
EACH Response – Bank of England consultation on enhancing the resilience of the gilt repo market

November 2025

Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 14 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to respond to the Bank of England (BoE) discussion paper¹ on enhancing the resilience of the gilt repo market.

EACH comments

We understand that as a result of the recent periods of market stress, similar to international standard setting bodies or regulators and central banks in other jurisdictions, the BoE is concerned about the resilience and liquidity of government bond and gilt repo markets and therefore explores a mix of different policy measures to address the identified vulnerabilities. Those potential policy measures range from mandating central clearing, facilitating greater voluntary use of centrally cleared repo markets, to imposing minimum haircuts and or other risk management and transparency requirements for bilateral markets.

EACH is aware that the UK government debt and repo market is structured differently in comparison to other jurisdictions which have already introduced a targeted clearing mandate, a haircut regime, or other measures explored in the BoE discussion paper. Against this background, we agree with the BoE's considerations that such policy decisions may result in implementation and maintenance costs and other implications for affected counterparties and the overall ecosystem. We do therefore not advocate for installing a clearing mandate for gilt repo and believe other measures to address the risks identified in the BoE's discussion paper should be assessed first, notably facilitating better access to central clearing.

Greater central clearing in the gilt repo market would enhance intermediation capacity and could drive higher transaction volumes, but it would also introduce new liquidity demands and operational challenges that must be carefully managed. Non-bank financial

¹ <https://www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market>

institutions (NBFIs) in particular may need to strengthen their liquidity risk management frameworks. The Bank of England's System-wide Exploratory Scenario (SWES) highlighted discrepancies between firms' and CCPs' projections of initial margin calls under stress, underlining the importance of greater transparency and harmonisation of margin methodologies across the market.

However, we strongly agree with the benefits of central clearing in terms of risk reduction and efficiency gains highlighted in the BoE's discussion paper. Cleared repo markets have not only proven significant resilience in both stress and normal market conditions but also offer tangible benefits for market participants such as enhanced risk management, operational efficiency, optimized financial resources, and transparency.

Against this background, the BoE highlights in the discussion paper that a majority of banks already centrally clear their gilt repo business with other banks. Notwithstanding, the continuously growing non-bank financial intermediation ("NBFI") sector seem to rely more heavily on non-cleared markets and to keep building exposure in the bilateral space. We therefore agree with the BoE that the gilt repo market could significantly benefit from facilitating better access to central clearing where market participants chose to use CCPs for their repo business, notably with respect to non-banks to allow them to reap the benefits of central clearing, too.

CCPs have also worked on improving access to cleared repo markets through a variety of access models (including direct, sponsored, and client clearing arrangements) that allow both banks and non-bank participants to clear transactions more efficiently. These models are already available across European CCPs and are aligned with international best practices, though regulatory and economic disincentives continue to limit their broader adoption.

Central clearing unlocks its full potential when a critical mass of participants and transaction volume is achieved, supported by a sufficiently broad base of clearing service providers. Regulatory support and balanced incentives for both lenders and borrowers are essential to achieve such scale and ensure that the benefits of central clearing are distributed evenly across market participants.

Hence, we recommend addressing pending regulatory barriers and disincentives for market participants to facilitate greater voluntarily use of cleared repo markets. The removal of such barriers would ensure an economically viable option for those market participants that want to voluntarily clear their repo business. Such an approach would bring added value for market participants and at the same time help addressing regulators' concerns and vulnerabilities identified in the government debt and gilt repo market and as well as in the NBFI sector.

These regulatory barriers continue to hold back voluntary engagement in cleared repo markets, and in our view, should be addressed. For example, fund regulations such as MMFR and UCITS include concentration and diversification limits that were designed without consideration of CCP intermediation and therefore may unintentionally restrict funds' ability to transact directly via CCPs. Aligning the treatment of cleared repos with cleared derivatives would help ensure consistency in this regard. In addition, current rules prevent some funds from reusing cash or collateral generated in repo transactions to meet CCP margin requirements, raising the cost of cleared participation. Allowing such reuse under appropriate safeguards would improve efficiency. For banks, aspects of the Basel III framework, particularly the SA-CCR and NSFR methodologies, limit the recognition of risk and funding benefits from cleared repo transactions. Adjustments that reflect the lower risk and neutral intermediation role of CCPs would help level the playing field, unlock efficiencies for market participants and incentivize broader participation. Consistent treatment under the global G-SIB framework of different client clearing models would also support banks in offering more balance sheet capacity for client repo clearing.

While EACH considers addressing the mentioned regulatory barriers and disincentives for greater voluntarily use of cleared repo markets as most useful, we also acknowledge the BoE's rationale to consider some targeted and balanced measures to proactively prevent the build-up of excessive leverage and ensure appropriate risk management in the non-cleared repo market.

However, regarding the potential measure of minimum haircuts, we do not support a mandatory regime for the implications for affected counterparties outlined by the BoE. While we understand why the Bank may not consider the current market practice of applying 0 haircut in most cases as risk adequate, they may be alternatives to a mandatory haircut regime. An alternative approach that would foster more transparency and resilience is stricter supervisory enforcement by the prudential regulator by requiring market participants to demonstrate that they apply risk-adequate haircuts.

While minimum haircuts may play a role in dampening procyclicality by reducing collateral volatility during stress periods and mitigating the risk of excessive leverage building up, they are static and less risk-sensitive than dynamic margining practices. For instance, margin methodologies and risk frameworks by CCPs typically rely on Value-at-Risk (VaR) or Expected Shortfall models that better capture market shocks. In order to ensure risk adequate collateralization and counterparty risk mitigation, we agree with the BoE that bilateral margin requirements for uncleared repos similar to the uncleared margin rules (UMR) for uncleared OTC derivatives could potentially be considered as a risk management tool.

Any haircut or margin framework should in the end form part of a broader toolkit aimed at enhancing market resilience, improving margin predictability, and supporting liquidity transmission under both normal and stressed conditions.

Last but not least, enhanced transparency around leverage is valuable, but disclosures alone do not eliminate the risk of excessive leverage. A combination of enhanced private reporting and targeted, calibrated public transparency within existing disclosure frameworks would provide regulators with better visibility into leverage build-up and interconnectedness, while avoiding the risk that overly conservative disclosures prompt pre-emptive liquidity withdrawals or drive activity into less transparent channels.

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