapter 18: Liquidity Risk Controls**

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**Question:** Do you have any comments on the Bank's proposed restatement of requirements relating to liquidity risk controls?

We do not have any comments on this.

**Question:** Do you have any comments on the integration of elements of the ESMA opinion on liquidity risk assessment into Bank rules?

We welcome that Bank is proposing to incorporate elements of the ESMA Opinion on Liquidity Risk Assessment from guidance into requirements.

**Question:** Do you have any views on costs and benefits of policy proposals in relation to liquidity risk controls requirements?

We do not have any comments on this.

## **Chapter 19: Collateral**

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**Question:** Do you have any comments on the Bank's proposals relating to collateral requirements?

We do not have specific comments on the incorporation of the UK EMIR collateral requirements in the Collateral Part of the rulebook with the minor modifications described in this Chapter. We refer to our response to Chapter 26, where we offer thoughts on expansion of eligible collateral to include uncollateralised bank guarantees and tokenised assets.

**Question:** Are you content that the redrafting of CDR 153/2013 A44 1(b) and (c), and A45 1(b)(i) and (ii) maintains existing scope and does not impinge on CCPs' investment policy?

**Question:** Do you have any comments on the Bank's proposals relating to investment policy requirements?

*We respond to the above two questions below.*

We appreciate that the Bank has sought to maintain existing requirements on this matter. However, we would have several suggestions in relation to the investment policy part of the rulebook.

First, we would welcome a change enabling CCPs to invest collateral in PDCNAV money market funds. Under the requirements on collateral from CDR 153/2013, which requirements would be included in the CCP rulebook, makes it impossible for CCPs to invest in MMF shares, even where the underlying would qualify as eligible collateral (cf. PDCNAV MMFs). Annex II from CDR 153/2013 requires that collateral accepted by the CCP is freely transferable and without any regulatory or legal constraint (condition (e)) and has an active outright sale or repo market (condition (f)). We note that the Bank proposes to keep these requirements unchanged, by including them in the Annex to the Investment Policy part. However, these conditions would rule out MMF shares from qualifying as eligible collateral as part of their investment policy. But for MMFs where the underlying would qualify as eligible collateral – such as public debt constant NAVs MMFs – there is less risk or economic rationale for ruling out them as eligible collateral.

Second, we wish to highlight the critical importance of collateral mobility in underpinning market functioning, particularly during periods of stress. Under UK EMIR Article 47(3) (as transposed into the investment policy part of the draft rulebook, rules 2.3(1), 2.3(2)) CCPs face restrictions on where securities collateral can be held. This is a constraint that limits their ability to respond flexibly to market dynamics. We recommend amending this provision to grant CCPs choice over the location of securities collateral, in the same way as is the case for cash collateral. This level of flexibility, found in Article 47.4 (transposed in the investment policy part of the rulebook, rule 2.4) should be mirrored for securities. From our perspective, the UK's current market structure — inherited from the EU EMIR framework and designed around a multi-CSD environment — is not optimal. In this context, rigid restrictions on collateral location risk exacerbating fragmentation and impeding liquidity generation. Enabling collateral to move freely is essential to maintaining robust market infrastructure and enhancing resilience, especially in times of stress when agility and access are paramount.

## **Chapter 21: Supervisory Processes (model reviews, recognition and extensions), Stress Testing and Back Testing**

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**Question:** To what extent do you consider the proposed changes constitute an improvement on the previous regime, particularly with respect to clarity, transparency and efficiency?

**Question:** Do you have any comments on the materiality threshold for model changes and variations of recognition orders as set out in the Statement of Policy on The Bank of England's approach to supervisory processes (model changes, recognition orders and variations of recognition orders) and margin permissions? Do you consider that it is appropriately calibrated and that the descriptions of changes deemed to be 'material' are clear? If not, how could the criteria and wording be modified?

**Question:** How do you think we could we offer greater clarity about application requirements for any or all of the supervisory processes described above?

**Question:** How else could the processes described above be improved?

**Question:** Do you have any other comments about the proposals set out above?

We do not have any comments to this section.

## **Chapter 22: Settlement**

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**Question:** Do you have any comments on the Bank's proposed restatement of settlement requirements?

We do not have any comments to this section.

## **Chapter 23: Capital Calculations and Reporting**

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**Question:** Do you have any comments on the Bank's proposals related to capital calculations and reporting?

We do not have any comments to this section.

## Chapter 24: Interoperability

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**Question:** Do you agree with our proposal to bring all products directly into scope of the existing requirements for interoperability arrangements?

We note that EMIR 3 also introduced changes to EMIR, to enable interoperability arrangements for all types of financial and non-financial instruments, such as derivative contracts. ISDA has supported interoperability for derivatives in the past<sup>8</sup>, but would like to flag that current regulation does not allow CCPs in an interoperability arrangement to contribute to each other's DFs. This could mean that the risk in a case of member default could be higher. There could also be issues if the portfolios cleared by one or both of the CCPs are very concentrated or directional. In our 2014 paper, we propose higher margin posted by the CCPs to each other, and the use of the DF during default of the non-defaulting CCP in an interoperability arrangement.

**Question:** Do you agree that there should be an explicit requirement for CCPs to seek approval from the Bank when making material changes to interoperability arrangements? Do you have any views on what changes to interoperability arrangements should be considered 'material'?

We agree that CCPs should seek approval from the Bank when making material changes to interoperability arrangements. CCPs should also be required to adequately consult their CMs through the risk committee.

**Question:** Do you agree that the Bank should have a clear mechanism to revoke permission for interoperability arrangements?

We agree that the Bank should have a clear mechanism to revoke permission for interoperability arrangements.

**Question:** Do you have any comments on the proposed Statement of Policy – The Bank of England's approach to interoperability permissions (in Annex 3)?

We do not have any comments on this.

**Question:** Do you have any comments on the costs and benefits of the proposed changes related to interoperability arrangements?

We do not have any comments on this.

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<sup>8</sup> [isdas-response-to-the-boe-ccp-inter-operability-paper-jan-16-2014-final.pdf](#)

## Chapter 25: Recognition of non-UK CCPs

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**Question:** Do you have any comments on the Bank's proposals to restate requirements for overseas CCPs?

We do not have any comments on this.

**Question:** Do you have any comments on the Bank's proposed amendments to the Tiering and Comparable Compliance SoPs?

We understand that the only changes are technical in nature, referring to parts of the future rulebook rather than titles of EMIR, and using the new BoE rulebook terminology rather than EMIR. In light of this, we do not have any comments.

**Question:** Do you have any comments on the Bank's cost benefit analysis of the proposals regarding non-UK CCPs?

We do not have any comments on this.

## Chapter 26: Eligible Collateral – Uncollateralised Bank Guarantees (for discussion)

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**Question:** What are the risks and benefits of permitting uncollateralised bank guarantees as eligible collateral? What measures would help mitigate these risks?

**Question:** Should uncollateralised bank guarantees be permitted as eligible collateral? If yes, should their use be restricted only to specific markets or specific participant types?

*We respond to the above two questions here.*

ISDA members believe that there could be merit for uncollateralised bank guarantees to be considered as collateral for non-financial counterparties (NFCs), provided certain strict conditions are met, as permitted in the EU under EMIR 3.

ISDA members that are NFCs (particularly in the commodities sector) would welcome the eligibility of uncollateralised bank guarantees and believe that closer alignment to recent developments in the EU under EMIR 3 in this regard would benefit the competitiveness of UK CCPs. If the UK were not to expand its eligible collateral in such a way, this could place UK CCPs at a competitive disadvantage to EU CCPs clearing similar products.

ISDA members nonetheless are conscious of the risks around the interconnectedness that uncollateralised bank guarantees may create, and that this might act as a risk transmission channel, if not properly risk managed. As noted by the Bank in paragraph 26.10, there are some mitigants to the potential amplification effect arising from the use of uncollateralised bank guarantees, such as by requiring that those should be irrevocable and unconditional, and placing limits on their use by CCPs and issuance by banks.

To address potential correlation risks, we also suggest that uncollateralised bank guarantees should only be allowed to cover exposures and products that are not correlated with banks (i.e. CCPs clearing energy and commodity products) and, for clients that are non-financial counterparties. CCPs should also have appropriately conservative concentration limits (applied at client, CM and CCP level) for this type of collateral, and consider how a default management process would play out where the defaulting counterparty's margin includes uncollateralised bank guarantees, especially if the guaranteeing bank were also a CM. It is also important to note that even within the population of authorised credit institutions that could be issuing uncollateralised bank guarantees, there is a sliding scale of credit worthiness. Therefore, creditworthiness will be a relevant consideration when deciding on whether such bank guarantees are acceptable.

Even if uncollateralized bank guarantees are accepted by the CCP as eligible collateral, that should not indicate that clearing service providers will be willing, or able to accept uncollateralized bank guarantees from their clients, since clearing service providers will need to consider the risk to them of accepting uncollateralized bank guarantees as collateral from their clients.

We would see greater merit in the Bank considering making public guarantees eligible as collateral, given that public bodies generally carry materially less credit concerns compared to private entities.

**Question:** What are your views on permitting tokenised assets as eligible collateral, including the risks and benefits? What barriers currently exist to their use?

We would encourage the BoE to explore ways to test the use of tokenised assets as eligible collateral, both in the cleared and non-cleared ecosystem. We acknowledge that the latter is not relevant to this consultation, but as our members manage collateral holistically, we would see merit in exploring the usability of tokenised assets in both. ISDA is currently working to identify and address certain legal, regulatory and operational challenges pertaining to the use of tokenized assets in derivatives markets. We are focused on considering both risk management and liquidity management, and our response represents the balance necessary to support our globally interconnected markets.

We recommend adopting a phased approach to implementing a "sandbox" or other methods for trialling these assets as collateral, such as introducing volume caps. For testing purposes, members could initially post a small notional amount; upon successful completion and validation of the testing phase, participation could then be extended to larger volumes. Additionally, we suggest beginning with the most liquid product(s) as the pilot case.

As a statement of core principle, any tokenization or other use of new technology in financial markets:

- should not adversely affect legal and regulatory certainty or systemic stability, including settlement finality; and
- should facilitate the safe and efficient management of risks.

The opportunities and challenges presented by asset tokenization can vary depending on the particular use case and implementation. For example:

- improving liquidity and collateral management and reducing risks via near-instantaneous and atomic settlement.
- enhancing non-cash assets for use as collateral and more efficient collateral management.
- lowering transaction costs.

Working towards tokenized collateral would require the BoE to clarify whether tokenised assets could fall under the definition of “financial instruments” in the context of the UK CCP rulebook (we note that the term “financial instruments” is not defined in the glossary). Tokenised collateral would also have to be taken into account in wider regulation, for instance that they can be considered as “assets” in the Digital Asset Bill, and as “financial collateral” for the purposes of the UK Financial Collateral Arrangements (No.2) Regulations 2003. There might also exist conflicts with CASS rules on client asset segregation, where client assets are reflected in a wallet on the blockchain.

The widespread use of tokenised assets as collateral would also require a review of capital rules, which at present would make the use of tokenised assets very expensive.

As mentioned further below, any use would require clarifying legal certainty on ownership transfer or security interests in digital assets, particularly where private law rules in many jurisdictions are at different stages of development.

If tokenised assets were to be made eligible, to ensure the same levels of resilience, the tokenised assets should meet the substance of the conditions set out under Section 4 of the collateral part of the rulebook for “financial instruments” – to the extent that tokenised assets would fall within this definition – to be considered as “highly liquid collateral”<sup>9</sup>.

We believe it would be helpful if requirements were written in a technology-neutral manner, i.e. would ignore whether assets would be moved and recorded by internal mechanisms of a Depository, or via a blockchain.

Further, the BoE should work with and other international standard-setting bodies to develop consistent approaches to tokenized collateral acceptance. This includes:

- consistent haircut methodologies and valuation approaches, considering the underlying asset of the tokenized collateral.
- interoperability standards for DLT-based collateral management systems, specifically the Common Domain Model for data consistency.
- recognition frameworks for tokenization platforms.
- coordinated approaches to operational resilience and cybersecurity standards for tokenized collateral infrastructure.

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<sup>9</sup> Further analysis is required to avoid unintended consequences. Whether tokenised collateral would qualify as financial instruments might for instance affect NFCs that are relying on exemptions from the requirement to become authorised firms due to activities such as “dealing in financial instruments”

Below, we look at risk and benefits (in the context of the use as collateral for cleared exposures in the UK) for the following tokenised assets:

- Tokenised versions of instruments already eligible
- Tokenised MMF
- Stablecoins
- Central bank digital currencies (CBDC)

#### Tokenised versions (“digital twins”)of instruments already eligible:

We understand under “Tokenised versions of instruments already eligible” traditional CCP-eligible assets where ownership is transferred using blockchain, rather than conventional settlement methods such as those provided by an iCSD.

#### *Benefits*

Transferring asset ownership via blockchain enables nearly instant settlement and eliminates limitations from traditional securities system hours, potentially supporting continuous 24/7 trading and clearing.

#### *Risks*

As the underlying assets are already eligible for central counterparty clearing (CCP), the blockchain can be viewed purely as a mechanism for transferring ownership. However, since these systems are relatively new and untested, several issues remain that require legal assessment. For example, it is necessary to determine at which point legal ownership is transferred and when settlement finality occurs. Beyond legal considerations, some of the tests in Annex I of the EMIR RTS may not be satisfied, such as having an outright sale or repo market, particularly if there are insufficient counterparties to purchase a tokenised asset. This situation could arise if market participants have not yet completed the required legal analysis. In such cases, one solution may be to "untokenise" the asset and deliver it to a depository, where it could then be sold through conventional methods.

#### Tokenised MMF

##### *Benefits:*

MMFs are currently not eligible as CCP collateral, in part because there is no established outright sale or repo market for them, and they cannot be easily transferred. Under the existing process, cash must be withdrawn from the MMF before it can be transferred to another party, which creates operational complexity and limits their use as collateral.

Tokenisation could provide a solution to this issue. By issuing tokenised MMFs on a blockchain, ownership of the MMF could be transferred directly and efficiently, without the need to redeem the underlying cash. This approach would be the opposite of the current process and could help to address some of the requirements set out in Annex I of the EMIR RTS, particularly those relating to transferability and the existence of a functioning market. In essence, tokenisation could make MMFs

more suitable as collateral by enabling straightforward and rapid ownership transfers, potentially opening the door to their wider use in central clearing arrangements.

Risks:

These are the same as the risks of other tokenised traditional assets.

## Stablecoins

*Benefits:*

Stablecoins issued on blockchain platforms can be transferred almost instantaneously, supporting clearing processes with extended or even 24/7 operating hours. Notably, stablecoins are well positioned to serve as a bridge between traditional financial systems and the digital asset ecosystem, making them suitable as collateral in both environments. This dual capability enhances flexibility for market participants and may encourage broader adoption. From a competition perspective, stablecoins have gained traction in the United States, particularly following legislative initiatives such as the GENIUS Act, which could drive further innovation and use cases. UK CCPs with significant exposure to the US market might stand to benefit from accepting stablecoins as eligible collateral, given the political support of stablecoins in the US.

Risks:

Stablecoins require robust regulation and supervision to ensure market participants have confidence that these assets will maintain their value. CCPs should be permitted to use only those stablecoins that are registered in selected jurisdictions, where thorough oversight assures participants that the stablecoin is backed by high-quality liquid assets (HQLA). Furthermore, as stablecoins do not pay interest, they may be less attractive as collateral compared to tokenised bonds or MMF, which can offer a yield to holders.

## CBDC

*Benefits:*

CBDCs can be seen as a special kind of stablecoin, underwritten by the central bank. Like stablecoins, a CBDC would be transferred via a blockchain, allowing for near-instantaneous settlement of transactions at any time, thereby supporting 24/7 trading and clearing. However, unlike stablecoins, which may carry credit risk depending on the quality of their reserves, CBDCs are free from such concerns, as their value is fully backed by the central bank. Consequently, the value of a CBDC is always constant, making it a particularly reliable form of digital money. This reliability means that CBDCs could be used not only as IM but also as VM. Furthermore, the adoption of CBDCs would allow a broader segment of the market to settle obligations in central bank money, enhancing both accessibility and systemic safety in payment and clearing systems.

*Risks:*

While it is sometimes suggested that CBDCs could pose broader risks, such as impacting money generation or leading to some degree of bank disintermediation, these concerns are largely theoretical and remain subject to ongoing debate. Importantly, such risks are not the focus of this analysis. For the purposes of eligible collateral, the most relevant consideration is the political environment: CBDCs have received negative attention from the US government, which could affect their acceptance in certain markets—particularly those with significant US exposure. Nevertheless, from an operational and technical perspective, CBDCs continue to offer strong advantages as a reliable and efficient form of digital collateral.

**Question:** Are there any other types of instruments that should be permitted as eligible collateral or options that could improve the availability of existing collateral? What barriers currently exist to their use?

ISDA would also welcome further arrangements in the rulebook that would encourage the exploration of the use of ETFs and MMF<sup>10</sup> along with tokenised assets, as collateral.

We note that ETFs are easily transferable and highly liquid. There is market risk, but this would be mitigated with risk-appropriate haircuts. Although Money Market Funds (MMFs) are allowed under the uncleared margin rules, the liquid structure and alternative to cash are not currently allowed for cleared margin. We urge the BoE to mirror the uncleared margin rules, allowing MMFs, including third country funds.<sup>11</sup>

We recently asserted that MMF<sup>12</sup> are a compelling use-case for tokenization because (i) the fund unit is already de-materialized and (ii) tokenization of fund units could replace the traditional subscription and redemption workflow, making the process faster and more efficient. Tokenizing other forms of collateral, such as gold, bank deposits and regulatory eligible corporate and government securities, for instance, could present similar benefits, and should also be considered, with relevant risk management parameters, such as haircuts and wrong way risk and concentration limits.

However, requirements to collateral in Annex 1 of Commission delegated regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties, for instance the requirement for collateral to be freely transferrable, or the requirement for active outright sale or repurchase agreement market should be amended for ETFs and MMF shares to become eligible.

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<sup>10</sup> These would have to be either tokenised or packaged in an ETF to make them easily transferrable.

<sup>11</sup> [ISDA-Letter-to-EU-policy-makers-Money-Market-Funds-9.30.19.pdf](#)

<sup>12</sup> [ISDA-Response-to-FCA-MMF-consultation-030824.pdf](#)

**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](#).