
EACH Response to the Bank of England consultation “Ensuring the resilience of CCPs”

November 2025

1. 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 ("the Bank") consultation "Ensuring the resilience of CCPs"¹.

2. Questions and answers

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

EACH Members broadly agree with the implementation timelines and transitional periods. However, when it comes to implementing the provisions on transparency requirements, CCPs would kindly request to be granted a **period of at least 18 months** to make the necessary adaptations to the CCPs' margin simulation tools.

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.

We believe that the following proposals act as unnecessary barriers to innovation for CCPs, given that CCPs will need to dedicate resources to develop them, while they may add at best very minimal added value:

- **The proposal to report non-material changes and extensions** – This would be a significant expansion of current notification/approval requirements, where non-material model changes can be implemented immediately following completion of internal governance processes, and notified ex post via the routine provision of Board/committee packs to the supervision team. Requiring CCPs to notify all model changes in advance and wait 10 business days before implementation would be disproportionate, particularly in times of market stress where CCPs need to be able to act swiftly.
- **The 25% flat rate of second skin in the game (SSITG)** – Requiring CCPs to contribute more capital in the form of SSITG increases their regulatory capital burden. This could divert resources away from innovation, such as developing new clearing services, expanding into novel asset classes or investing in technology upgrades, and place them at a competitive disadvantage relative to their non-UK peers. A SSITG would, in our opinion, not be useful to further incentivise CCPs to perform robust risk management, as that purpose is already efficiently served by the "first" SITG. However, should the

¹ <https://www.bankofengland.co.uk/paper/2025/cp/ensuring-the-resilience-of-ccps>

Bank nevertheless decide to include a SSITG, EACH believes that its amount should be comprised between 10% and 25% of the CCP's risk-weighted capital requirement, in line with Art. 9(14) of CCP Recovery and Resolution Regulation (EU) 2021/23². We believe that a failure to do this would unnecessarily increase the amount of the SSITG for some CCPs, for an event of a relatively low probability. We also suggest allowing CCPs to use the amount of capital they hold in addition to their minimum capital requirements (i.e. the 10% buffer) to comply with the provisions regarding the SSITG.

- **The proposal for CCPs to provide transparency to all market participants including all clients** – EACH Members see the need to find balance between the right level of transparency and the costs associated with enhancing existing margin simulator tools. CCPs already provide a large amount of information to clearing members and their clients, with further requirements potentially leading to higher costs of clearing. In this context, we would like to point out that CCPs have no contractual relationship with end clients, therefore some information can only be provided by clearing members to their own clients (e.g. additional add-ons charged by clearing members).
- **The proposals leading to potential reveal of proprietary information** – It should also be noted that one area where the Bank's proposals go beyond the internationally agreed BCBS-CPMI-IOSCO standards³ – and which is of high concern when it comes to hurting innovation – is the requirement to disclose detailed information on the initial margin model allowing market participants to replicate the model. This is highly concerning as it will expose proprietary algorithms and intellectual property that CCPs have developed. It should therefore be ensured that CCPs are not mandated to reveal proprietary information. Disclosing detailed information about the margin model's methodology, mathematical specifications, and parameters will expose proprietary algorithms and intellectual property (IP) that CCPs have developed to maintain a competitive edge. If this information is disclosed, competitors or third parties will get access to these proprietary models, undermining the CCP's market position. Consequently, CCPs will be disincentivised from innovating or refining their margin models if they fear losing their competitive advantage. This could stifle advancements in risk management practices, potentially harming market stability. We therefore invite the Bank to allow flexibility in the level of detail disclosed (e.g. high-level summaries rather than granular specifications) to balance transparency with IP protection.

Chapter 3: Areas of Policy Reform – Overview

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

The cost-benefit analysis does not seem to have considered in detail the analysis of the proposal for a SSITG, and merely refers to a range of potential opportunity cost of the SSITG and that some CCPs may already meet these requirements.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0023>

³ <https://www.bis.org/bcbs/publ/d590.pdf>

We note that the Bank estimates the opportunity cost of the yearly incremental capital cost to UK CCPs to be in the **range of £300,000 and £1,227,500**. It is **unclear how these figures were calculated**, but they seem to **understate the cost in practice**. In general terms, the cost should consider lost return on equity as well as any funding costs. Regardless of the specific estimate of the opportunity costs, the claimed advantages are also unclear. In terms of benefits, the Bank refers to strengthening CCPs' incentives to minimise losses to be absorbed by clearing members when there is a default. However, it is **not obvious how the introduction of a SSITG would or should imply a change in the CCP's current behaviour or practice**. The CCP's incentive to minimise losses is currently already embedded in its core business model and the existing first tranche of SITG already aligns the CCP's incentives with those of its clearing members.

Chapter 6: Capital Requirements

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

EACH does do **not agree with capital requirements for credit and market risk**. Regarding credit risk and in line with Annex I (14) of Directive 2006/49/EC⁴, there is no requirement for CCPs to try to follow changes implemented in CRR as those changes were specifically designed for banks and investment firms, not CCPs. Applying the standardised approach for credit risk for specific assets would attract a higher credit risk.

For those UK CCPs that are also Tier 2 third-country CCPs (TCCCPs) under EMIR, the proposals crystallise the **divergence between EU and UK capital requirements**, particularly regarding the calculation methodologies for credit, counterparty credit, and operational risk and with the UK reverting to mark-to-market for counterparty credit risk. The draft rules refer backwards to outdated methodologies, in contrast to the relatively more progressive approach of the EU, which continues to align its rules with international standards. This divergence raises the burden on Tier 2 TCCCPs.

We therefore suggest **replacing references to CRR** in section 7.2 of the "Bank of England FMI Rulebook: UK Central Counterparties Instrument 2025"⁵ **with the wording included in Directive 2006/49/EC Annex I (14)**.

Chapter 14: Margin

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?

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0049>

⁵ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2025/boe-fmi-rulebook-uk-ccps-instrument-2025.pdf>

With regard to the BCBS-CPMI-IOSCO proposed measures, EACH Members would like to set out the following comments:

- Regarding transparency, EACH believes that the level of **transparency measures required from the CCPs at present are considered sufficient**, as CCPs provide a wide range of measures from margin simulators and PQDs to website disclosures and private disclosures to clearing members as well as clients. In the interest of providing transparency from CCPs to clearing members and from clearing members to clients, we believe that any proposal being taken into account should be considered in a uniform manner from CCPs to clearing members and from clearing members to clients. It is of equal importance to ensure that any additional measures prescribed are also taken into account by clearing members and clients in their liquidity preparedness exercises.
- To be effective, **visibility and predictability of margin must happen through the value chain beyond the CCPs' sphere**, i.e. from clearing members to clients, and from clients to indirect clients. As emphasised by a recent Bank's report, it is through these channels that many of the liquidity pressures observed in moments of stress occur.
- As CCPs have no direct contractual relationships with such clients, they are unable to provide a full view especially when clearing members employ their own models or charge add-ons. Consequently, **without involvement of the clearing members, full margin transparency is not achievable**.
- On the proposal to increase the frequency and breadth of PQDs, we emphasise that the **information contained within is not portfolio specific and is backward-looking**, making it unclear how this increase could be used for liquidity preparedness which is by nature forward-looking.
- EACH Members respectfully **disagree with the BCBS-CPMI-IOSCO proposed method for measuring margin responsiveness** alongside the associated change in volatility being an informative way of measuring responsiveness. As described in our response, using volatility has different limitations such as it being not observable and its changes not fully capturing the drivers of margin procyclicality that are within CCPs' control. We suggest an **alternative proposal** for measuring margin responsiveness that focus on **analysing how initial margin would change under different market stress scenarios, namely historical periods of volatility**.
- On measures of discretionary judgement by CCPs, we highlight that **there may be events that will go beyond the circumstances covered by the CCP rulebook**. For this, CCPs believe it is important for them to retain a degree of discretionary judgement.

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)?

CCPs would like to point out that they already provide a **large amount of information to clearing members and their clients**, with further requirements potentially leading to higher costs of clearing. CCPs currently offer margin simulators, documentation, circulars to clearing members, due diligence questionnaires, meetings/risk advisory councils, the quarterly CPMI-IOSCO PQDs, etc. It is not clear the extent to which all this information is acknowledged and used by market participants. **CCP margin simulators show a generally very-low use** across

CCPs and, as illustrative examples, CCPs have reported more use by vendors for the purposes of testing their replication than by actual clearing members or, in other instances, no use at all over the past year.

Furthermore, the legislation should ensure that **CCPs are not obliged to disclose information to prospective users of clients**. Some unnecessary details would only serve a purpose for clearing members, and would not support margin preparedness of end clients. As CCPs have no contractual relationship with end clients, some information can only be provided by the clearing member to its client (e.g. additional add-ons charged by clearing members). In this context, it should also be ensured that **CCPs are not mandated to reveal proprietary information**. Disclosing detailed information about the margin model's methodology, mathematical specifications, and parameters could **expose proprietary algorithms and IP** that CCPs have developed to maintain a competitive edge. Competitors or third parties could reverse-engineer these models, undermining the CCP's market position; also, clearing members, or third parties they share the information with, may inadvertently or deliberately leak sensitive data. Consequently, CCPs may be disincentivised from innovating or refining their margin models if they fear losing their competitive advantage. This could stifle advancements in risk management practices, potentially harming market stability. The Bank could allow **flexibility in the level of detail disclosed** (e.g. high-level summaries) to balance transparency with IP protection. It also needs to be clear to market participants that CCPs must still have discretion when it comes to initial margin requirements. **Not every add-on can be formulaic and pre-determined**. To preserve market stability, CCPs need to have the ability to call for one-off add-on margin if needed to deal with special situations in the market, or in reaction to the deterioration of the credit worthiness of certain counterparties.

When it comes to **model assumptions and limitations**, while most CCPs list them in their model documentation, these documents are **typically not shared with clearing members**, and it is unclear how such information would be used for liquidity preparedness. It should be noted that many participants are also focused on margin optimisation, i.e. how they can limit the amount of margin they post. In this context, providing details of model assumptions and limits, which could be used to aggressively minimise the margin posted, will be to the detriment of CCP risk management and wider market stability. This requirement seems to place unnecessary burdens on CCPs to ensure the list of limitations and assumptions are complete and up-to-date, whilst not adding clear benefits. To avoid unnecessary regulatory burden, we therefore suggest deleting such requirement.

The consultation paper also requires the simulator to include **key historical market stress events for current and hypothetical portfolios**. EACH believes that the margin tools provided by CCPs already give clearing members a high degree of flexibility in terms of testing any portfolio, existing or hypothetical alike. Also, **CCPs typically and intentionally do not include historical (or hypothetical) scenarios**. This is because stress scenarios are a point in time, while initial margin is based on longer lookback periods. In addition, including a stress observation may not change much the core initial margin requirements. It may mainly change variation margin requirements or some add-on margin requirements. Considering stress scenarios is relevant when the interest in the P&L of a portfolio during such a scenario. However, the margin simulation tool does not provide a P&L, but a margin requirement.

Considering stress scenarios in the simulation tool is therefore of limited value, i.e. it is only possible to simulate a margin requirement given a parametrisation which would have been present during a specific historical event. It is also unclear whether CCPs have stored the parametrisation of their initial margin model for all past historical crises, e.g. the 2008 financial crisis. In the case of hypothetical scenarios, it should be noted that these are designed to capture particular risk profiles that a CCP may be exposed to. As such, to make it useful for all clearing members the CCP would need to relax some of those assumptions therefore diluting the value of the output of the margin simulation.

We would also like to underline that any **technology development** to support the new requirements will take time to implement and CCPs would benefit from a transition period, which should be agreed once the requirements are finalised and before the legislation enters into force.

Concerning **procyclicality**, we are of the opinion that the Bank's proposal seems to be unnecessarily **stricter compared to those applicable in the EU**. EACH Members suggest having in place an outcome-based approach, rather than a prescriptive one. The CPMI-IOSCO PFMI disclosures⁶ already contain details on the anti-procyclicality tools used (e.g. Principle 6, Key Consideration 3) and the risk governance processes supporting them. Anything further would be duplicative and of no particular use to members/clients.

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

EACH Members kindly **question the Bank's costs estimates on the implementation of the margin simulators**. Firstly, we fail to understand how the standard cost model works. The running costs of margin simulators depend on factors e.g. usage and cloud computing, Secondly, depending on the number of service lines, the running costs of margin simulators could be much higher given that CCPs would have to implement one simulator per service.

Chapter 15: Default Procedures

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?

EACH Members are **supportive of the Bank's aim to increase the likelihood of client porting**, and note that the Bank has indicated that its intention is to align with EMIR 3 in this respect. However, the **proposal to require CCPs to trigger porting without proactively seeking client consent is highly unlikely to be workable in practice**, given that all the clients in such omnibus accounts would need to pre-agree contractually to port their positions to the same back-up clearing member, and a single omnibus account can include thousands of clients.

⁶ <https://www.bis.org/cpmi/publ/d101a.pdf>

In addition, the **proposal to factor the likelihood of portability** into the calculation methodology of the allocation of the **default fund across clearing members** is likely to result into a **more complex process**, and thus higher costs for CCPs and clearing members, without creating the right incentives to increase the likelihood of porting. EACH Members also consider that, in general, there are **overarching requirements on CCPs to attempt to port during the period they are supposed to**.

In addition, we would like to kindly put forward the following comments:

- A **higher contribution for clients** that have **not dedicated a back-up** clearing member would be required.
- As hinted above, while the Bank considers that the proposed system would incentivise clients to on select and agree relationships with back up clearing members in BAU conditions, we believe that **the incentive provided is rather on the clearing members**, and this could create more challenges than benefits.
- It should be clarified what would be the practice in case of several accounts (e.g. porting them all in an omnibus?).

The Bank could, however, **consider other measures that would increase the likelihood of porting for prepared clients** and that would decrease the risks associated with clients that are very unlikely to port.

For example, the **challenge regarding the limited duration of the porting period** should be addressed. If CCPs were able to collect margins directly from clients to maintain risk management for their positions, CCPs could extend the porting period. This would allow for more time to identify a willing replacement clearing member. For this process to work, CCPs should receive **temporary exemptions from client due diligence**. Otherwise, CCPs would face significant legal risks when conducting business with the client directly, even if only for the purpose of porting that client.

CCPs could also facilitate porting more proactively by being allowed to **share client portfolio and collateral data with alternate clearing members without requiring prior approval**. At present, CCPs are permitted to share client data only upon obtaining explicit consent from the client, which increases the complexity of the porting process. Under these circumstances, a CCP must monitor which clients have granted data sharing consent and only then can subsequently share consenting client's data individually with prospective replacement clearing members.

Furthermore, **individually segregated clients should also be allowed to designate a back-up** clearing member ahead of time, as is currently proposed for omnibus clients, as ISA client may also have set up such arrangements ahead of time, and could therefore benefit from faster porting.

At the same time, it should be acknowledged that **clients that do not prepare for and invest in a more portable setup, especially NOSA clients, are unlikely to port**. Some clients may find that investing in a more portable setup is unnecessary, particularly if their trading activity is limited to contracts with short maturities. This creates (i) risks for CCPs, which at present

must trigger porting for all clients and must maintain positions during the porting period, and (ii) disadvantages clients that cannot manage their positions in the meantime. Losses on these positions could also impact non-defaulting clearing members' default fund contributions. Therefore, it would be **beneficial to allow clients to opt out of porting in advance**, enabling efficient liquidation of their positions in a default event. To achieve this, CCPs could offer non-portable accounts, giving clients the choice whether to invest in portability or rather opt for efficient closure of their positions in case their clearing member defaults.

Chapter 16: Default Fund

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

As mentioned in our response to the question above, **EACH strongly supports the goal of enhancing porting**, but cautions that **linking default fund contributions to perceived portability could create unintended distortions in client account structures**, such as omnibus client segregation, where client positions and collateral are held collectively in a single pool under the clearing member's name, not individually identified. This structure is operationally efficient and widely used but makes porting more complex as a CCP must identify, allocate, and transfer each client's portion of the omnibus account to another clearing member. If such accounts are assessed as less "portable" than individually segregated accounts, this would unfairly penalise legitimate account models and distort client choice. Clients may be pressured into individual segregation simply to avoid higher charges, despite omnibus accounts being cheaper and operationally simpler. This could raise costs for clients who do not require full segregation, reduce liquidity pooling benefits, and lead to fragmentation of clearing arrangements. **Smaller clearing members would be disproportionately affected**, since they often rely on omnibus accounts for efficiency. Overall, the proposal is likely to result into a more complex process, and higher costs for CCPs, clearing members and clients, without creating the right incentives to increase the likelihood of porting.

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?

As advocated in the context of the EU Regulation on CCP Recovery and Resolution Regulation, EACH Members are of the opinion that a **SSITG would not be useful to further incentive CCPs to perform robust risk management**, as that purpose is already efficiently served by the "first" SITG. CCPs already perform regularly tests on default management procedures, including with respect to their ability to implement robust auction and hedging processes. Furthermore, we consider that the Bank has **not put forward an evidence-based or risk-based justification for a SSITG** that would meet the proportionality threshold.

However, should the Bank nevertheless decide to include a SSITG, EACH would invite the Bank to consider the following proposals:

- In the spirit of ensuring level playing field with the EU, an in alignment with Art. 9(14) of the CCP Recovery and Resolution Regulation, we suggest that this second tranche of CCP own resources should correspond to an amount **comprised between 10% and 25% of the CCP's risk-weighted capital requirement**. We believe that a failure to do this would unnecessarily increase the amount of the SSITG for some UK CCPs, for an event of a relatively low probability.
- We also suggest allowing CCPs to use the amount of capital they hold in addition to their minimum capital requirements (i.e. the **10% buffer**) to comply with the provisions regarding the SSITG.
- We agree with the Bank's proposals **not to link the SSITG to the default fund**, as they serve very different purposes. The purpose of CCPs' own resources within the default waterfall is to ensure that CCPs perform robust management and demonstrate alignment between the CCP's and the clearing members' interests, in order to limit impact on their own funds. The default fund is instead meant to cover potential losses caused by clearing member defaults in scenarios beyond those included under the defined confidence interval covered by the initial margin (i.e. tail risk). By sharing tail risk, clearing members obtain a very safe CCP at a relatively low cost.

Chapter 18: Liquidity Risk Controls

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

EACH Members would like to kindly request a clarification concerning the fact that the proposals, while trying to be more closely aligned with ESMA's provisions, do **not exclude central banks from the calculation of liquidity exposures**.

The **liquidity stress testing metrics should only apply to material currencies**. The current proposal seems to apply to all currencies even immaterial ones. This is a divergence versus what is required under US and EU regulation and does not work in practice. It would impose undue burdens on CCPs while not providing any benefit.

Chapter 20: Investment Policy

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

EACH Members generally **welcome the Bank's proposals relating to investment policy requirements**.

EACH would strongly suggest the Bank to take the opportunity of the current review to consider possibility for **CCPs to invest in instruments such as the highly liquid financial instruments with minimal market and credit risk** indicated below, as well as the proposed **targeted adjustments**.

Asset classes

- **EU bonds**

- EACH is very much in favour of extending investment possibilities for CCPs to the total European SSA (Supranationals, Sub-sovereigns and Agencies) universe, especially to include bonds issued by the EU and the EU Commission (currently the largest SSA issuer that is not EMIR eligible) and its special entities. This should include also still to be established EU-entities, e.g. for the refinancing of the planned SAFE (Security Action For Europe) programme. The eligibility of the EU and its finance vehicles alone would extend the investment alternatives for CCPs considerably. Annex II of the RTS (EU) No 153/2013⁷ omits EU bodies from the list of entities issuing or guaranteeing debt instruments that are highly liquid with minimal market and credit risk. We suggest that the Bank includes them into Bank rules.

- **Covered bonds**

- According to EMIR Art. 46(1), as well as Art. 37-42 of Chapter X of RTS (EU) No 153/2013, CCPs can accept covered bonds as eligible collateral under several conditions, e.g. by applying haircuts and concentration limits. Covered bonds are also considered as High-Quality Liquid Assets (HQLA) in the Liquidity Coverage Ratio (LCR) calculations related to bank liquidity requirements, under the Capital requirements Regulation (CRR). We suggest including the possibility for CCPs to invest in covered bonds into Bank rules.

- **Money Market Funds (MMFs)**

- EACH suggests including MMFs among the list of financial instruments with minimal market and credit risk. The list should to include *all* MMFs that meet certain requirements and improve CCPs' liquidity and risk management, as long as the issue of 'gates' amongst other is addressed and CCPs take an adequate risk-based approach towards the products they invest in. To make MMFs an adequate investment option, EACH suggests that the requirements that MMFs should comply with may include the following:
 - The ability to redeem an interest and make payment in satisfaction thereof with same day value following a redemption request that meets appropriate cut off times (i.e. no application of redemption gates);
 - The fund must be appropriately registered by its competent authority;
 - The fund must be sponsored by authorised credit institutions as defined and regulated under CRDIV and CRR, an investment firm authorised under MiFID II and MIFIR, an alternative investment fund managed by AIFMDs authorised or registered in accordance with the AIFM Directive, or third country equivalent firms and institutions.
- A further proof of the reliability and effectiveness of government MMFs was provided in the US by the unexpected behaviour around withdrawals and liquidation of Prime MMFs during the recent COVID-19 crisis, which was instead not observed in government MMFs. In 2014 the Securities Exchange Commission (SEC) brought some changes to the Investment Company Act, giving MMFs' board the possibility to impose a gate if the level of weekly liquid

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0153>

assets of the MMF falls below 30%⁸. However, this 30% threshold showed its downsides during the crisis: instead of reducing liquidity risks, it actually increased them, as investors started moving their money to government MMFs before the Prime MMF reached the threshold.

- **Corporate bonds**

- Further diversifying the range of investments available to CCPs by including corporate bonds would prove beneficial to CCPs by reducing their reliance on government bonds, potentially increasing their financial performance while mitigating concentration risk. Additionally, corporate bonds often offer higher yields compared to government securities of similar maturity.

To make corporate bonds an adequate investment option, EACH suggests that the requirements that corporate bonds should comply with may include the following:

- High liquidity, allowing rapid and efficient trading to meet CCPs' operational needs. This would make corporate bonds comparable to government securities. Bonds issued by large, well-established companies are usually highly liquid;
- High-quality, such as investment-grade bonds, which have minimal credit risk, making them safe and stable.

Because there are few corporate bonds that could reasonably fulfil the criteria for highly liquid financial instruments with minimal market and credit risk, we suggest focusing on financial instruments which are included in the Eurosystem Eligible Assets Database (EAD) as well as e.g. SNB General Collateral. Including EAD assets as well as, for instance, SNB General Collateral as eligible investment for CCPs would broaden the investment possibilities for CCPs, including the possibility to invest in corporate bonds, while maintaining high quality standards.

- **Interest rates derivatives**

- Currently, a CCP is already able to use derivatives to hedge currency risk arising from its liquidity framework. However, even though the investments of a CCP are exposed to interest rate risk just as they are to currency risk, interest rate derivatives are not permissible financial instruments under the current rules. As a condition, interest rate derivatives should only be used to hedge interest rate risk stemming from the investment policy of the CCP.

Targeted adjustments:

- **Collateralisation of cash deposits**

- We suggest requiring CCPs to either collateralise or hold at a central bank 95% of their total cash deposits. A respective amendment of the regulatory requirement would maintain the same degree of security as is currently in place – i.e. at most a CCP could deposit 5% of its total cash unsecured at a commercial bank – while not leading CCPs to withdraw central bank deposits in order to counterbalance unsecured investments. In its current form, Art. 45(2) of the RTS 153/2013 has the unintended consequence of pushing CCPs to withdraw cash

⁸ <https://www.sec.gov/rules/final/2014/33-9616.pdf>

from their central bank deposits in order to fund collateralised cash deposits at non-central bank institutions, with the objective of meeting the ratio requirement, and the regulation would implicitly increase the risk profile of CCPs. The resulting practice undermines the article's intent to maximise the security of CCP cash deposits and instead leads CCPs to reduce their holdings in central banks, the most secure depositories.

- **Flexibility on average time to maturity**

- EACH is of the opinion that an average time to maturity of maximum 2 years is too restrictive, and suggests applying more flexibility. The requirement forces CCPs into frequent replacement of expiring positions, despite a limited selection of eligible instruments, creating both operational challenges and potential market related risks. For example, if a large short term position expires, a CCP is forced to make a fast alternative short term investment just to ensure the average time-to-maturity of its portfolio does not breach the 2 year threshold. More flexibility in regard to the average time-to-maturity could be achieved either by an increase of the 2 year limit or by clarifying that the calculation of the average time to maturity may include non-invested funds that could be invested according to the term transformation limits defined by the CCP.

- **Extension of highly secured arrangements for deposits**

- EACH suggests adding EU member states' bodies performing similar functions as central banks to the entities meeting the criteria of UK EMIR Art. 44(1) (for financial instruments) and Art. 45(1)(b) (for cash). This would increase the flexibility for CCPs' deposits while maintaining the high security standards for such deposits.

- **Removing "types of financial instruments" from the scope of concentration limits**

- CCPs are required to establish concentration limits for investments based on factors such as 'individual financial instruments' and 'individual issuers.' While concentration limits ensure diversification of investments, their application to 'types of financial instruments' seem illogical for CCPs. This is because CCPs are limited to invest in debt securities that must adhere to strict criteria (as outlined in Annex II of the RTS). Debt securities themselves could only be broken down further into repos or direct investments. While CCPs may, in addition to debt securities, also invest into derivative contracts, these investments are only permissible as hedges and therefore their concentration is limited to only cover the corresponding risks.

- **Definition of high liquidity and minimal market and credit risk**

- Article 47 of UK EMIR outlines requirements for a CCP to invest financial resources in cash or highly liquid financial instruments with minimal market and credit risk. We suggest the Bank to define the criteria for high liquidity as well as minimal market and credit risk, adopting the criteria proposed below.
 - **High liquidity** – Publicly traded bonds shall generally be regarded as liquid (for either direct investment or via reverse repos or MMFs) that fulfil all of the following criteria:
 - No capital control mechanism for the relevant currencies in the jurisdictions or in the EU;

- Bonds are accepted as collateral for overnight or repo facilities by the respective central bank for the above mentioned currencies.
- Since the central banks serve as lender of last resort for the financial institutions of their jurisdiction, the central bank eligibility would ensure that there is always a way to liquidate the bonds for financial institutions, hence they will usually act as natural buyers of these securities.
- **Minimal market risk** – We suggest referencing market risk to operational criteria, such as expected value at risk (over a holding period of x business days with a certain confidence interval) or a value sensitivity of a defined overnight interest rate and credit spread shift (e.g. 100 Bps). It should be stipulated that each CCP can define its own acceptable market risk level on a portfolio or exposure level and mitigate market risk of certain instruments by:
 - Applying concentration limits on investment or collateral portfolios (e.g. total exposure vs. a reverse repo counterparty);
 - Requiring additional haircuts for instruments with higher market risk or cross currency exposures.
 - These criteria should enable the CCP to invest into all liquid (as defined above) instruments that meet its risk bearing capacity which is defined individually based on its second skin in the game or other capital measures.
 - The respective technical legislation could therefore just state the minimum haircut levels for certain holding periods or risk constituents (e.g. minimum haircut for cross currency exposure).

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

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?

EACH Members **welcome the Bank's intention to streamline and simplify the approval process for model changes.** However, we note that under the current proposals even non-material changes would need to be notified ex ante using a standard template notification form. This would be a significant expansion of current notification/approval requirements, where non-material model changes can be implemented immediately following completion of internal governance processes and notified ex post via the routine provision of Board/committee packs to the supervision team. **Requiring CCPs to notify all model changes in advance and wait 10 business days before implementation would be disproportionate,** particularly in times of market stress where CCPs need to be able to act swiftly. This will weaken CCP risk management and jeopardize market stability.

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?

EACH **strongly supports a proportional, risk-based threshold for determining materiality.** However, we are of the opinion that the **proposed quantitative triggers** (notably the 5% change in service-level initial margin or other risk resources) are **too low and insufficiently targeted.** In practice, **ordinary market movements and parameter updates** may change aggregate initial margin **by more than 5%, without any alteration to the underlying model logic.**

If these routine recalibrations are treated as "material" and require Bank permission prior to implementation, margin responsiveness will slow materially, especially in volatile markets. This could undermine CCPs' ability to manage exposures in real time and increase the risk of procyclical outcomes, contrary to the Bank's own Financial Stability and Innovation Objectives. Most importantly it will weaken CCP risk management and jeopardize market stability.

We therefore would like to put forward the following recommendations:

- The threshold should be set at total prefunded resources for a specific service / default fund, with the **threshold set at 15%** as these are the total resources that would be available to cover the risk faced by the CCP when liquidating a defaulting members' position.
- The **5% threshold on the criteria appears too low.** For stressed liquidity requirement, ideally 15% of the total liquidity requirement of the CCP in aggregate across all currencies. Additionally, it should be clarified that it applies only to methodological changes, not to normal re-estimation or back-testing adjustments.
- **Parameter-based or data-driven margin updates** within established Board-approved governance limits from the materiality test should be **explicitly excluded**;
- **Post-implementation notification for BAU recalibrations** with appropriate audit trails should be permitted; and
- A **clearly defined emergency or expedited path for margin changes** made to address immediate risk exposures should be retained.

These adjustments would preserve the Bank's oversight of genuinely material model developments while preventing the new framework from inadvertently delaying the timely recalibration of CCP risk models.

We also would like to point out that **ESMA, in the Draft RTS** on the conditions and the list of documents for an application for validation of changes to models and parameters under Articles 49 and 49a of EMIR⁹, has included **thresholds of minimum 20%** when it comes to defining the conditions for a change to be considered significant. In line with the risk

⁹ https://www.esma.europa.eu/sites/default/files/2025-10/ESMA91-1505572268-4323_Final_Report_on_EMIR_3_RTS_model_validations.pdf

management experience of the industry and for level playing field purposes, **an alignment with such thresholds might be considered.**

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

We recommend that:

- **Non-material and non-regular intended operations** should be **assessed by the Bank on a periodic, ex post basis**. For instance, CCPs could submit to the Bank, every quarter, all non-material and non-regular intended operations proposed in the previous quarter;
- **Process changes not related to risk models** should be **excluded from the requirements related to the materiality assessment**. For instance, the addition of a new account type is a business-as-usual (BAU) activity for the CCP and should not trigger a materiality assessment.

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

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

Uncollateralised bank guarantees have the advantage to alleviate the pressure on cash liquidity from clearing members and their clients, especially during period of high volatility such as the 2022 energy crisis.

We would like to particularly emphasise the **benefits** of using bank guarantees:

- **Highly liquid products** – On first demand, bank guarantees create a no accessorial, abstract obligation to the beneficiary, putting the beneficiary in a strong legal position ("pay first, sue later"). The guarantor remains liable even if the underlying obligation is extinguished, it must pay immediately and cannot object. The characteristics of bank guarantees as unconditional, irrevocable and on- first-demand, make them "highly liquid". For these continuing guarantees the guarantor assumes the liability for any past, present and future obligations owed by a debtor to a lender or creditor. Even where the amount owing has been completely paid, the guarantor can still be liable under that line of credit if there is a subsequent indebtedness.
- **Limited market risk** – The market risk of bank guarantees is limited in terms of volatility. In times of market stress, clearing members might find it difficult to increase the bank guarantee limits. This is mitigated by concentration limits on posted collateral per member, i.e. limited percentage of its total collateral issued by one issuer.
- **Limited credit risk** – The credit risk is managed by only accepting guarantees issued by investment grade rated banks with a certain minimum rating, external rating and evaluation using an internal score card. A deterioration of a bank guarantee issuer's credit worthiness will have implications on the applied haircuts and/or eligibility of the bank guarantees issued by the relevant bank. The lower the credit rating, the higher the haircut.

We also suggest that uncollateralised bank guarantees shall be subject to the following conditions:

- **Concentration limits** – CCPs shall apply concentration limits. CCPs would be able to apply certain maximum thresholds to bank guarantee acceptance, e.g. a given percentage of the margin requirement of a clearing member could be fulfilled with bank guarantees (the remaining with cash or other EMIR eligible collateral assets), and/or the total accepted bank guarantee stock must be diversified from the CCP perspective with the use of concentration limits on issuing banks. We suggest that concentration limits applied to bank guarantees be similar to the ones required for securities.
- **Credit quality requirements** – The credit risk of bank guarantees shall be managed and constantly monitored by the CCPs. CCPs have a sophisticated risk management framework, where the "credit risk" of banking partners from whom they accept bank guarantees can be integrated. CCPs shall be and would be able to initiate actions if needed when the situation evolves as a result of, for example, a deterioration of a bank guarantee issuer's credit worthiness, the country-rating or other circumstances. These will have implications on the limits available for certain banks, on the applied haircuts and/or overall eligibility of the bank guarantees issued by the relevant bank or banks in a country, etc.
- **Stringent wrong-way risk requirements** – **Wrong way risk** shall be avoided: an uncollateralised bank guarantee issued by a clearing member is not permissible for that clearing member's initial margin requirements or that of an affiliate;
- **On-demand, unconditional, irrevocable and continuing** – They shall be on-demand, unconditional, irrevocable and continuing:
 - On-demand – The guarantor must pay upon demand, without making any objection.
 - Unconditional and irrevocable – An unconditional guarantee is a pledge by the guarantor to make payments, as stated in the guarantee, without any conditions. An irrevocable guarantee cannot be cancelled or modified without explicit consent by the affected parties.
 - Continuing – A continuing guarantee is a guarantee where the guarantor assumes liability for any past, present and future obligations owed by a debtor to a lender or creditor. Even if the amount owed has been paid in full, the guarantor shall still be liable under the guarantee up to the total amount of the guarantee less the amount drawn if there is a subsequent indebtedness.
- **Market risk** – The market risk of bank guarantees is limited in terms of volatility. In times of market stress, clearing members might find it difficult to increase the bank guarantee limits. This is mitigated by concentration limits on posted collateral per clearing member, i.e. limited percentage of its total collateral issued by one issuer. Other risk considerations: The CCP is by definition responsible for risk management and may accept only such bank guarantee which meets the conditions determined by its risk management framework. The pricing policy of the issuing bank – which is relevant for the clients of the bank (non-financial clearing member or non-financial client) – shall not be considered by the CCP from risk management aspects.
- **A default event shall be managed in line with the UK EMIR provisions in this regard.** CCPs shall use the margins (i.e. collaterals, including cash, financial instruments,

bank guarantees), posted by the defaulting clearing member prior to other financial resources covering losses. This means that the bank guarantee as an eligible collateral, provided by the defaulting clearing member, shall be drawn down immediately (in line with the procedure laid down in the bank guarantee's terms).

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?

EACH strongly **supports the inclusion of uncollateralised bank guarantees** as eligible collateral. In line with EMIR 3, and more specifically Art. 46, we suggest that CCPs may specify in their operating rules that they can accept **fully uncollateralised public bank guarantees** or **commercial bank guarantees**. CCPs should be able to accept such guarantees only to cover their initial and ongoing exposure to their **clearing members that are non-financial counterparties** or to **clients** of clearing members, provided that **those clients are non-financial counterparties**.

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

DLT may prove useful in regard to collateral management by enabling near-time collateral transfers:

- **Near-time transfers** would allow CCPs to manage liquidity even more efficiently, ensuring that collateral is available precisely and only where and when it is needed.
- DLT thereby has the **potential to overcome the limitations** currently faced in regard to operating hours of CSDs and Centrals banks.
- In addition, DLT has the potential to **streamline cross-border collateral transfers across different jurisdictions in a cost-efficient way**.
- To enable CCPs to accept DLT collateral, **regulatory changes and clarifications are needed**. It should in particular be ensured that the definition of financial instruments in RTS (EU) No 153/2013 are technologically neutral. Hence, a tokenised financial instrument must demonstrably meet the same strict criteria its non-tokenised equivalent would have to meet.
- In addition, **some tokenised financial instruments are not necessarily deposited with a CSD** (as operator of a securities settlement system) or a financial institution but may instead be held in alternative arrangements.
- From a risk management perspective, a **CCP should be able to accept financial instruments that meet the conditions specified in Annex I Section 1 RTS (EU) No 153/2013**. EMIR as collateral independent of the underlying technology. However, the requirement from Art. 47(para 3) cited above, currently undermines the ability of CCPs to accept DLT-based financial instruments.

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?

We suggest that **public guarantees** are also added to the list of eligible collateral.