



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Andrew Bailey
Governor
Bank of England
Threadneedle Street
London
EC2R 8AH

01 July 2025

Dear Andrew,

Remit and recommendations for the Financial Market Infrastructure Committee

As you know, growth is the defining mission of this government and is the only route to improving the prosperity of our country and the living standards of working people. The UK financial services sector has a fundamental role to play in delivering this growth, both as an engine for growth and investment throughout the economy and driving UK prosperity in its own right as a world-leading, dynamic financial centre.

The financial services regulators are key to driving forward this mission: we must have proportionate, effective regulation that allows firms of all sizes to grow, and creates a stable, attractive environment which encourages businesses to establish and expand in the UK. A thriving, international financial services sector, regulated by independent expert regulators with a global reputation for promoting stability and facilitating innovation, is essential for creating the conditions for businesses and consumers to invest confidently.

I recognise the important role that the Bank of England (the Bank) plays as the UK's regulator of Financial Market Infrastructure firms (FMIs) and the critical role that FMIs play in supporting the smooth operation of the UK financial system and the broader economy every day. Central clearing counterparties (CCPs) clear trillions of pounds in finance globally. The Central Security Depository (CSD) settles around £400bn in securities transactions each day whereas recognised retail and wholesale payment systems handle over £400bn in payments daily. These firms can often be of global systemic importance, and it is therefore vital that we regulate them to the highest standards, protecting financial stability in the UK and overseas while maintaining the UK's place as a global leader in this area. I am grateful for your continued work to achieve this.

However, there is more to do to build momentum, with the Bank playing an important role in the government's growth mission. While pursuing your primary objective to protect and enhance UK financial stability, and, as CCP and CSD regulator, your secondary objective to facilitate innovation in the provision of FMI services, you should consider how you can best support this growth mission. While FMIs manage and reduce systemic risk in financial markets, they also help firms engage in financial markets more efficiently and with more confidence, which is essential for the growth of UK capital

markets and of the wider economy. As we update our regulatory framework for FMIs through the repeal and replacement of assimilated EU law, our new frameworks should not only act as exemplars for financial and operational robustness and safety, but also of proportionate, well targeted regulation that helps FMIs to effectively support the needs of the wider financial market system.

It is also vital that you continue to fully embed your secondary objective to facilitate innovation in the provision of FMI services. I recognise the good work the Bank of England has already undertaken to support innovation in the sector, for example launching the Digital Securities Sandbox (DSS) and supporting the move towards T+1 settlement in the UK. Tokenised settlement instruments have an important role to play in supporting innovation in digital markets, and we consider it important for UK competitiveness that the DSS is utilised to its full potential. As such, we welcome the work the Bank is doing, to consider the role of stablecoins in the DSS. As you continue to facilitate innovation at FMIs, you should consider, at a time of complex and evolving threats, how these critical systems are best defended (across the physical, personnel and cyber domains) from hostile actors. However, further innovation in technologies, products, services, and models among FMIs – including incumbents and any new entrants - will help create a more dynamic, efficient, and increasingly digitalised UK financial services sector that can support UK economic growth. It is therefore imperative that you actively facilitate innovation across your policymaking as the regulator of CCPs and CSDs. This will be a key pillar of the financial services growth and competitiveness strategy which the government will publish in due course, and I ask the Bank's support to deliver on the outcomes of this strategy.

In accordance with the above, I would particularly like to see the Bank ensure that:

- It is engaging actively and constructively with both incumbents and new entrants to facilitate and encourage innovation and new ideas at FMIs, provided that this is consistent with regulatory objectives;
- Firms have a positive experience of engaging with the Bank from the point of initial application or inquiry, and that administrative burdens on firms are streamlined as far as possible, while maintaining high regulatory standards;
- The UK demonstrates international leadership on key regulatory issues and continues to engage effectively in relevant international forums and with partner jurisdictions;

While the Bank of England's regulation of systemic payment systems is not covered by the FMI accountability requirements in the Act and therefore the recommendations below, supporting innovation in both wholesale and retail payments is a key focus for the government, including through the Payments Vision Delivery Committee. Innovation in wholesale payments will be essential for the adoption of digital processes in FMIs.

I look forward to continuing to engage with you on this important work as it progresses. I would be grateful for updates through your response to this letter, the FMI annual report, and your ongoing engagement with Treasury Ministers and officials. This letter is

issued under Section 30I of the Bank of England Act 1998. This is HMT's first letter to the FMIC.

I am copying this letter to Dame Meg Hillier MP, Chair of the Treasury Select Committee and to the Rt Hon. The Lord Forsyth, Chair of the Financial Services Regulation Committee.

A handwritten signature in black ink, reading 'Rachel Reeves' in a cursive script.

RT HON RACHEL REEVES MP
Chancellor of the Exchequer

Recommendations for the Financial Market Infrastructure Committee

The Bank of England Act 1998 (“the Act”) sets out the objectives of the Financial Market Infrastructure Policy Committee (FMIC). The FMIC is to exercise FMI functions with a view to:

- contributing to the advancement by the Bank of the Financial Stability Objective (to protect and enhance the stability of the financial system of the United Kingdom)
- subject to that, facilitating innovation in the provision of FMI services (including in the infrastructure used for that purpose) with a view to improving the quality, efficiency, and economy of the services

Section 30I(1) of the Act allows HM Treasury to make recommendations about aspects of the economic policy of the government to which the Bank should have regard:

- when considering how to advance the Financial Stability Objective and the objective under section 30D(2), and
- when considering the application of the regulatory principles set out in section 30E

Section 30I(2) of the Act compels HM Treasury to make recommendations under subsection (1) at least once in each Parliament. The FMIC must respond to each recommendation made under subsection (1) by notifying the Treasury in writing of:

- action that the Bank has taken or intends to take in accordance with the recommendation, or
- the reasons why the Bank has not acted or does not intend to act in accordance with the recommendation.

A. The government's economic policy

The government’s economic policy objective is to restore broad-based and resilient growth built on strong and secure foundations. Price and financial stability are essential pre-requisites to achieve this objective.

To achieve this objective, the government’s economic strategy consists of:

- maintaining a stable macroeconomic environment, key to which is operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;
- supporting investment through the effective management of public finances and overseeing sustainable taxes and borrowing, to deliver long-term growth and accelerate the transition to a climate resilient, nature positive and net zero economy;
- supply-side reform and targeted industrial strategy to remove the barriers to our productive capacity and increase productivity-enhancing investment, increasing access to high-quality jobs across the UK;
- growing the financial services sector and increasing its international competitiveness, while enhancing its role in financing growth, safeguarding

financial stability and consumer protection, and supporting the transition to a net zero economy.

B. Matters about aspects of the government's economic policy to which the Financial Market Infrastructure Committee should have regard

The FMIC should have regard to the government's policy towards the financial services sector.

As part of this, and in exercising its FMI functions in a way that advances the Financial Stability Objective and the objective under section 30D(2) of the Act, and in its consideration of the application of the regulatory principles set out in section 30E of the Act, (and subject to that), the Committee should have regard to:

- The vital role UK FMIs play in **protecting and upholding the financial stability** of the UK, as well as other global markets.
- The importance of actively facilitating **innovation in FMIs** so that incumbents and new entrants are able to innovate responsibly and scale up new technology and processes in the UK.
- The role of **proportionate regulation** in **facilitating growth**.
- Streamlining administrative burdens and processes for FMIs to offer new products and services where possible, whilst **maintaining high regulatory standards**.
- Maintaining and enhancing the **UK's position as a world-leading global finance hub** and demonstrating continued leadership in global regulatory fora.

These recommendations are to remain in place until HM Treasury's next letter to the FMIC under s.30I(1) of the Act.