Bank of England

The Bank of England's supervision of financial market infrastructures Annual Report

18 December 2024–25 June 2025

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26 June 2025

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Foreword

Sarah Breeden
Deputy Governor, Financial Stability

Every day, millions of people across the UK rely – often without a second thought – on the smooth functioning of our financial market infrastructure. Whether it's making a payment, settling a trade, or managing risk, these systems are the unseen plumbing on which our financial lives depend. At the Bank of England, and through the work of the Financial Market Infrastructure Committee (FMIC), we take seriously our responsibility to ensure these systems remain safe, resilient, and fit for the future.

This Annual Report reflects our ongoing commitment to transparency and accountability. It has in fact only been six months since our last Report, since we are aligning the timings for this Report with those of the Bank's other statutory reports. But the Report clearly demonstrates the huge amount of work done, and importantly, looks ahead to the priorities shaping our future supervision.

The past period has brought its share of challenges – from market volatility triggered by global events to the ever-evolving risks posed by technological change and geopolitical uncertainty. Through it all, UK FMIs have demonstrated resilience, and our regulation and supervision has played a key role in supporting that strength.

Operational resilience remains a top priority. We are enhancing our regulatory frameworks and deepening our engagement with FMIs to ensure they can withstand and recover from even the most severe but plausible disruptions. At the same time, working closely with other authorities, the government, and industry we're embracing innovation – supporting initiatives like the digital securities sandbox and designing a regulatory regime for systemic retail stablecoins – to help FMIs deliver better, more efficient services to households and businesses.

Why does this matter? Because the financial stability that resilient FMIs deliver is the bedrock of a healthy economy. When FMIs are resilient, they reduce the risk of disruption to the financial system, allowing businesses to invest with confidence, households to plan for the future, and markets to function smoothly. This stability fosters trust, encourages innovation, and creates the conditions for sustainable economic growth. In short, resilient FMIs don't just keep the system running – they help power the economy forward.

We also continue to work closely with international partners, recognising the global nature of financial markets and the critical role UK FMIs play on the world stage.

Ultimately, our goal is simple: to safeguard financial stability while enabling innovation that benefits the real economy. I hope this Report gives you a clear view of how we're working to achieve that – and why it matters.

Sarah Breeden
26 June 2025

1: Why does the Bank supervise financial market infrastructure firms?

This section explains why FMIs matter to the financial system and why robust supervision matters to the UK and more widely.

Financial market infrastructure firms (FMIs) are a key part of the financial system and the public relies upon the functions that they perform.

The Bank supervises three broad categories of FMIs: central counterparties (CCPs), central securities depositories (CSDs) and recognised payment system operators (RPSOs).[1] These firms all provide different services to support the financial system: CCPs act as central counterparties for financial market transactions, CSDs ensure the transfer of securities and payments after trading and RPSOs enable funds to be transferred between businesses and individuals. In the UK, CCPs clear trillions of pounds worth of notional outstanding financial contracts daily, CSDs settle over £900 billion of securities transactions per day, and RPSOs and their service providers facilitate payments of around £400 billion daily.[2]

FMIs are key to maintaining financial stability because they are interconnected with the wider financial system. It is crucial that they are resilient.

FMI members and participants include financial institutions and businesses and consequently FMIs are significantly interconnected with the wider financial system both within the UK and internationally. FMIs contribute to financial stability by making financial transactions more efficient and secure and by simplifying complex networks of counterparty exposures. They play a central role in the financial system which means that maintaining their operational and financial resilience is essential for maintaining financial stability. They provide critical services that allow individuals, businesses, and financial institutions to transact with each other. Disruptions to these systems can have consequences that affect the entire financial system

1. The Bank also supervises certain service providers to recognised payment systems that are ‘specified’ by His Majesty’s Treasury (HMT), for example where the RPSO has outsourced critical parts of its operations to the service provider and the ability of the recognised payment system to deliver its responsibilities depends on the functioning of the service provider. This is separate to, and distinct from, the Bank, Prudential Regulation Authority and Financial Conduct Authority’s responsibility for supervising certain Critical Third Parties which does not fall within the remit of this document. The Bank’s FMI supervisory area continues to supervise CHAPS (a non-recognised payment system) to the same standard as other recognised payment systems. CHAPS was formally de-recognised by HMT in December 2017, when responsibility for managing the system was transferred to the Bank.
2. The £400 billion figure for RPSOs comprises average daily figures for CHAPS, Bacs, Faster Payments Service, Link, Mastercard Europe and Visa Europe. Note that CHAPS is not a RPSO but is supervised to equivalent standards by the Bank.

and the economy. As such, the Bank's supervision of FMIs is aimed at ensuring that FMIs are prepared for, and resilient to, the wide range of risks that they could face. The aim is to ensure that they are able to absorb rather than amplify shocks and serve households and businesses, thus supporting stability and growth in the UK economy and globally.

The Bank supervises FMIs as part of its primary objective to protect and enhance financial stability.

The Bank has a primary objective to protect and enhance the stability of the financial system of the UK. To help achieve this objective the Bank has legal powers to supervise FMIs, including with respect to their safety and resilience to risks, both financial and operational, which could lead to financial instability. The Bank's approach has an international as well as a domestic focus, recognising the importance of some Bank-regulated FMIs in other jurisdictions, and that disruption to their services may impact monetary and financial stability in the UK and abroad. This is in support of the statutory requirement to have regard to the financial stability impact in other countries in which FMI entities are established or provide services. We work closely with overseas regulators where FMIs based in other jurisdictions may have impacts upon UK financial stability.

The Bank also has a secondary objective, to facilitate innovation in the provision of central counterparty (CCP) and central securities depositories (CSDs) services.

The Bank expects and encourages all FMIs to innovate and believes that innovation can actively support FMIs' resilience and financial stability more broadly. In exercising its FMI functions in a way that advances its financial stability objective, the Bank must, so far as reasonably possible, facilitate innovation in the provision of CCP and CSD services with a view to improving the quality, efficiency and economy of the services. Box A provides more information on how we approach this objective.

The Bank is due to receive its first remit letter from His Majesty's Treasury setting out Recommendations for the Bank's statutory Financial Market Infrastructure Committee (FMIC) to have regard to when considering how to advance the Bank's statutory objectives.

The letter will set out aspects of the Government's economic policy to which the FMIC should 'have regard' when considering how to advance the Bank's objectives, and when considering the application of the other 'have regards' set out in the Bank of England Act 1998. The Bank will consider the recommendations and incorporate them into future policy development and publish its response on the Bank's website.

The Bank's objectives for its supervision aim to ensure that the FMIs it regulates reduce systemic risk.

Reflecting its statutory objectives, the Bank helps to ensure that the FMIs it regulates reduce systemic risk by focusing on the following aims:

- Avoiding disruption to the vital payment, settlement, and clearing services they provide to the financial system and real economy.
- Avoiding actions that have an adverse impact on the safety and soundness of their members, subject to preserving the resilience of the FMI.
- Contributing to identifying and mitigating risks in the end-to-end process of making payments, clearing, and settling securities transactions, and clearing derivatives and repo trades. The Bank expects FMIs to seek to manage their end-to-end processes in line with the Bank's financial stability objectives.

To deliver against these objectives the Financial Market Infrastructure Committee (FMIC) has established the following business aims:

Financial resilience: ensure UK financial stability through financially resilient FMIs and their market structures.

- We will assess CCPs' financial resilience through stress testing of credit and concentration risks, supervisory reviews on firm specific risks, and intend to implement international standards requiring more risk responsive capital for general business losses.
- We will enhance our readiness for managing financial crises through improved data and modelling tools, co-leading the CCP Global fire drill and developing crisis management playbooks.
- We will support assessment of the impact on financial stability from cleared market structures, for example co-leading work to implement the BCBS-CPMI-IOSCO proposals to improve transparency and evaluate the responsiveness of initial margin practices in centrally cleared markets and supporting Bank work to improve the resilience of core markets.

Operational resilience: ensure FMI services are operationally resilient and able to support financial stability in the event of disruption.

- We will ensure FMIs have operational resilience capabilities to meet their impact tolerances under extreme but plausible scenarios, particularly high severity cyber and third-party prolonged outages, or have funded plans in place to mitigate known weaknesses.
- We will publish final rules on incident and outsourcing reporting; consult on Information and Communication Technology (ICT) and cyber resilience guidance; and focus on being ready to oversee critical third parties (CTPs) once HMT designates firms under the (CTP) regime.

- We will develop our approach to enhance the Bank's response tools to mitigate financial stability risks that result from severe operational disruption.

Innovation: enable safe and resilient innovation in payments, settlement and clearing.

- We will develop policy to support innovation in payments, settlement and clearing, publish our approach to new firms, and authorise Digital Securities Depositories (DSDs) and other new FMIs.
- We will assess the risks and agree the supervisory approach to mitigate any risks associated with developments in retail payments in response to the National Payments Vision.

New responsibilities: implement and embed the FMIC's new responsibilities in a proportionate and robust way.

- We will substantially complete FSMA 2023 implementation for CCPs.
- We will develop a new streamlined recognition approach for non-UK CCPs and CSDs and establish and embed deference approaches across systemic incoming firms.

Our aim is for an FMI sector that recognises the critical role it plays in the financial system. This means that FMIs are self-aware as to how their actions impact the broader financial system and are able to manage the financial and operational shocks that are likely to occur in a way that does not impact the vital services they provide to households and businesses.

We will ensure the Bank keeps pace with a changing world by being equipped and ready to identify and manage these challenges. Our new statutory powers will enable us to respond more quickly to ensure we have the right rules and supervisory tools to address emerging risks. We will continue to develop our use of data and technology to enhance our analytical capabilities. These enhancements will ensure the Bank is well placed to mitigate the impact to financial stability in the event of a FMI failure from a financial or operational shock.

Table A: The UK FMIs and specified service providers supervised by the Bank and a non-exhaustive selection of the functions that they perform

Central counterparties	Central securities depositories	Payment systems	Specified service providers
ICE Clear Europe Ltd (exchange-traded derivatives).	Euroclear UK & International (EUI) (securities transactions).	Bacs (paying bills, receiving benefits/ pensions/salaries).	Vocalink (technology service provider to Bacs, FPS and LINK payment systems).
LCH Ltd (repos, foreign exchange (FX), exchange traded and over the counter (OTC) derivatives and securities).		CHAPS[(a)] (high-value sterling payments, cross-border sterling payments, house purchases).	
LME Clear Ltd (listed metals contracts).		Faster Payments System (FPS) (internet, mobile and telephone banking payments).	
		LINK (withdrawing cash).	
		Sterling Fnality Payment System[(b)] (high-value sterling payments).	
		Visa Europe (paying for goods and services).	

(a) The Bank's FMI Directorate continues to supervise CHAPS (a non-recognised payment system) to the same standard as recognised payment systems. CHAPS was formally derecognised by His Majesty's Treasury in December 2017, when responsibility for managing the system was transferred to the Bank.

(b) DLT-based Sterling Fnality Payment System (£FnPS) started its operation under limits in December 2024. Progressing to the next stage of scaling its operations will be subject to £FnPS meeting the Bank's operational and supervisory expectations.

Table B: The non-UK FMIs recognised by the Bank and a non-exhaustive selection of the functions that they perform

Central counterparties	Central securities depositories	Payment systems
CBOE Clear Europe N.V. (OTC and exchange-traded equities, equity derivatives and securities financing transactions).	ATHEX CSD (securities transactions).	CLS (high-value FX transactions).
Chicago Mercantile Exchange Inc. (exchange-traded futures and options including on interest rates, equity indexes, FX, energy, metals, agricultural, and commodities products).	Euroclear Bank SA/NV (securities transactions).	Mastercard Europe (paying for goods/services).
Clearing Corporation of India (OTC debt/equity securities, derivatives, and repos).		
Eurex Clearing AG (OTC and exchange traded securities and derivatives including equities, debt, interest rate, FX, and OTC repo transactions).		
LCH SA (OTC and listed repo, credit default swaps and crypto derivatives).		

Box A: The Bank's work to support financial stability and more innovative FMIs – promoting growth in the real economy

Financial Market Infrastructures are vital to the financial system and the broader economy. FMIs provide critical services that allow individuals, businesses, and financial institutions to transact with each other and support the functioning of the financial system, ensuring the financial system continues to provide services to the real economy. This supports stability and growth in the UK economy and globally.

FMIs are key to maintaining financial stability – FMIs make financial transactions more efficient and secure, by simplifying the complex networks of counterparty exposures and supporting multilateral netting. They are significantly interconnected with the wider financial system within the UK and internationally. Given their key role, their financial and operational resilience are essential for maintaining financial stability.

The Bank and FMIC have a primary objective to protect and enhance the stability of the financial system of the UK. We regulate and supervise FMIs to ensure they are financially and operationally resilient. Our regulatory framework is designed to deliver those outcomes and the Annual Report sets out work we have done, and work we plan to do, to deliver on this.

By maintaining financial stability through mitigating risks to the resilience of UK FMIs, we ensure there is a solid foundation for sustained economic growth. Given the central role of UK FMIs in the financial system domestically and globally, disruption at an FMI can have a severe impact on the financial system and the broader economy. This means that the most important contribution the Bank as FMI regulator can make to sustainable economic growth is to uphold financial stability by ensuring FMIs are resilient. By upholding financial stability, we ensure there is confidence in the financial system, we reduce the likelihood of financial crises that damage growth and we support the UK as a dynamic international financial centre.

At the same time, we want to support innovation in existing FMIs and across the FMI landscape. This is because more innovative FMIs and a more innovative FMI landscape provide more effective and efficient services to households and businesses, supporting real economic growth in the UK. For example, in wholesale financial markets, new innovations such as the tokenisation of financial assets and representing these tokenised assets on shared, programmable ledgers, have the potential to bring many benefits that could reduce costs, increase functionality and support growth. This digitalisation could make post-trade processes faster and cheaper. It allows for greater programmability of transactions and fractionalisation of financial assets. This, in turn, could increase their investor base, liquidity and utility, particularly as collateral. Meanwhile, in the retail payments landscape, more choices for retail payment methods creates opportunities and reduces costs for businesses, freeing up their capacity to invest in other initiatives that support their growth.

In line with our secondary objective, the Bank's Financial Market Infrastructure Directorate has been working to further support innovation in existing FMIs, and the FMI landscape. This includes enhancing and developing the regulatory and supervisory framework for FMIs, not least by fully embedding our secondary innovation objective, launching, and supporting new initiatives, and collaborating with industry, other regulators, and the government:

- **Developing our regulatory framework for new innovations.** We have continued to develop our domestic regime for systemic payment systems using stablecoins and plan to publish a consultation paper on our final proposals for the regulatory framework. We recognise that further innovation in payments could contribute to faster, cheaper, and more efficient payments with greater functionality. And for these benefits to be realised, a clear regulatory framework supporting the safety of these new digital assets is needed.

- **Publishing our approach to new entrants to the FMI landscape.** As well as facilitating safe and sustainable innovation at existing FMIs, new FMIs are emerging in response to innovation, including to trial new digitalisation and tokenisation technologies and provide payments, clearing and settlement services to digital markets. To promote innovation in the broader FMI landscape, we are publishing Bank's approaches to the onboarding of new FMIs that enter the Bank's regulatory remit. This onboarding approach broadly sets out the process for FMIs as they move from being authorised or recognised to operating at scale. We understand that becoming authorised or recognised can be challenging for new FMIs. As such, we have developed a risk-based and proportionate approach to authorising and supporting these firms in adjusting to the regulatory framework. We believe this publication will help further innovation in the FMI landscape.

- **Streamlining key parts of the regulatory regime for CCPs and CSDs.** As part of our work with HM Treasury (HMT) to repeal the UK European Market Infrastructure Regulation (EMIR) for CCPs and replace relevant parts with Bank rules and relevant statutory provisions, we are considering how we could simplify and shorten certain processes, while maintaining the same standards, such as for approving CCP margin models and authorising new products. We believe this will help promote innovation within CCPs, furthering their effectiveness and efficiency. We will consider making similar changes as part of our future work on the regulatory framework for UK CSDs.

- **Launching the Digital Securities Sandbox (DSS).** September 2024 saw the launch of the DSS – a regulated live environment for firms to explore how evolving technologies could be used for financial securities. The DSS was created to encourage innovation in FMIs so FMIs can explore how the application of new technologies could improve 'post-trade' processes.

- **Supporting regulatory initiatives to enable market change (T+1).** The UK is joining many jurisdictions around the globe which are shortening the time needed to settle financial market transactions such as shares or bonds. In February, the government committed to the UK moving to T+1 on 11 October 2027. The industry-led Accelerated Settlement Taskforce is leading the work to deliver this transition, including increasing automation of processes across the market. The Bank is an observer on the taskforce and has confirmed its support for the move, which will make UK markets more efficient and reduce counterparty risk.

- **Continuing to learn more from industry through the launch of our first annual innovation survey across our FMI-population.** As part of our engagement with industry, the Bank reached out with a structured survey to help inform our work on facilitating innovation within FMIs and in the broader FMI landscape. The lessons learnt from this will enable us to further progress our initiatives in a way that supports innovation within FMIs and in the FMI landscape. See Box C for a summary of results.

- **Furthering our work on tokenisation and digitalisation in wholesale markets.** From our learnings from the DSS and our continuous engagement with industry, we have also been considering the potential impact from tokenisation of securities and wider digitalisation of post-trade processes and are collaborating closely with regulators and the government to understand how we can achieve further growth through innovation in wholesale markets.

This Annual Report sets out in further detail work to ensure FMIs are financially and operationally resilient, and our work to support more innovative FMIs. By upholding financial stability and supporting FMIs in providing better services to households and businesses, we ensure FMIs provide continuous support for growth in the real economy.

2: How does the Bank approach the supervision of FMIs?

This section sets out the approach that the Bank takes to the supervision of FMIs. It includes details of the Financial Market Infrastructure Committee, our statutory committee and covers our application of the FSMA 2023 accountability framework.

The Bank supervises CCPs and CSDs using the powers introduced by FSMA 2023.

The legal framework surrounding the Bank's supervision of CCPs and CSDs changed through the introduction of the FSMA 2023 'framework'. A key change FSMA 2023 introduced was the ability for the Bank to set rules for CCPs and CSDs.

Reflecting the significance of these rulemaking powers there is a clear focus on meeting our statutory requirements for transparency and accountability and Box B explains how we have delivered that accountability this year. The regulatory framework for payment system supervision remains the Banking Act 2009. Where appropriate, we have applied a similar approach to supervised payments systems.

The exercise of powers in relation to FMIs is undertaken by the Financial Market Infrastructure Committee (FMIC).

FMIC plays a vital role in overseeing the Bank's FMI policy and supervision and, through this, helps support the Bank's statutory objective to protect and enhance UK financial stability.

The members of FMI Committee are set out below. In addition to senior executives from across the Bank, including the Executive Director for Financial Market Infrastructure, FMIC includes at least three independent members, to provide challenge, appointed by Court. The independent members currently are Julia Black, Randall Kroszner (who is also a member of the Financial Policy Committee) and Martin Pluves.

Committee decisions are reached by consensus where possible or otherwise by majority vote. FMIC has published its terms of reference and shared details of its membership.[3]

The Bank's Court has oversight of the FMIC and annually reviews its effectiveness. The Bank's Independent Evaluation Office (IEO) will be undertaking an evaluation later in 2025.

3. www.bankofengland.co.uk/about/people/fmi-committee.

The design and implementation of FMI policy and supervision is undertaken by the Financial Market Infrastructure Directorate (FMID).

The Bank is organised in a set of Deputy Governorships tasked with different responsibilities. FMID sits under Sarah Breeden, the Deputy Governor for Financial Stability.

FMID is led by Sasha Mills (Executive Director) and Simon Morley (Director). The directorate works with colleagues across the Bank drawing on expertise in risk management; PRA policy and supervision; legal; market intelligence; banking operations; and resolution.

Financial Market Infrastructure Committee

Members as at 25 June 2025

Andrew Bailey
Governor

David Bailey
Executive Director, Prudential Policy

Julia Black
External member
Term: 1 January 2024 – 31 December 2026

Sarah Breeden
Deputy Governor, Financial Stability

Randall Kroszner
External Member
Term: 1 January 2024 – 31 December 2026

Sasha Mills
Executive Director, Financial Market Infrastructure

Martin Pluves
External Member
Term: 1 January 2024 – 31 December 2026

David Rule
PRA Senior Advisor

Victoria Saporta
Executive Director, Markets

The Bank's published documents are designed to provide firms and external stakeholders with a clear understanding of our approach and expectations.

The Bank has published 'The Bank of England's approach to financial market infrastructure supervision'[4] to enable regulated FMIs, firms considering undertaking regulated activity, the wider financial system, and relevant stakeholders, for example, in other countries to understand the Bank's supervisory approach. The document also aids the Bank's accountability to the public and Parliament by describing what the Bank seeks to achieve and how it intends to achieve it. The supervisory approach document sits alongside the Bank's requirements and expectations as published in the Bank's policy publications as well as the rules, standards, and codes of practice that FMIs are subject to.

The Bank has published its approach to enforcement across all its regulatory responsibilities.[5] Andnd the Bank has published its fee policy for FMIs that explains how it uses its powers to fund its work.[6]

The Bank co-operates with the FCA and PSR across a wide range of FMI supervision and policymaking matters.

The Bank co-operates with the FCA and the Payment Systems Regulator (PSR) regarding financial market infrastructure and payment systems, respectively. This facilitates effective supervision and policymaking by ensuring that information is shared appropriately and promotes efficiency by minimising duplication.

The frameworks for co-operation on clearing and settlement with the FCA and on payments with the PSR are set out in separate Memoranda of Understanding (MoU) which are reviewed annually with the findings published.

In June this year, the Bank, PRA, FCA and PSR (the authorities) have published a revised MoU setting out how each authority will co-operate with one another and co-ordinate the exercise of their relevant functions, in relation to UK payments. This review was in response to the National Payments Vision (NPV), which tasked the authorities to consider the effectiveness of the MoU and to substantially review and update it by June 2025.

In considering the effectiveness of the payments MoU, the authorities reflected on feedback from the Future of Payments (Garner) Review. The authorities also hosted a number of roundtables with industry, and other stakeholders, to gather feedback specific to this review of the MoU.

4. www.bankofengland.co.uk/financial-stability/financial-market-infrastructure-supervision/what-do-we-do/the-bank-of-englands-approach-to-financial-market-infrastructure-supervision.
5. www.bankofengland.co.uk/prudential-regulation/the-bank-of-england-enforcement.
6. www.bankofengland.co.uk/prudential-regulation/the-bank-of-england-enforcement.

Taking on board feedback from stakeholders, the MoU provides greater clarity on the roles and objectives of each authority as well as how our work interacts. It is centred on a set of principles for co-operation which the authorities will follow to ensure we have a more effective and joined up approach across the payments sector.

The Bank also works closely with His Majesty's Treasury (HMT) on shaping the UK's financial stability policy agenda and promoting safe and sustainable innovation. This has included developing the FSMA 2023 framework which gives the Bank new powers and responsibilities, supporting us in maintaining financial stability.

The Bank and HMT have also collaborated closely in establishing the approach to the repeal and replace of UK EMIR, promoting the financial and operational resilience of UK CCPs while streamlining regulatory processes. Additionally, the Bank and HMT have worked together in establishing the legislative framework for the Digital Securities Sandbox (DSS), which also includes a targeted framework for co-operation between the Bank and FCA in relation to DSS entities. The DSS is jointly run by the Bank and FCA and requires close collaboration between the two authorities as the regulators for FMIs and trading venues, respectively. Section 3 updates further on the progress on the DSS this year.

> **Safe openness and international co-operation are fundamental components of the Bank's supervisory approach.**

Some FMIs that provide critical services abroad are based in the UK. Similarly, some FMIs provide critical services from abroad into the UK. The Bank recognises the importance of taking a consistently safe and international approach to supervising FMIs, both where the Bank of England is the 'home authority' for FMIs systemically important in other jurisdictions and as a 'host authority' for non-UK FMIs providing critical services in the UK. In both cases, the Bank seeks close co-operation with domestic and international regulators and aims to rely on the supervision of a home authority where appropriate for non-UK FMIs.

To ensure that appropriate arrangements are in place for cross-border supervisory co-ordination, the Bank has supervisory colleges for each of our UK CCPs and for Visa. The colleges met in person over the course of the year. The Bank actively participates in international oversight forums for other systemically important FMIs, for example, SWIFT and CLS.

The Bank's approach to supervising non-UK FMIs is based on the principle of openness and underpinned by a desire to co-operate with the non-UK FMI's home regulator and the concept of deference, where the Bank will defer to the respective home supervisory authorities wherever it is appropriate to do so. This is aligned with the Bank's preference for strong and effective cross-border supervisory co-operation. The Bank follows the same general approach to all non-UK FMIs, although this approach is implemented via different frameworks because of the different regulatory regimes in place for other jurisdictions. To place reliance on a home regulator, the FMI's home jurisdiction regulatory and supervisory framework must deliver broadly similar outcomes to that of the UK, and the Bank must be satisfied that there are sufficient co-operation arrangements in place and engagement to rely on the home authority.

The level of co-operation and information sharing the Bank expects from the home authority will depend on our assessment of the systemic importance of the non-UK FMI to UK financial stability. Where the Bank concludes that the co-operation and information sharing arrangements are sufficient for the Bank to defer to the firm's home authority, the Bank advances its objectives primarily through engagement with the home authority. This may include structured and regular engagement with the home authority to exchange views and information, and participation in multilateral fora or reviews led by the home authority to gain comfort on how supervision is delivered.

The Bank's FMI supervisory and policy teams also contribute to international FMI-related committees and working groups, such as those hosted by the G20, Financial Stability Board (FSB), and the Bank for International Settlements (BIS), including the Committee on Payments and Market Infrastructures (CPMI).

Box B: Our application of the FSMA 2023 Accountability Framework

Alongside the power for the Bank to make rules in respect of CCPs and CSDs, FSMA 2023 introduced a number of new obligations and accountabilities for the Bank in its role as the UK's regulator for CCPs and CSDs, these include:

A clear primary objective and new secondary innovation objective

The framework introduced by FSMA 2023 maintains that the Bank's primary objective for its CCP and CSD functions is to protect and enhance the stability of the financial system of the United Kingdom. When advancing its financial stability objective, the Bank must, so far as reasonably possible, also act in a way which facilitates innovation in the provision of CCP and CSD services with a view to improving the quality, efficiency, and economy of those services. Box A in Section 1 explains how we have continued to actively embed the Secondary Innovation Objective (SIO), to facilitate innovation in CCP and CSD services through policy development and in FMIs more broadly, including through engagement with industry, and internal training and guidance.

Requirement to carry out cost benefit analysis (CBA), publish a framework for conducting CBA, and establish an independent CBA Panel

FSMA 2023 introduced a requirement to carry out CBA when exercising the new rule making power, to publish our approach to conducting CBA, and established an independent CBA Panel. Since 1 August 2024, the PRA and the Bank have been required to consult the CBA Panel on all relevant CBAs. The panel is composed of external experts to provide advice in relation to CBA both to the Bank in its responsibilities as FMI regulator and to the PRA.[7]

Conducting CBA enhances transparency and scrutiny of the Bank's policymaking and provides a structured way to communicate the type and scale of the costs and the benefits its policies are expected to generate.

The Bank, as FMI regulator, published its statement of policy (SoP) on its approach to conducting CBA in December 2024. The SoP explains why and how the Bank does CBA for FMIs, how we use CBA in our policymaking process, and how we communicate CBA. The SoP also covers our arrangements for considering feedback from the CBA

7. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/cost-benefit-analysis-panel-tor**.

Panel in relation to how we are performing generally in meeting our statutory CBA obligations. The Bank consulted the CBA Panel on its approach and developed its approach to conducting CBA in conjunction with the PRA, which also published its SoP on conducting CBA in December 2024.

Since the previous reporting period, the Bank has consulted the CBA Panel this year on the CBA in relation to the proposed repeal of the UK European Market Infrastructure Regulation (EMIR) and replacement of relevant parts with Bank rules. The Bank welcomed the advice on this CBA and is incorporating Panel comments ahead of publication in the summer.

Matters for the Bank to have regard to in its role as the UK regulator of CCPs and CSDs

FSMA 2023 introduced the requirement that when exercising its FMI functions, typically making rules, the Bank must have regard to regulatory principles such as proportionality; the effect on the financial stability of other countries; and the desirability of regulating CCPs and CSDs in a way that supports their cross-border activities.

FSMA also introduced an obligation for HM Treasury to set out aspects of the government's economic policy to which FMIC must also have regard.

The specified regulatory principles are similar to those applicable to the PRA and Financial Conduct Authority (FCA) and include principles such as proportionality, transparency, and the desirability of sustainable growth in the UK economy. Our consultations have included an explanation of how we have considered these matters.

Further accountability mechanisms and policy measures

The Bank's accountability mechanisms for CCP and CSD regulation are now closely aligned with those of the FCA and PRA, with changes to the way the Bank interacts with Parliament, the government, and the public. This includes greater oversight by Parliamentary committees, namely the Treasury Select Committee and the Financial Services Regulation Committee, with whom we have shared all consultations this year.

The Bank met with FMIs in roundtables to increase understanding and discuss the supervisory approach, including on the consultation on Fundamental Rules for UK FMIs. For example, in February 2025 the Bank hosted an in person roundtable event for the CEOs, Chairs and Independent Non-Executive Directors of UK FMIs. At the roundtable, Sasha Mills delivered a speech on the regulatory outcomes that the Bank is pursuing, followed by a discussion of the Bank's new powers, innovation, supervisory approach, and horizon scanning. A further working level roundtable took place in February 2025, to provide a forum for firms to feedback on the Bank's consultation papers on proposed rules on incident and outsourcing reporting as well as our proposed Fundamental Rules for UK FMIs.

This Annual Report is an important accountability tool, and for the first time, we have published the report in the summer to align with the wider Bank and PRA annual reports and to enable more of a forward look to be included in the Report.

We are obliged to report on our engagement with non-FMI stakeholders. This has included meetings with trade associations, presenting at conferences, engagement with applicant FMIs and workshops including with academics. The joint Bank/FCA UK EMIR Reporting Industry Engagement Group provides an ongoing, two-way feedback mechanism which supports the implementation of EMIR Trade Repository reporting.

Looking forward, we will continue targeted and impactful engagement with stakeholders across industry, academia, and other regulators to help inform our policymaking, as well as support our work on the SIO through dialogue with those closest to emerging innovations in FMI services.

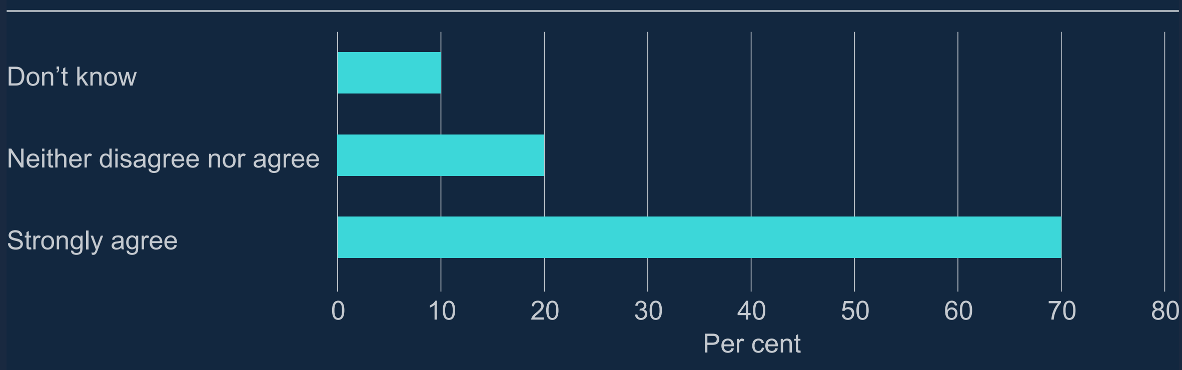
Future changes to our accountability mechanisms and policy measures

Providing clear metrics for service standards and being transparent about how those are delivered is an important way to increase accountability. The Bank as FMI regulator will set out in the EMIR Repeal and Replace consultation paper (discussed in Section 4) clear timelines for key activities such as authorisation and model approvals. In the consultation we will set out proposals to publish our performance against these timelines to increase transparency and allow industry to assess our delivery. The Bank's consultation on its approach to rule permissions and waivers also proposes that the Bank will publish data on its timelines for making decisions on permissions that allow rules to be waived or modified for CCPs and CSDs.

Box C: The Bank of England's Innovation Survey for FMIs

The Bank conducted an online survey of emerging and regulated FMIs to gather their insights on the Bank's approach to innovation in March-April 2025. This survey is part of the Bank's ongoing engagement with industry and will help us better understand how we can facilitate innovation in our regulatory and supervisory frameworks most effectively, including in the context of our secondary objective. The responses to our survey show that FMIs consider innovation to be critical aspect of their business model, enabling them to adapt in an evolving financial landscape (Chart A).

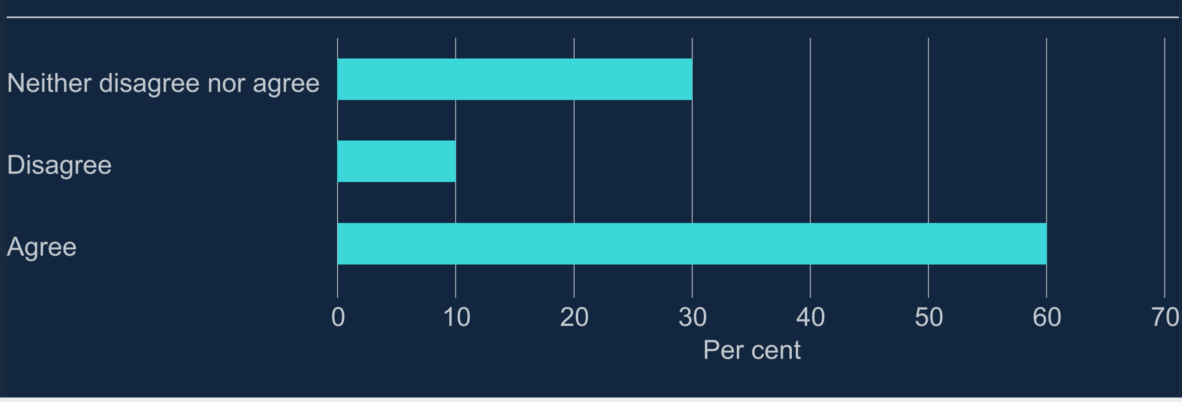
Chart A: Innovation in the services you offer is a key factor in securing investor support



The survey highlighted several areas of innovation that FMIs are particularly focused on. This includes work on digital securities that are issued and traded on blockchain technology ('tokenised' assets) and their potential use in collateral management. Artificial Intelligence (AI) and Machine Learning (ML) are other significant areas of interest, with substantial investments in their use both in enhancing resilience, such as combatting fraud in payments, improving cyber resilience, and enhancing efficiency in their services through automation. Survey responses also highlighted the role that the regulatory framework could play in facilitating innovation at FMIs. CCPs and CSDs in particular welcomed the introduction of the Bank's Secondary Innovation Objective (SIO) to ensure consideration of innovation is central to our CCP and CSD policymaking.

Respondents supported the proportionality embedded within the Bank's regulatory and supervisory framework. The purpose of this proportionality is to ensure that new firms and technologies are regulated in proportion to the risk they pose. Similarly, FMIs supported continued engagement between the Bank and FMIs, such as through speeches articulating innovation as a Bank priority,[8] roundtables (like the Innovation Workshop hosted in 2024),[9] as well as ongoing supervisory dialogue on new technologies. Respondents also highlighted the work the Bank was leading on updating the central payments architecture through the RTGS renewal programme as well as the exploration of central bank digital currency, which could help foster a constructive environment for FMI-led innovation. Bank initiatives like the Digital Securities Sandbox (DSS) were also highlighted as a valuable opportunity for FMIs to test and adapt innovative solutions within a controlled environment. Overall, the majority of FMIs felt that the Bank's regulatory framework broadly facilitates innovation in FMI services (Chart B).

Chart B: The Bank of England's regulatory framework for UK FMIs broadly facilitates innovation in FMI services



However, there were aspects of the regulatory and supervisory regime that respondents believed could better facilitate innovation. This included offering clearer guidelines and more transparent criteria for supervisory approvals to help improve the process and reduce delays. The Bank will seek to address this through proposals to standardise and streamline the processes around supervisory approvals for CCPs as part of the repeal and replace of UK EMIR.

Payment system operators noted that regulatory congestion is a current obstacle to innovation. They welcomed the work the authorities are doing to reduce regulatory congestion, including revising the MoU on how authorities work together to minimise the collective impact on firms and the upcoming merger of the FCA and PSR. Continued focus on creating a shared strategic direction for UK payments regulation through the

8. www.bankofengland.co.uk/speech/2025/february/sasha-mills-remarks-chair-ceo-ineds-roundtable-for-uk-financial-market-infrastructure-firms.
9. www.bankofengland.co.uk/events/2024/april/workshop-on-the-secondary-innovation-objective.

NPV will help align the industry around prioritised outcomes, moving retail payments forward and ensuring the timely approval of new systems.

Finally, some respondents that operate globally noted potential international misalignment as a possible barrier to innovation, with differing regimes causing extra regulatory compliance costs, and so supported regulatory alignment where possible. Some respondents noted regulatory fees as a barrier, particularly for new entrants early in their firm lifecycle when uninterrupted capital raising from investors is crucial.

As a next step, and as part of our ongoing engagement, we intend to run this survey on an annual basis. We thank FMIs for their valuable input and helpful responses. The results will be used to inform our approach to policymaking, ensuring that innovation remains central to our efforts. We look forward to continuing this dialogue and leveraging these insights to drive meaningful progress in the way we facilitate innovation at FMIs.

3: What have been the Bank's areas of supervisory and policy focus over the reporting period?

This section covers the progress made by the Bank with our supervisory and policy objectives over the reporting period.

This section sets out how in carrying out the Bank's FMI and payment oversight functions, the Bank's financial stability objective under section 2A of the Bank of England Act 1988 and the secondary innovation objective under section 30D (2) have been met. Amid an uncertain and changing context, we have maintained our focus on day-to-day supervision and a clear policy agenda to ensure financially and operationally resilient FMIs and have supported safe and resilient innovation in payments, settlement and clearing. Over the reporting period, the Bank's supervision of FMIs has continued to contribute significantly to the delivery of its objective to protect and enhance UK financial stability.

The market environment has continued to test FMIs.

The market environment has remained challenging for FMIs and they have proved resilient, supporting financial stability during events such as the market volatility surrounding the US changes to tariffs (as discussed further in Box F) and during operational incidents. Looking ahead, the likelihood and potential severity of adverse events remains high. During periods of market stress, both financial and operational resilience are key to maintaining confidence in the financial system.

The Bank is ready to respond to the challenges faced in its supervision of FMIs.

The Bank works with FMIs to promote high standards of operational and financial resilience so that risks of disruption are reduced and FMIs can respond effectively to operational incidents and market events should they occur. The Bank also works to maintain its own readiness to respond effectively and rapidly to incidents and market events impacting FMIs. This includes through testing and exercising, enhanced data analytics, as well as reflecting on lessons learned from previous events.

The adoption of new technologies, for example distributed ledger technology (DLT), cloud, and artificial intelligence (AI) present new challenges for the Bank in delivering supervision as well as creating opportunities for efficiencies. We continue to develop our understanding and work with experts from both across and outside the Bank to ensure we keep pace with market developments.

3.1: Ensure UK financial stability through financially resilient FMIs and their market structures

Financial resilience is important for all FMIs, but it is a particular focus for those FMIs that take counterparty credit risk – most notably CCPs. Ensuring UK CCPs and indeed global cleared markets are resilient to shocks is a key part of our supervision and policymaking. This is achieved through applying high standards for the level of coverage and financial resources of CCPs, complemented by transparent disclosure of the risks of clearing and how the CCPs mitigate those risks.

We have strengthened FMIs' financial resilience through supervision and policy.

The Bank undertook a range of supervisory reviews across the year looking at the adequacy of FMI models and risk management practices providing feedback to the FMIs on areas for them to address. A milestone this year has been the conclusion of the two-year independent monitoring of LMEC's remediation programme following the Nickel incident as discussed further in Box D. We also collaborate with overseas regulators on supervisory reviews of UK CCPs and have provided our input and expertise to reviews run by other FMI supervisors internationally.

Alongside technical reviews of financial resilience, an FMI's governance is a core component of risk management and delivering an appropriate risk culture. As such, we assess the governance arrangements of FMIs, including when significant changes are made, to ensure that they are appropriate.

We used stress testing to assess financial resilience.

In April we launched our latest Stress Test of UK CCPs. The Bank conducts regular stress tests of UK CCPs to assess their financial resilience, and to promote transparency and confidence in the UK clearing system. These exercises are exploratory rather than 'pass-fail' and the findings are used to identify potential areas of risk and to support and inform the Bank's supervisory and regulatory activities.

The 2025 CCP Stress Test focuses on assessing the resilience of UK CCPs to the default of two or more of its members during a severe market stress. This includes a core Credit Stress Test and additional reverse stress testing and sensitivity testing that explores how the results change under increasingly severe assumptions. Consistent with our obligation to be proportionate, this year's exercise will not include a full Liquidity Stress Test, but we will explore liquidity risks in a more qualitative manner with firms and assess how risks have evolved since last tested. The Stress Test will also consider the impact on the wider financial system via initial margin and variation margin calls. The results of this year's exercise will be published in Q4.

As we did last year, the Bank will explore a wider range of hypothetical scenarios as part of its stress testing, including more extreme scenarios and those that break historic correlations. For this analysis, the Bank will use its own independent 'desk-based' modelling to undertake the revaluation of clearing member and client positions under these scenarios. This model allows us to assess a wider range of risks and identify potential pockets of vulnerability. It can also be used to explore CCP resilience to specific groups of defaulters. We are therefore integrating this model into the suite of data tools that support ongoing CCP supervision – by linking it to daily supervisory data we are able to monitor changes in CCPs' resources and resilience over time and in response to market conditions.

We are enhancing our readiness for managing financial crises through industry exercises.

The Bank is actively seeking, through work with other regulators internationally, to ensure the readiness of CCPs in the UK to deal with the default of a large clearing member (with memberships in multiple CCPs). This is to be tested in the form of a multi-CCP fire drill where many CCPs simultaneously run a simulation of their default management processes – under a scenario where a large (but fictitious) clearing member defaults. Known as the CCP International Default Simulation (CIDS) 2025 it is expected to take place in November 2025.

The Bank, along with the CFTC, ESMA, Bundesbank, and BaFin are acting as the lead authorities overseeing the design of the drill. Industry body CCP Global will assist in the operation of the actual drill.

Global fire drills, like CIDS 2025, in which multiple CCPs simultaneously test their default management processes are an important element to ensuring the readiness of CCPs, clearing members, clients, and other stakeholders, including regulators, to deal with a default of a material clearing member.

Having many CCPs execute this drill at the same time supports the identification of potential operational bottlenecks, such as having non-defaulting Clearing members of multiple CCPs asked to bid on the defaulting member's portfolio at the same time.

Since the last multi-CCP fire drill (CIDS 2023), the lead authorities have sought to introduce some changes to the drill including – for the 2025 exercise – a new module to test CCPs' porting of defaulting members' portfolio. Additionally, the lead authorities are aiming to make improvements to the post fire-drill survey templates and processes.

We have supported international work assessing the appropriateness of FMIs financial resources.

Since 2021, the Bank and the CFTC have co-chaired international work on increasing the transparency and evaluating the responsiveness of initial margin in centrally cleared markets. This work resulted in the publication of a final report by the BCBS, CPMI and IOSCO titled 'Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals' on 15 January 2025.

The report's findings include finalised policy proposals which aim to improve centrally cleared market participants' understanding of potential future margin requirements and margin responsiveness through enhanced CCP and clearing member transparency and governance practices.

This work was prompted by challenges during the March 2020 'dash for cash', where large increases in initial margin requirements driven by increased volatility contributed to some market participants facing liquidity needs materially greater than anticipated – potentially exacerbating liquidity strains for participants.

The Bank is also contributing to CPMI-IOSCO work on general business risks to ensure that FMIs can manage the losses that may arise from events other than member default, such as investment losses, legal risks, or cyber-attacks. This includes contributing to an assessment of FMIs' implementation of the general business risk principle (Principle 15) of the Principles for Financial Market Infrastructures (PFMI). We expect this will lead to the publication by CPMI-IOSCO of a consultative document on further guidance or recommendations in the near term.

Box D: Nickel incident

On 8 March 2022, on the back of unprecedented moves in the nickel market, the London Metal Exchange (LME) took the decision to suspend nickel trading and to cancel trades placed that day. This in turn resulted in a cessation of clearing of new nickel trades at LME Clear (LMEC) during the period that nickel trading was suspended on the LME. The subsequent market disruption undermined confidence in the functioning of the nickel market.

As outlined in the Bank's statement of March 2023,[10] subsequent reviews of these events pointed to several shortcomings across LMEC's governance, management and risk management capabilities. The Bank publicly announced that it expected LMEC to appropriately address all the findings from the reviews. Recognising the importance of this work, the Bank appointed a skilled person to independently monitor, assess and report to the Bank on LMEC's progress and to support the Bank's supervisory actions. LMEC's remediation programme and the skilled person's work have now been largely delivered.

The combination of our supervisory activities and these programmes of work have led to the required improvements at the firm, including strengthened, more independent governance and management arrangements, and improvements to the firm's risk management capabilities. The Bank will continue to assess that the firm has embedded these changes through our ongoing supervisory activities.

The events in March 2022, and subsequent reviews and remediation work, as well as other episodes of extreme market stress which the UK and global markets have seen over recent years, have led to a number of lessons for the international regulatory community.

These episodes have shown the importance of capable and independent Boards, the benefits gained from robust risk management procedures, and the importance of clear lines of responsibility and accountability within FMIs, particularly during times of market stress. These aspects form an important part of our proposed Fundamental Rules for UK FMIs, which provide a clear and transparent articulation of the desired outcomes of the Bank's policy framework, including the actions FMIs should take to understand and manage the risks they may pose to the broader system.

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10. **www.bankofengland.co.uk/news/2023/march/boe-announces-supervisory-action-on-lme-clear**.

This episode has also underlined the importance of assessing CCPs financial resilience in our annual CCP stress tests – which include desktop stress testing of alternative scenarios and shocks to specific metals – and addressing findings through our regular supervisory engagement with firms. We also welcome actions taken by other regulators in response to the episode , in particular, the FCA's policy statement[11] on reforming the commodity derivatives framework, which aims to mitigate the risk from concentrated positions in these markets. The new framework includes provisions for position limits, enhanced OTC reporting capabilities and for information sharing between the relevant exchanges and central counterparties.

The broader March 2022 market turmoil has also informed the work of international standard-setters. The Bank has co-chaired the BCBS-CPMI-IOSCO Margin Group that is responsible for work to improve transparency and evaluate the responsiveness of initial margin practices in centrally cleared markets, which published its final report in January 2025.

11. **www.fca.org.uk/publications/policy-statements/ps25-1-reforming-commodity-derivatives-regulatory-framework**.

3.2: Ensure FMI services are operationally resilient to support financial stability in the event of disruption

The Bank works with FMIs to promote high standards of operational resilience to reduce the impact caused by major disruption. FMIs continue to invest and build resilience capabilities to ensure they can detect, prevent, adapt, respond, and recover effectively to operational incidents should they occur.

Given the complexity and interconnectedness of the financial system, the resilience of individual FMIs alone may not be sufficient to ensure system-wide resilience. In our role protecting financial stability, the Bank is focused on promoting the operational resilience of the broader financial system, working closely with the Prudential Regulation Authority (PRA), FCA, FPC and industry.

It is important that we engage with other firms, FMIs and the wider market to understand the impact of disruption and resilience actions that could support our objective. The Bank maintains its own readiness to respond effectively and rapidly to incidents and market events impacting FMIs. This includes through testing and exercising, as well as reflecting on lessons learned from previous events.

> **We continue to work with FMIs to ensure compliance with the Operational Resilience policy expectations.**

FMIs' operational resilience capabilities continue to mature in line with the expectations of the operational resilience policy and outsourcing and third party risk management policy: Outsourcing and third party risk management;[12] Operational resilience of the financial sector;[13] and the joint covering document 'Operational resilience: Impact tolerances for important business services'.[14] FMIs are now expected to meet the operational resilience policy expectations, which came into effect at the end of March 2025. We engaged closely with FMIs ahead of the March 2025 implementation deadline to assess the operational resilience capabilities that FMIs have embedded in response to these policy expectations. Our supervisory engagement has provided insights into the 'extreme but plausible' scenarios FMIs are developing, and the testing being carried out to assess their ability to respond and recover within impact tolerances.

12. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2024/ss221-november-2024-update.pdf**.
13. **www.bankofengland.co.uk/financial-stability/operational-resilience-of-the-financial-sector#**.
14. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2021/building-operational-resilience-impact-tolerances-for-important-business-services.pdf**.

FMIs are also expected to consider FPC's expectations for testing with participants and ensure they apply a holistic and system-wide approach to operational resilience outcomes[15] such as ensuring that FMIs can: (i) minimise the impact of operational disruptions; (ii) effectively respond to disruptions when they occur to reduce financial instability; and (iii) recover operations within acceptable timeframes.

We have used FMIs' Operational Resilience Self-Assessments (ORSA) to monitor their progress and the maturity of their operational resilience capabilities. Over the past year, firms have continued to make progress implementing strategic and tactical investments to strengthen their ability to respond to and recover from severe disruptions.

In previous ORSA submission cycles, the Bank's review focused on assessing how FMIs identified Important Business Services (IBS) and set Impact Tolerances (ITOLs), with FMIs generally demonstrating progress in these areas. This year our work has focused on the sophistication of Extreme but Plausible (EbP) scenarios FMIs have developed and their ability to meet their ITOLs under severe disruption.

Where FMIs are unable to remain within ITOL our work has focused on their response capabilities to reduce the impact of disruption, and their plans to deliver recovery solutions to bring them back within ITOL. Given the evolving risk landscape, particularly in the face of geopolitical tensions and increasing cyber threats, we have placed particular emphasis on FMIs' response and recovery capabilities to severe cyber and material third-party outages. Cyber and material third-party outages present some of the greatest operational risks to financial stability as they are typically high impact and some of the more difficult scenarios for FMIs to recover from.

FMIs are expected to have well-defined resilience strategies in place for these scenarios, which are capable of being executed effectively under real-world stress conditions. Recognising that FMIs are at different stages of maturity for embedding the Operational Resilience Policy expectations, our priority is to ensure FMIs address any gaps that could prevent FMIs from meeting ITOLs under these severe conditions.

Alongside this work the Bank continues to focus on FMIs' cyber resilience capabilities through delivering the CBEST programme and applying lessons learned from the 2024 Cyber Stress Test (CST24) which will publish its thematic findings later this year.

For firms where previous supervisory work, including authorities-led penetration testing, has identified actions to be taken in relation to cyber resilience, detailed remediation plans are being reviewed and assessed.

15. **www.bankofengland.co.uk\financial-policy-summary-and-record\2024\october-2024**.

We are strengthening the regulatory framework for operational resilience.

In December 2024, the Bank of England consulted on operational incident and outsourcing and third-party reporting (IOREP) rules for FMIs. These draft rules set a framework for high-quality and consistent reporting of the operational incidents and third-party arrangements that may have the greatest impact on financial stability. They aim to support the operational resilience of the UK financial sector and the Bank's ability to monitor and manage potential risks. The consultation has now closed and we are reviewing responses. The Bank is following a joint approach with the PRA and the FCA, who consulted in parallel and we will work with them to finalise our policy.

The Bank is continuing the roll out of the Critical Third Parties regime to strengthen the oversight of firms that are key dependencies across the financial sector as detailed in Box E.

Over 2025 the Bank has continued to support international work on FMI resilience through playing an active role within the CPMI-IOSCO Operational Resilience Group (ORG). This covers workstreams on third-party and cyber operational resilience, including the management of risks associated with third-party service providers and outsourcing. The ORG is exploring these topics and will continue to engage with industry over this process.

We continue to focus on ensuring high standards of governance and risk management are maintained across the FMIs the Bank supervises as a key foundation to ensuring FMIs' operational resilience.

As part of embedding the consideration of the regulatory principles or 'have regards' brought in under FSMA 2023, we have developed guidance for policymakers, including on the have regard relating to 'sustainable growth, climate and environmental targets under the Environment Act 2021 which came into force from 1 January 2025. Internationally, the Bank has contributed to work at CPMI-IOSCO to consider climate-related risks at FMIs. In December 2024, CPMI-IOSCO published[16] a summary of the workshops it hosted in March and April of that year with industry and other authorities, in order to better understand the ways in which FMIs are identifying, monitoring and managing related operational and financial risks. The participants highlighted the materiality of physical risks, particularly the implications for business continuity and operational resilience and viewed transition risks as a less material source of risks for FMIs.

16. **www.bis.org/events/2403_04_cpmi_iosco_climate_risks.htm**.

We are enhancing our readiness for managing operational resilience events.

While FMIs have made progress to ensure that they are operationally resilient under a range of adverse scenarios, the Bank also works to maintain its own readiness to respond effectively and rapidly where our FMIs are unable to continue to provide their Important Business Services.

Through scenario testing and learnings from past incidents, the Bank is enhancing its crisis management capabilities across a range of impacts FMIs may experience. This includes increasing our ability to identify risks to financial stability from a disruption to an FMI's IBS, and ensuring we are prepared to respond to support the overall functioning of the financial system.

The Bank has continued to be an active participant in industry-led testing through its partnership with the Cross Market Operational Resilience Group (CMORG). CMORG brings together authorities and market participants, including FMIs, to collectively test resilience capabilities in the event of severe disruption impacting the whole sector and agree on multilateral action aiming to protect critical services and minimise risks to UK financial stability.

CMORG's focus throughout the last reporting period has been to develop and exercise industry-wide capabilities in responding to major infrastructure failure, co-ordinate market participants' response to a voluntary sterling settlement postponement, and to launch a sector restart playbook in the event of a national power outage. CMORG's focus areas for 2025 include contingencies for the most critical organisations and services, reconnection, and cyber recovery, as well as a focus on emerging technologies and the risks these pose.

Box E: Critical third parties regime

The Bank recognises that firms increasingly rely on a small number of third parties to support their operations. This concentration could create risks to UK financial stability. FSMA 2023 gave HMT the power to designate certain third-party service providers as ‘critical’ (referred to as ‘CTPs’). HMT may designate where it considers the CTP provides services to the financial sector which, if disrupted or subject to failure, could cause financial stability concerns or risks to the confidence in the UK’s financial system. The Bank, PRA, and FCA (the Regulators) developed an approach to identify and recommend potential CTPs to HMT for designation, based on the concentration and materiality of services provided to firms as well as any other drivers of systemic impact.

Last year, the Regulators jointly published the final package of documents on the CTP regulatory regime setting out our final policy,[17] guidance and approach to the oversight of CTPs.[18] The Bank will continue to work with the other regulators to roll out and embed its oversight approach in readiness to oversee CTPs, once designated by HMT. To support this, a cross-authority governance forum will be established – joint CTP Consultation and Co-ordination Forum[19] – that will help the regulators to co-ordinate their CTP functions and activities.

The Bank, alongside the PRA and FCA, is also working to strengthen domestic and international co-ordination due to the cross-sector and cross-jurisdictional nature of CTPs operations.

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17. **www.bankofengland.co.uk/prudential-regulation/publication/2024/november/operational-resilience-critical-third-parties-to-the-uk-financial-sector-policy-statement**.
18. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/critical-third-parties-approach-2024.pdf**.
19. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/critical-third-parties-approach-2024.pdf**.

Box F: CCP resilience during the market volatility in April

During the week commencing Monday 7 April 2025, financial markets experienced significant volatility amidst broader uncertainty in the wake of the imposition of US tariffs on several nation states. This turbulence led to CCPs experiencing heightened clearing activity across various asset classes, and subsequent increases in margin requirements across some of these products to ensure collateral was sufficient to cover future changes in market prices.

While UK CCPs experienced record volumes across the week, margin increases did not reach the same levels experienced during the Covid-19 pandemic and the Russia-Ukraine conflict. By Friday 11 April, trading volumes had normalised across UK CCPs.

UK CCPs responded effectively to the sudden change in market conditions, engaging with members to closely monitor positions, and keeping authorities informed of any material changes in market behaviour. CCPs adjusted initial margin rates across various products to manage the risks, and all CCPs performed well in response to trading volumes that reached more than double the average Q1 volumes.

The Bank received regular updates from UK CCPs and increased its market monitoring activities as well as engagement with international regulators. Overall, the actions of UK CCPs demonstrated their ability to effectively manage increasing market risk, without further amplifying stress.

This market event highlights the continued importance of FMIs taking steps to actively identify and manage risks which can crystalise during sudden stress events. This includes focusing on the resilience of their systems, as well as applying conservative assumptions around shocks to prepare for scenarios where products that previously moved together may no longer behave as predictably. The Bank will continue to monitor the medium to long-term risks of continued market volatility, and the broader impact this might have on UK financial stability.

3.3: Enable safe and resilient innovation in payments, settlement and clearing

The Bank expects and encourages all FMIs to innovate and believes that innovation can actively support FMIs' resilience and financial stability more broadly. Our aim is to foster an environment where innovation across FMIs thrives but always with safety and resilience at the forefront.

We are working across the authorities on a strategy for retail payments in the UK.

The government's National Payments Vision was published in November 2024 in response to the 2023 Future of Payments Review. It established a Payments Vision Delivery Committee chaired by HMT, including senior representatives from the Bank, PRA and FCA.

The National Payments Vision sets out a clear vision for a thriving payments sector in the UK. The Payments Vision Delivery Committee is seeking to assess the upgrades and longer-term requirements needed for the UK retail payments infrastructure and the appropriate funding and governance arrangements needed to deliver this including proposals to reform Pay.UK. The committee facilitates input from industry through the Vision Engagement Group.

We are developing our strategy for stablecoins.

In November 2023 we published a discussion paper on the proposed regime for systemic payment systems using stablecoins and related service providers. Since then, we have been analysing the feedback and continuing to engage with the industry to discuss our proposals. We have also considered the broader regulatory and industry developments. The Bank is keen to ensure that its regime enables safe payments innovation and that firms operating at systemic levels in the UK have a viable business model. As a result, and reflecting feedback, we are reviewing how our proposals might permit firms to receive some return on their backing assets. We are working closely with the FCA and we will continue to work closely with industry while we are finalising our proposals ahead of publication of the consultation paper.

We are supporting development of a strategy for digitalisation of financial markets.

We are ensuring a 'safe innovation' regulatory environment for the development of tokenised assets. The Bank launched a Digital Securities Sandbox (DSS) in 2024 with the FCA, enabling market participants to innovate by issuing and trading digital securities in a safe regulatory environment. Box G provides an overview of the DSS which has had a successful start with with between 9 to 11 firms expected to have progressed past Gate 1. Please refer to the DSS Dashboard for the latest number.[20]

20. **www.bankofengland.co.uk/financial-stability/digital-securities-sandbox/digital-securities-sandbox-dashboard**.

The Bank has been considering the potential benefits and risks from tokenisation of securities, including the findings from the DSS, and the wider digitalisation of post-trade processes. We are collaborating closely with other regulators and with the government in support of the announced Financial Services Growth and Competitiveness Strategy: Call for Evidence.[21] This will set out an approach for the sector to achieve growth through innovation, including in digital markets, and secure the UK's ongoing competitiveness as an international financial centre.

HM Treasury announced in November 2024 the launch of a pilot Digital Gilt Instrument, or DIGIT, which will see the issuance of a digital bond with similar features to a conventional gilt, using distributed ledger technology (DLT). This pilot has two aims. First, to explore how new technology can be applied to the lifecycle of the UK's sovereign debt issuance process; and second, to catalyse the development and adoption of programmable ledgers, including DLT, in UK financial markets.

The DIGIT will utilise the DSS. This will enable the Bank, working with colleagues from the FCA, to provide a regulated environment where innovation in capital markets that can have long term benefits can flourish.

Our international engagement, including working with CPMI, complements our domestic strategy for innovation in payments, settlement and clearing. Following the BIS-CPMI report to the G20, Tokenisation in the context of money and other assets: concepts and implications for central banks,[22] CPMI is focusing on the considerations for central banks on tokenisation in the context of money and other assets. The work will prioritise the impact of innovation on the role of central bank money, commercial bank money and non-bank private money.

The work will also consider options for central bank money settlement to support the use of digital tokens in financial transactions and the implications of tokenisation on delivery versus payment's settlement and liquidity. In addition, exploratory work will be undertaken to consider potential issues for central bank oversight related to tokenisation. The CPMI will continue to monitor, collect, and exchange information on key developments related to digital innovation in payments and FMIs through various channels and formats.

21. **www.gov.uk/government/calls-for-evidence/financial-services-growth-and-competitiveness-strategy**.
22. **www.bis.org/cpmi/publ/d225.pdf**.

Box H: Digital Securities Sandbox (DSS)

What is the Digital Securities Sandbox?

The DSS is a regulated live environment where innovative FMIs can apply new technologies such as distributed ledgers to record, settle and trade real securities such as shares and bonds in sterling and other currencies, which can also be used outside the DSS. DSS entrants operate under a temporarily modified set of rules designed to remove barriers to the application of the technology. [23] The DSS is a joint initiative with the FCA.

The approach

The DSS is structured in stages (Table A) and the Bank has set limits on the amount of securities that can be issued or held inside the DSS in established key asset classes in order to manage potential risks to financial stability. Firms will be required to pass 'gates' to access stages by demonstrating their ability to meet higher regulatory standards to supervisors. At the 'Go-live' stage, the permitted stock of digital securities that can be issued by any Digital Securities Depository (DSD) will be low, then this limit will loosen at the 'Scaling stage' if firms meet higher standards of resilience.

Such proportionate regulations will be applied to facilitate activity and enable the Bank to make reactive adjustments as we learn more to support the safe development and implementation of technologies. This glidepath means that it is possible to shape a new permanent regulatory regime that is innovation friendly and fit for purpose, without compromising financial stability.

Next steps

Activity in the DSS will enable HMT, working with the Bank and the FCA, to determine how UK legislation may be permanently amended in the future to accommodate developing technology by adapting legislation from observing activity.

Applications opened on 30 September 2024 and the DSS is set to last until January 2029.[24] Firms of all sizes and at any stage of maturity, including new entrants to the market, are eligible to apply.

23. **www.bankofengland.co.uk/financial-stability/digital-securities-sandbox**.
24. **www.bankofengland.co.uk/financial-stability/digital-securities-sandbox**.

Stage	Purpose	Legal designation
Initial application.	Identify firms eligible to join the DSS.	None.
Gate 1		
Testing stage.	Testing stage and engagement with regulators to operate a trading venue or to be a DSD.	Sandbox entrant.
Gate 2		
Go-live stage.	Ability to carry out live business under initial limits.	DSD/authorised operator of trading venue.
Gate 3		
Scaling stage.	Scaling the business, with a glidepath to full authorisation for DSDs.	DSD/authorised operator of trading venue.
Gate 4		
Possible new permanent regime.	Full authorisation to operate outside the DSS for DSDs.	CSD/new category of FMI.

We have supported innovation in payments, settlement and clearing through regulatory initiatives to enable market change.

The UK is joining many jurisdictions around the globe which are shortening the time needed to settle financial market transactions such as shares or bonds. Such moves to reduce the settlement cycle timelines are desirable as they reduce counterparty risk, while buyers and sellers of securities receive their cash or security faster. As counterparty risk is reduced, some margin held at CCPs can be released back to clearing members and used for other productive purposes.

Some jurisdictions, notably the US, have already shortened the settlement cycle for securities from trade date plus two days ('T+2') to trade date plus one day ('T+1'). In the UK, work is continuing to shorten the settlement cycle to T+1 for equities and bonds.

This work is led by industry through the Accelerated Settlement Taskforce (AST). In February, the AST published its implementation report recommending a move to T+1 on 11 October 2027. [25] HM Treasury has welcomed the report and has accepted 11 October 2027 as the transition date.

The EC has also agreed to transition on 11 October 2027 and the Swiss T+1 taskforce has committed to transition in October 2027. The UK and other European jurisdictions will continue to collaborate aiming for a co-ordinated transition.

The Bank welcomed the AST's report, and the work of the technical group which was set up to assess the practical implementation of the UK market's move to T+1 settlement. Shortening the UK securities settlement cycle to T+1 will bring important financial stability benefits from reduced counterparty credit risk in financial markets. It is important that firms and settlement infrastructures have robust plans for an orderly transition in October 2027. FMI Directorate Executive Director Sasha Mills gave a speech at the AST's report launch event in February.[26] On 9 April, the FPC indicated its support for the UK's planned transition to T+1 settlement.[27]

The Bank continues to engage with the AST as an observer as it focuses on the implementation of the transition to T+1. Among the actions set out in the AST report, HM Treasury is to amend UK CSDR and the Bank will continue to work with HMT and the FCA on this legislative change. The Bank also continues to engage with those FMIs which have a key role to play in the transition to T+1, namely the UK CSD EUI.

25. **www.gov.uk/government/publications/accelerated-settlement-t1**.
26. **www.bankofengland.co.uk/speech/2025/february/sasha-mills-speech-at-uk-accelerated-settlement-market-event-kpmg**.
27. **www.bankofengland.co.uk/financial-policy-committee-record/2025/april-2025**.

3.4: Implement and embed our new responsibilities in a proportionate and robust way

We are continuing our work to deliver a clear regulatory framework for all UK FMIs.

The Bank has begun the work to create the new framework of FMI rules. This includes work on finalising the Fundamental Rules for all UK FMIs, preparing for a consultation on the repeal and replace of the UK EMIR CCP regime and developing our approach to using the power to modify or waive rules ('permissions power') granted under FSMA 2023. These changes represent an important evolution of UK rules for FMIs while maintaining international consistency. Further details are set out in Section 4, and Box B in Section 2 highlights the Bank's approach to the regulatory framework that underpins our rulemaking.

The Bank has published an online rulebook, which sets out in a single place for Bank-supervised FMIs and other stakeholders the Bank's rules, codes of practice, supervisory statements, and statements of policy. It also includes relevant international standards and domestic legislation. This is intended to offer clarity and transparency in the Bank's requirements and expectations and will offer consolidated versions of the rules applicable to each FMI type as the rulebook develops.

We have continued to progress recognition for non-UK FMIs.

The Bank continues to implement its new responsibilities for non-UK CCPs and CSDs, underpinned by our model of informed reliance (as set out in Section 2).

Following the UK's withdrawal from the European Union (EU), the Bank has responsibility for recognising and supervising: non-UK central counterparties ('incoming CCPs') who provide clearing services to clearing members or trading venues established in the UK; and non-UK central securities depositories ('incoming CSDs') who provide settlement services for securities issued under UK law.

The Bank has recognised ATHEXCSD based in Greece, so far this year.

4: What are the Bank's future priorities?

This section covers the priorities for the Bank over the coming reporting period.

Our objectives for the coming year include work to establish the CCP rulebook, continued work on the National Payments Vision and Stablecoin policy, work to support innovation, for example the Digital Securities Sandbox and supporting the government on the DIGIT pilot, alongside continued emphasis on robust supervision and effective international co-operation.

We will continue to focus on our business aims as set out in Section 1. Risks to the delivery of our objectives include market events that require the focus of our FMIs and supervisors to address, and a reduction in global co-operation which could increase fragmentation thereby reducing resilience.

4.1: Ensure UK financial stability through financially resilient FMIs and their market structures

The Bank will continue to use its supervisory programme to promote robust standards of financial resilience across FMIs and to monitor risks to financial resilience.

This will include undertaking a range of supervisory reviews, technical risk reviews, stress tests and third-party reviews, across the FMI population, including model and liquidity risk management reviews. We will continue to enhance our use of data to support identification of risks to FMIs and continue to work closely with international regulators.

The Bank will complete and publish findings from its 2025 CCP Supervisory Stress Test.

Looking ahead stress tests will continue to play a role in our approach to supervision and will take place on a regular basis. The Bank will continue to develop its stress-testing capabilities and explore opportunities to collaborate and share best practices with other CCP regulators internationally.

The Bank will strengthen crisis readiness through the fire drill exercise.

The Bank will continue to actively seek to ensure the readiness of CCPs in the UK and through working with other regulators internationally to deal with the default of a large clearing member (with membership in multiple CCPs). This will be tested in the form of a multi-CCP fire drill where many CCPs simultaneously run a simulation of their default management processes – under a scenario where a large (but fictitious) clearing member defaults. Known as the CCP International Default Simulation (CIDS) it is expected to take place in November 2025 (as discussed in Section 3).

The Bank will continue to contribute to international FMI-related committees and working groups to advance domestic and global resilience of cleared market structures.

The Bank will continue to co-lead the work of the relevant standard-setting bodies to implement the BCBS CPMI-IOSCO proposals to improve transparency and evaluate the responsiveness of initial margin practices in centrally cleared markets. The Bank will also continue to support CPMI-IOSCO's work to identify areas where further guidance or recommendations may be useful for FMIs' practices relating to losses arising from general business risks. CPMI-IOSCO expect publication of a consultative document on further guidance or recommendations in the near term.

4.2: Ensure FMI services are operationally resilient to support financial stability in the event of disruption

The Bank will continue to use its supervisory programme to promote high standards of operational resilience across UK FMIs.

This will include undertaking a range of supervisory reviews, technical risk reviews, and third-party reviews, across the FMI population, including reviews of cyber resilience, incident handling and major change programmes, responding to any outages and incidents that occur and continuing the follow-up and lessons learned on earlier incidents.

We will continue to review FMIs major change programmes.

Operational resilience is critical for all FMIs, particularly those engaged in long-term, large-scale transformation programmes. These initiatives present opportunities to embed resilience by design but also introduce risks both during transition and through the need for different control environments post go-live as well as increased concentration where there is increased use of outsourced service providers. To manage these risks, we will ensure that appropriate controls are applied to deliver resilience outcomes and that changes are completed effectively and efficiently and with robust standards to ensure UK financial stability.

The Bank will continue to work with FMIs to ensure their compliance with the Operational Resilience policy expectations and that FMIs deliver remediation plans that support cyber and third-party resilience expectations.

While the March 2025 deadline represents a significant milestone, it should not be seen as a 'one off' event. FMIs will need to continue to monitor and improve their operational resilience as risks and technologies evolve, particularly for high impact cyber and material third-party outage scenarios.[28]

The Bank, alongside the PRA and FCA, intends to publish a final policy statement, rules, and supervisory statement on 'operational resilience: operational incident and outsourcing and third-party reporting for financial market infrastructures'.

The purpose is to support FMIs' operational resilience, through providing timely, accurate and consistent reporting of operational incidents, and notification of material outsourcing and third-party relationships to give a systematic understanding of third-party interdependencies. The proposals are consistent with the FSB's 'FIRE' (Format for Incident Reporting Exchange), which are intended to set a common global framework for incident reporting. The proposed implementation date for these proposals is no earlier than the second half of 2026.

The Bank and PRA are developing more detailed guidance to formalise our expectations on cyber resilience, to support FMIs' resilience in a climate of increased geopolitical risk.

This would have the aim of FMIs improving their ability to identify and prevent cyber incidents, advancing their capacity to test their resilience against potential incidents, and importantly detecting, responding, and recovering in a safe manner if defences are breached. We plan to publish a consultation on our proposed cyber guidance in the second half of the year.

The Bank will continue to work with other regulators to roll out and embed the oversight of CTPs.

The Bank will continue to work with the other regulators to roll out and embed its oversight approach in readiness to oversee CTPs, once designated by HMT. To support this, a cross-authority governance forum will be established – joint CTP Consultation and Co-ordination Forum[29] – that will help the regulators to co-ordinate their CTP functions and activities.

We continue to actively support international initiatives on FMI operational resilience by participating in the CPMI-IOSCO Operational Resilience Group (ORG).

28. www.bankofengland.co.uk/speech/2024/april/sasha-mills-speech-at-london-institute-of-banking-and-finance-securing-financial-stability.
29. www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/critical-third-parties-approach-2024.pdf.

This work includes workstreams focused on third-party and cyber operational resilience, considering risks associated with third-party service providers and outsourcing. The ORG has and will continue to engage with industry to help inform its work.

4.3: Enable safe and resilient innovation in payments, settlement and clearing

Innovation within the sector continues at pace and we will continue to develop the Bank's broader approach to innovation across the FMIs.

> **We will support innovation in payments, settlement and clearing with a clearer framework for new entrants to the FMI landscape.**

The Bank recognises that new FMIs are emerging in response to innovation, including to trial new digitalisation and tokenisation technologies and provide payments, clearing and settlement services to digital markets. We understand that becoming authorised or recognised can be challenging for new entrants. As such, the Bank is publishing its approach to onboarding new FMIs that enter the Bank's regulatory remit, under the principle of being a proportionate and consistent regulator.

The approach will broadly set out the process for FMIs as they move from being authorised or recognised to operating at scale. We will also set out the Bank's expectations so that FMIs have a smooth transition into being a regulated entity and can grow their business safely while managing risks to financial stability as they become more established.

Recognising the different types of FMIs that the Bank regulates, the approach will include some specific considerations that differ by FMI type. Setting out this approach for new FMIs supports the Bank advancing its secondary innovation objective by providing a clear understanding of our approach and expectations. We believe this publication will be especially helpful for new entrants to the market that will be supervised by the Bank from launch.

> **We will continue to work with HMT to take forward the government's ambitions for the UK payments landscape as a whole, including delivering on the outcomes identified in the HMT National Payments Vision.**

The National Payments Vision sets out a clear vision for a thriving payments sector in the UK. The Payments Vision Delivery Committee will continue work to assess longer-term requirements for the future of the Faster Payments System and the appropriate funding and governance arrangements needed to deliver this including proposals to reform Pay.UK.

The Bank plans to publish a consultation paper on our final proposals for the regulatory framework for stablecoins.

Following the November 2023 discussion paper[30] on the proposed regulatory regime for systemic payment systems using stablecoins and related service providers we plan to publish a consultation paper where we will set out our final proposals for the regime. As set out in Section 3, these proposals will reflect the feedback received to our DP as well as broader regulatory and industry developments. We will continue to work closely with the FCA which has recently published their consultation for the regulatory framework for non-systemic stablecoin issuers and custodians.[31]

The Bank and the FCA will continue to work together to process applications through the DSS.

The DSS as outlined in Section 3 is designed to allow firms which provide securities trading and/or settlement services to test and adopt new technologies that are not supported under current legislation. We will be working with firms in the DSS to develop the DSS rules for the scaling stage, which will also inform future settlement regulations. This will include discussing policy issues which arise in relation to the new technology and considering the treatment of non-systemic firms that engage in settlement activity. We will continue to accept new applications to the DSS until March 2027. Live business will start taking place in the DSS once firms progress through Gate 2. Information on applicants' approvals will be provided via the Bank's website.[32]

We will continue to support the work of the Accelerated Settlement Taskforce to drive the UK market's move to T+1 settlement.

As set out in Section 3 one of the recommendations in the group's implementation report would require legislative/regulatory change. We will continue to work with HMT and the FCA to establish what form these changes would take including the form and content of the Statutory Instrument to change UK Settlement to T+1.

The Bank will continue to engage with FMIs to ensure they are making the necessary changes to their systems and procedures (as well as working to ensure that they make changes to their own member's systems and procedures) to ensure a smooth and orderly transition to T+1. The Bank will be looking to the settlement discipline regime operated by the UK central securities depository and how this can be adapted to encourage members' focus on good settlement performance in a T+1 environment.

30. **www.bankofengland.co.uk/paper/2023/dp/regulatory-regime-for-systemic-payment-systems-using-stablecoins-and-related-service-providers**.
31. **www.fca.org.uk/publications/consultation-papers/cp25-14-stablecoin-issuance-cryptoasset-custody**.
32. **www.bankofengland.co.uk/financial-stability/digital-securities-sandbox**.

We will support international developments including the CPMI future of payments work.

The Bank has joined the Policy Group of Global Layer One, a collaborative initiative by the Monetary Authority of Singapore, which is exploring the design of global financial infrastructure, based on distributed ledger technology.

We will engage through the FSB and the standard setting bodies to help strengthen international co-operation and co-ordination to facilitate safe and resilient innovation in payments and settlement.

The global regulatory framework for digital assets, including stablecoins,[33] as well as emerging global experiences with regards to its implementation will continue actively to inform the Bank's development of the UK regulatory framework.

We will work with HMT and FCA to develop and implement the UK strategy for digital markets.

The Bank has been considering the potential impact from tokenisation of securities, including the findings from the Digital Securities Sandbox (DSS), and the wider digitalisation of post-trade processes. We are collaborating closely with other regulators and with the UK Government.

We will work closely with HM Treasury on the DIGIT pilot.

As discussed in Section 3, HM Treasury announced in November 2024 the launch of a pilot Digital Gilt, or DIGIT, which will see the issuance of a digital bond with similar features to a conventional gilt, using distributed ledger technology. Importantly, the DIGIT will utilise the Digital Securities Sandbox and the Bank will review proposals supporting the issuance of a DIGIT in the Sandbox as this progresses.

4.4: Implement and embed our new responsibilities in a proportionate and robust way

Taking our new statutory responsibilities into account, the Bank will continue to develop a clear regulatory framework for all UK FMIs. In particular, we will publish the finalised Fundamental Rules for all FMIs, a consultation paper on how we intend to repeal and replace

33. FSB Global Regulatory Framework for Crypto-asset Activities, consisting of the High-level Recommendations for the Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets (**www.fsb.org/uploads/P170723-2.pdf**); and the High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements (**www.fsb.org/uploads/P170723-3.pdf**); and CPMI-IOSCO guidance on Application of the Principles for Financial Market Infrastructures to stablecoin arrangements (**www.bis.org/cpmi/publ/d206.pdf).**

the UK EMIR CCP regime and a consultation paper on our approach to using our new ‘permissions’ power.

We will introduce a clearer regulatory framework for all FMIs with the publication of the finalised Fundamental Rules for UK FMIs.

The Bank expects to publish a final policy statement, rules and supervisory statement establishing Fundamental Rules for UK FMIs. The Fundamental Rules are a set of ten rules that outline the high-level outcomes that the Bank requires UK FMIs to achieve in areas such as governance, financial and operational resilience, and the actions they should take to understand and manage the risks they may pose to the broader system. The Bank initially consulted on the Fundamental Rules in November 2024. The consultation closed in February and the Bank will analyse responses before finalising this policy. The Bank also expects to publish supervisory statements setting out more information to support UK FMIs’ implementation of the Fundamental Rules. The rules will complement other rules applicable to UK FMIs.

We will consult on the regulatory framework for UK CCPs that promotes resilience and innovation.

We have continued to make significant progress to create the new UK framework for CCPs through the ‘repeal and replace’ of UK EMIR from legislation into Bank rules. HMT intends to repeal the majority of requirements that apply directly to CCPs in assimilated law (previously EU retained law) and the Bank intends to replace those provisions with Bank rules. There will be a set of targeted policy changes which aim to enhance the resilience of UK CCPs, in line with international standards. The Bank will publish a consultation paper setting out the Bank’s rulebook for CCPs and the limited policy changes, setting out clear regulatory expectations for CCPs.

FSMA 2023 also gave the Bank the power to modify or waive rules for individual firms (the ‘permissions power’), subject to this being activated by the government in secondary legislation. This power will be an important tool in achieving the full potential of the Bank’s new rule-making powers, allowing them to be applied flexibly where necessary. Alongside our consultation on the UK framework for CCPs, we will also consult on our approach to using the permissions power.

We will continue to seek ways in which to enhance the efficiency and effectiveness in our regulation.

As set out in Section 1 safe and resilient FMIs are fundamental to the efficient and reliable functioning of the financial system, which is a key driver for growth in the UK. UK FMIs consider clear regulatory requirements and expectations to be of primary importance for fostering innovation. Our continuing work on the FMI rulebook aims to support this.

Clear regulatory delivery standards can also strengthen transparency and performance. As set out in Section 3 – the new rulebook for CCPs on which we are consulting will introduce tighter timelines for certain processes. Alongside this we will also consider other areas for potential metrics.

The Bank intends to publish a consultation on its approach to reviewing rules relating to CCPs and CSDs by end 2025.

The Bank considers that the rule review framework will be an important aspect of being a responsive regulator, enabling it to keep pace with market changes, and to reconsider rules which are not operating as intended or which are no longer appropriate for UK CCPs and CSDs. The review of rules can also inform future policy development and improve existing policies, for instance to better facilitate innovation at FMIs, in line with the Bank's Secondary Innovation Objective (SIO).

We will consult on exempting transactions arising from Post Trade Risk Reduction services from the Clearing obligation.

Post-Trade Risk Reduction (PTRR) services can be offered to market participants by third-party firms to assist them in reducing operational and counterparty credit risks. There are different types of services offered by PTRR providers, but the main ones are portfolio compression, where offsetting trades between multiple parties are torn up to reduce the size of gross exposure, and portfolio rebalancing, where new, market-risk neutral transactions are inserted into netting sets to reduce risk exposures between counterparties.

As part of FSMA 2023, the Bank gained a power to exempt transactions arising from PTRR services from the Clearing Obligation where it is necessary or expedient for financial stability. The FCA also gained a power to exempt trades conducted as part of PTRR services from the Derivatives Trading Obligation. The FCA consulted in July 2024 and published its final policy in April 2025: PS25/2: Policy Statement on the derivatives trading obligation and post-trade risk reduction services.[34] The Bank expects to consult on exempting PTRR services from the Clearing Obligation in late 2025.

We will continue to recognise incoming CCPs and CSDs and provide advice to support HMT's assessments of overseas jurisdictions for equivalence.

As part of the repeal and replace of UK EMIR, HMT intends to restate the majority of provisions in relation to the recognition of non-UK CCPs in legislation. As such, the Bank's future process for recognising non-UK CCPs will likely remain largely consistent with the current approach under UK EMIR.

34. **www.fca.org.uk/publication/policy/ps25-2.pdf**.

The Bank will continue to process applications from non-UK CCPs and CSDs for recognition where the relevant requirements are met. These recognition requirements include a decision by HMT that the incoming FMI's home jurisdiction's regulatory framework is equivalent and appropriate, and proportionate supervisory co-operation and information sharing arrangements have been agreed between the Bank and the incoming FMI's home authority.

The Bank is also in contact with overseas authorities on necessary co-operation and information sharing arrangements to support recognition assessments. The Bank will continue to provide such advice, pursue co-operation arrangements, and complete recognition decisions in the coming period where the necessary requirements are met. In the meantime, non-UK CCPs and CSDs in the temporary regimes may continue to offer clearing and settlement services in the UK and the Bank will actively engage with these firms in the future to transition them to recognition on a permanent basis where relevant.

Annex 1: FMIs and specified service providers supervised by the Bank and the key supervisory legislation to which they are subject

UK CCPs are regulated under FSMA 2000 as recognised clearing houses (RCH) and under UK EMIR. The embedded payment systems of LCH Ltd and ICE Clear Europe are also both recognised payment systems under the Banking Act 2009.

CCP	Description
ICE Clear Europe Limited	Clears a range of exchange-traded derivatives.
LCH Limited	Clears a range of securities, exchange-traded derivatives, interest rate swaps, inflation swaps, non-deliverable foreign exchange forwards, foreign exchange (FX) options, bonds and repurchase agreements.
LME Clear Limited	Clears a range of metal derivatives traded on the London Metal Exchange.

Payment systems meeting defined criteria may be recognised by HMT. Recognised payment systems are supervised by the Bank under the Banking Act 2009.

Payment system	Description
Bacs[(a)]	Operated by Pay.UK, processes higher-volume and lower-value payments, such as salary, benefit, Direct Credit and Direct Debit payments.
CHAPS[(b)]	Operated by the Bank of England, the CHAPS system is the UK's high-value payment system, providing real-time gross settlement of sterling transfers between participants.
CLS	Operates the world's largest multi-currency cash settlement system for foreign exchange transactions in 18 currencies, including sterling.
Faster Payments System (FPS)[(a)]	Operated by Pay.UK, processes standing orders and electronic retail transactions, including transactions generated in internet, mobile and telephone banking.
LINK	LINK is a network of card issuers and ATM deployers which allows cardholders to use their cards to withdraw cash at any ATM connected to LINK where the ATM deployer is not the same institution as the cardholder's issuing bank.

Payment system	Description
Mastercard Europe	Mastercard Europe is a four-party card scheme and cards payments processor operating in the UK, European Economic Area (EEA), and non-EEA, offering debit, credit, deferred debit, and prepaid card products.
Sterling Fnality Payment System[c]	The Sterling Fnality Payment system is the UK's first wholesale settlement system that uses distributed ledger technology (DLT) through the Bank's Real-Time Gross Settlement (RTGS) Omnibus Account.
Visa Europe	Visa Europe is a four-party card scheme and cards payments processor operating in the UK, EEA, Israel, Turkey, and Switzerland, offering debit, credit, deferred debit, and prepaid card products.

(a) Bacs and FPS are owned and operated by Pay.UK, which is the entity that the Bank supervises.
(b) The Bank's FMI Directorate continues to supervise CHAPS (a non-recognised payment system) to the same standard as recognised payment systems. CHAPS was formally derecognised by HMT in December 2017, when responsibility for managing the system was transferred to the Bank.
(c) DLT-based Sterling Fnality Payment System (£FnPS) started its operation under limits in December 2024. Progressing to the next stage of scaling its operations will be subject to £FnPS meeting the Bank's operational and supervisory expectations.

Specified providers may be specified by HMT where their service(s) are determined to form part of the arrangements constituting a recognised payment system. Specified service providers are supervised by the Bank under the Banking Act 2009.

Specified provider	Description
Vocalink	Vocalink is a technology company that designs, builds, and operates the IT infrastructure for the Bacs, Faster Payments Service, and LINK payment systems.

Recognised UK CSDs are regulated under FSMA and UK CSDR. Euroclear UK & International operates the CREST system, which is also a recognised payment system under the Banking Act 2009 and is also subject to the Uncertified Securities Regulations 2001.

Recognised CSD	Description
Euroclear UK & International	EUI operates the CREST system – a securities settlement system for a range of securities including UK gilts and money market instruments, as well as UK equities – which settles on a delivery-versus-payment basis.

Incoming (non-UK) CCPs recognised by the Bank as a Tier 1 or Tier 2 incoming CCP under UK EMIR Article 25.

CCP	Description
CBOE Clear Europe N.V.	Clears a range of cash equities, depository receipts, exchange-traded funds, and equity derivatives (single stock options, index futures and options) and securities financing transactions.
Chicago Mercantile Exchange Inc.	Clears a range of exchange-traded futures and options including on interest rates, equity indexes, FX, energy, metals, agricultural and commodities products.
Clearing Corporation of India	Clears a range of OTC debt/equity securities, derivatives, and repos.
Eurex Clearing AG	Clears a range of OTC and exchange-traded securities and derivatives including equities, debt, interest rate, FX, and OTC repo transactions.
LCH SA	Clears a range of OTC and listed repo, credit default swaps and crypto derivatives.

Incoming (non-UK) CSDs recognised under Article 25 of UK CSDR.

CSD	Description
ATHEXCSD	ATHEXCSD is recognised to provide core services of central securities depositories, including settlement, notary, and maintentance services, as well as non-banking type ancilarry services for transferable securities, an units in collective investment undertakings.
Euroclear Bank SA/NV	Euroclear Bank SA/NV is recognised to provide core services of central securities depositories, including settlement notary and maintenance services as well as banking and non-banking type ancillary services for transferable securities, money market instruments, and units in collective investment undertakings.

Annex 2: Data on FMIs

CCPs (by default waterfall) – average of daily figures over the period

		Total initial margin requirement (£ equivalent, millions)[a]			Default fund (£ equivalent, millions)[b]			Number of clearing members		Operational availability of core systems		Products cleared
		2024	2023	2022	2024	2023	2022	2024	2023	2024	2023	2024 and 2023
ICE Clear Europe[c]	Credit default swap	n/a	3,822	7,990	n/a	1,236	1,052	N/A	n/a	n/a	100.00%	ICE clears products in different asset classes including interest rates, energy, energy derivatives, and agriculture products.
	Futures and options	61,283	73,865	121,190	2,694	2,458	2,607	72	73	100%	100.00%	
LCH Ltd	EquityClear	7,197	3,509	3,954	162	150	150	32	31	99.99%	100%	LCH clears multi asset classes including interest rate swaps, equities, FX and gilt repos.
	ForexClear	9,178	5,417	6,113	1,772	1,386	1,832	39	38	99.96%	99.96%	
	RepoClear	7,986	9,942	11,632	638	519	1,311	51	99	99.96%	100%	
	SwapClear[d]	191,315	173,805	157,302	5,818	5,620	5,406	137	127	99.70%	99.88%	
LME Clear	LME Base	7,193	10,320	9,092	986	1,289	1,358	43	40	100%	99.90%	Clears a range of base metal derivatives traded on the London Metal Exchange.
	LMEprecious	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n.a.

(a) The end of day total margin requirement per default waterfall, averaged over all business days in the period.
(b) The size of the clearing member prefunded default fund, averaged over all business days in the period.
(c) ICE default fund is average of requirement amount rather than deposit value.
(d) The SwapClear line covers the SwapClear and Listed Rates services.

Recognised payment systems and securities settlement systems[a]

		Volume			Value (£ millions)			Number of settlement bank members		Operational availability[b]		Important payment types
		2024	2023	2022	2024	2023	2022	2024	2023	2024	2023	2024 and 2023
Bacs		26,866,810	27,015,249	26,750,310	23,128	22,445	21,340	31	31	100%	99.99%	Direct Debit/Direct Credit.
CHAPS[c]		207,609	203,759	203,538	344,409	364,444	394,572	38	38	99.79%	99.78%	Financial markets and corporate treasury, cross border, other wholesale, interbank, government, property completions and mortgages.
CLS	All currencies	1,199,866	1,152,880	1,157,701	4,637,379	4,139,025	3,993,855	74	73	100%	100%	CLS settles FX payment instructions including those related to deliverable foreign exchange spot and forward transactions, deliverable foreign exchange swap transactions, deliverable cross-currency swap transactions, exercised deliverable foreign exchange option transactions and certain credit derivative transactions.
	Sterling	78,146	77,731	83,415	431,311	413,468	438,078					

		Volume			Value (£ millions)			Number of settlement bank members		Operational availability[b]		Important payment types
		2024	2023	2022	2024	2023	2022	2024	2023	2024	2023	2024 and 2023
CREST	Sterling	210,205	199,558	214,793	938,963	801,787	893,710	24	24	99.98%	99.90%	Settlement of gilts, equities, and money market instruments (including in respect of the Bank's open market operations and repo markets transactions more generally).
	US dollar	6,680	5,730	6,703	1,551	1,249	1,673					
	Euro	948	888	1,018	948	685	510					
	Total CREST	217,833	206,176	222,514	941,462	803,721	895,894					
Faster Payments System[d]		19,507,621	17,925,718	15,742,662	£16,133	14,913	12,971	41	40	100%	100%	Single Immediate Payments, Standing Order Payments, Forward Dated Payments, Direct Corporate Access.
Link[e]		3,791,690	4,088,107	4,347,206	219	223	227	30 (23 Banks)	32 (23 Banks)	100	100	Withdrawing cash from ATMs deployed by entities other than the withdrawer's card issuer.
Visa Europe	All currencies	173,119,983	152,814,230	136,987,615	5,668	5,230	4,697	363	356	100%	100%	Card and digital payments.
Mastercard Europe	All currencies	166,297,128	146,978,186	129,311,875	5,181	4,766	4,260	842	813	100%	99.99%	Card and digital payments.

(a) All value and volume data represent daily average unless otherwise stated.
(b) The data on operational availability is not comparable between firms because each firm uses its own definition.
(c) Number of settlement bank members includes non-bank payment service participants and does not include suspended participants.
(d) The exact figure of operational availability in 2021 was 99.9975%.
(e) Directly connected participants during the reporting period of 2021 were 38 and for 2020 H1 were 40. Three of the directly connected participants do not undertake settlement. Number shown in the above table are directly connected settling participants.

Annex 3: Glossary of terms and abbreviations

Terms

Credit risk – the risk of loss due to the failure of a counterparty to perform on a contractual obligation on time and in full. Credit risk arises whenever future cash flows are due from parties who may not provide them.

Digital Securities Sandbox – designed to allow firms which provide securities trading and/or settlement services to test and adopt new technologies that are not supported under current legislation.

Initial margin – collateral which is posted at the beginning of a transaction by a member to a CCP to cover potential future adverse changes in the market value of the contract and is recalculated on a regular basis.

Liquidity risk – the risk that a party does not have sufficient funds to meet an obligation when it becomes due or can only obtain those funds at an unexpectedly high cost.

Operational risk – the risk that deficiencies in information systems or internal processes, human errors, management failures, or disruptions from external events will result in the reduction, deterioration, or breakdown of services provided by an FMI.

Securities settlement system – an entity enabling securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment.

Stablecoin – stablecoins are a new form of privately issued digital asset that aims to maintain a stable value against fiat currency(ies) and can be used to make payments and/or settle financial transactions.

Systemic risk – the risk that the inability of one or more participants to perform as expected will cause other participants to be unable to meet their obligations when due.

Abbreviations

BCBS – Basel Committee on Banking Supervision.
BIS – Bank for International Settlements.
CBA – cost benefit analysis.
CCPs – central counterparties.
CFTC – Commodity Futures Trading Commission.
CPMI – Committee on Payments and Market Infrastructures.
CSDR – Central Securities Depositories Regulation.
CSDs – central securities depositories.
CTPs – critical third party.
DLT – distributed ledger technology.
DSD – Digital Securities Depository.
DSS – Digital Securities Sandbox.
EB – Euroclear Bank.
EEA – European Economic Area.
EU – European Union.
EUI – Euroclear UK & International.
FCA – Financial Conduct Authority.
FIRE – Format for Incident Reporting Exchange.
FMI – financial market infrastructure.
FMIC – Financial Market Infrastructure Committee.
FMID – Financial Market Infrastructure Directorate.
FMIs – financial market infrastructure firms.
FPC – Financial Policy Committee.
FPS – Faster Payments System.
FSB – Financial Stability Board.
FSMA 2023 – Financial Services and Markets Act 2023.
FX – foreign exchange.
HMT – His Majesty's Treasury.
IOSCO – International Organization of Securities Commissions.
MoUs – Memoranda of Understanding.
ORG – Operational Resilience Group.
OTC – over the counter.
PFMI – Principles for Financial Market Infrastructures.
PSR – Payment Systems Regulator.
PTRR – post-trade risk reduction.
RCH – recognised clearing houses.
RPSOs – recognised payment system operators.
RTGS – Real-Time Gross Settlement.
SIO – Secondary Innovation Objective.
SoP – statement of policy.

Annex 4: Report on the exercise of relevant sub-delegated powers for the period ending 25 June 2025

Presented to Parliament pursuant to paragraph 32(2)(a) of Schedule 7 of the European Union (Withdrawal) Act 2018.

The European Union (Withdrawal) Act 2018 (‘The Act’) requires the Bank of England to report to Parliament annually if we exercise relevant sub-delegated powers.

There has been no exercise of sub-delegated powers by the Bank in our supervision of FMIs in the reporting period ending 23 June 2025. The previous report was issued on 18 December 2024.[35]

35. **www.bankofengland.co.uk/-/media/boe/files/annual-report/2024/supervision-of-financial-market-infrastructures-annual-report-2024.pdf**.

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