Bank of England

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Dear Rachel,

As the Chairs of the Financial Market Infrastructure Committee (FMIC), we are responding to your letter dated 1 July setting out your recommendations to the Committee. This letter also satisfies the requirement for the FMIC to respond under Section 30I of the Bank of England Act 1998.

Financial Market Infrastructures (FMIs) support millions of financial transactions every day and so are fundamental to the safe, efficient and reliable functioning of the financial system, a key driver for growth in the UK. Safe and resilient FMIs ensure financial institutions can support businesses and households in making payments, managing risk and raising finance, and reduce the cost of this activity.

The Bank of England (the Bank) has a primary objective to protect and enhance the stability of the financial system of the UK, as well as a secondary objective to facilitate innovation in the provision of FMI services when exercising policy making functions relating to Central Counterparties (CCPs) and Central Securities Depositories (CSDs).[1]

[1] The Bank's secondary innovation objective is that in exercising its FMI functions in a way that advances the Financial Stability Objective, the Bank must, so far as reasonably possible, act in a way which, as a secondary objective, facilitates 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 those services

The Bank is pursuing its secondary innovation objective and is committed to facilitating innovation in its work more generally, including through initiatives such as the Bank/FCA Digital Securities Sandbox (DSS), and in its regulation of payment systems.[2] We note that His Majesty's Treasury (HMT) is considering whether to expand the scope of the secondary innovation objective in the future to the Bank's regulation of payment systems.

Your letter conveys the Government's determination to deliver sustainable economic growth in the UK, and to facilitate innovation in support of that goal. We agree that the Bank has an important role to play in achieving this as the regulator of UK FMIs.

Advancing our primary objective to protect and enhance financial stability

The Bank aims to ensure FMIs are financially and operationally resilient, and in doing this we protect and enhance the stability of the financial system of the UK, and so support sustainable economic growth. Our regulation supports growth through:

i) **Ensuring confidence in the financial system:** Well-regulated FMIs can, through their design, rules, procedures and operation, reduce risk in financial markets. This is particularly valuable in times of stress by limiting contagion and so dampening its negative impact on the financial system.
ii) **Supporting the UK as a dynamic international financial centre:** UK FMIs play a central role in the global financial system. Strong standards and a resilient financial system boost the attractiveness of the UK as a place for firms, customers, and counterparties to do business. In turn this has a direct positive impact on the overall level of financial services activity in the UK, with UK FMIs forming a key part of the global financial ecosystem alongside banks, insurers and investment firms.
iii) **Reducing the likelihood of potentially growth-destroying financial crises:** Because of the critical services they offer, significant disruption or operational outages at a UK FMI would be a major cause of financial instability. Ensuring FMIs remain resilient and able to absorb shocks is a key way in which the Bank supports sustainable growth, through reducing the likelihood of recessions associated with financial crises that have been shown to inflict large and persistent damage on the economy.

In delivering this aim, the Bank has enhanced its regulatory regime for FMIs. The Bank's new Fundamental Rule 10 will require FMIs to identify, assess and manage the risks that their operations could pose to the stability of the financial system.[3]

2 **Digital Securities Sandbox (DSS) | Bank of England**

3 **https://www.bankofengland.co.uk/paper/2025/ps/fundamental-rules-for-financial-market-infrastructures**

In parallel, the Bank's proposal, consistent with other major jurisdictions, to increase the amount of capital CCPs hold (known as 'skin in the game') as part of the consultation on 'Ensuring the resilience of CCPs' reflects the central role UK FMIs play in the global financial system.[4] In the circumstances where an FMI does not meet the Bank's requirements and expectations the Bank will be prepared to use enforcement powers to hold FMIs to account.[5]

In its role as a supervisor of FMIs, the Bank works with UK CCPs to ensure their resilience during stress. As a service when market volatility occurs, as happened in April 2025 following the announcements by the US on trade policy, CCPs are able to absorb stress. In this case, CCPs experienced a 149% increase in variation margin requirements,[6] which members were able to meet, without further adding to stress.[7] The Bank has also been working with FMIs to ensure they can respond to and recover from severe cyber events, both as part of the Bank's broader operational resilience expectations, and through delivering the CBEST programme and applying lessons learned from the 2024 Cyber Stress Test.[8]

To support growth, regulation must be robust but also proportionate and open to innovation. We believe that a stable financial system facilitates innovation in FMI services by creating a more favourable environment for FMIs to invest in new technologies, processes and infrastructure to improve the quality, efficiency and economy of their services.

Advancing our secondary innovation objective

Your letter emphasises the importance of fully embedding our secondary innovation objective so that we actively facilitate innovation in the provision of FMI services. We recognise this and have been making changes to ensure that consideration of innovation is thoroughly integrated throughout our policymaking processes to facilitate safe and sustainable innovation in existing FMIs and across the FMI landscape. We are continuing our engagement with industry, academics and other regulators to harness their insights on innovation and growth.

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[4] **https://www.bankofengland.co.uk/paper/2025/cp/ensuring-the-resilience-of-ccps**

[5] **The Bank of England fines Vocalink Limited £11,900,000 for a compliance failure | Bank of England**.

[6] Bank figures

[7] For more information see Box F of **The Bank of England's supervision of financial market infrastructures - Annual Report 2025 | Bank of England**.

[8] For more information see Chapter 3.2 of the Bank's Annual Report on the supervision of FMIs and **Thematic findings from the 2024 Cyber Stress Test | Bank of England**.

As with any new responsibility or objective, our approach will evolve as we learn from experience.

We believe that innovation can both help FMIs offer their critical services more efficiently as well as directly support their resilience, which in turn supports sustainable growth in the UK economy. Innovation may enable new or existing FMIs to offer cheaper, better and faster services, or provide new products or services, such as through the use of distributed ledger technology (DLT) and cloud computing, the benefits of which may be passed on to end users. Technologies like AI may also allow FMIs to increase automation to free up firm resources for productive investment and enable modelling of more complex risks or better detection of fraud in payment systems.

Our role as an FMI regulator is to support the beneficial application of innovative technologies, processes or organisational changes, taking into account the risks associated with the transition to new ways of doing things. As set out in the Bank's Annual Report on the supervision of FMIs,[9] there are several ways in which we are currently advancing our secondary innovation objective to facilitate innovation in FMIs which, consequently, supports sustainable growth. These include streamlining key parts of the regulatory regime for CCPs,[10] delivering a clear and transparent rulebook for FMIs,[11] and publishing our approach to onboarding new FMIs.[12] The Bank is also working to ensure that FMIs' operational resilience keeps up with the pace of technological change, and is working with industry to support the transition to T+1 settlement, which will free up resources for productive uses.

While the secondary innovation objective applies to the exercise of FMI functions relating to CCP and CSD policy, we are committed to facilitating innovation in the FMI environment broadly. Initiatives like the DSS allow firms to use new technology to issue, settle and trade digital securities in a live environment. The digitalisation of transactions and assets through smart contracts and tokenisation has the potential to deepen existing markets, unlock new ones, and change how asset classes, capital, and balance sheets can be mobilised within the financial system.

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9 See the Bank's Annual Report on the supervision of FMIs

10 See the Bank's Consultation Paper on 'Ensuring the resilience of CCPs'

11 **The Bank of England Financial Market Infrastructure (FMI) Rulebook | Bank of England**

12 **https://www.bankofengland.co.uk/financial-stability/financial-market-infrastructure-supervision/what-do-we-do/onboarding-new-fmis**

The Bank also continues to work on its systemic stablecoin regime. Providing new forms of private settlement assets and payments infrastructure – such as stablecoins – has the potential to offer advantages over some current payments in terms of cost, convenience and functionality. Following a Discussion Paper in November 2023,[13] the Bank has been gathering views from industry and will publish a consultation paper on its final proposals for a regime for systemic payment stablecoins later this year. We are actively considering the use of stablecoins for settlement in the DSS and will explore whether the use of sandboxes like the DSS could help the Bank and industry experiment with the wholesale use cases for stablecoins.

Having regard to the Government's recommendations

Part B of the annex to your letter sets out five recommendations on Government economic policy to which the FMIC should have regard. Consistent with our statutory duties, and to the extent relevant and practicable, the FMIC will take into account these recommendations and the Government's economic programme more broadly when considering how to exercise its FMI functions in a way that advances the Bank's primary financial stability objective and its secondary innovation objective, and the application of the regulatory principles set out in section 30E of the Act.

Further detail on the work the Bank is taking, or planning to take, in support of these recommendations is available in the annex below. We are working closely with other financial regulators on many of the initiatives listed, in particular with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), as well as HMT. We look forward to working together across a range of issues to support the Government's growth mission.

Yours sincerely,

Andrew Bailey Sarah Breeden

Andrew Bailey
Governor

Sarah Breeden
Deputy Governor for Financial Stability

[13] Regulatory regime for systemic payment systems using stablecoins and related service providers | Bank of England

Annex

We have set out below how our actions support the recommendations detailed in Part B of the annex to the Chancellor's letter. Each of the five recommendations will be embedded into the Bank of England's (the Bank's) policymaking processes for Central Counterparties (CCPs) and Central Securities Depositories (CSDs) and will be considered appropriately over the coming period.

(i) The vital role UK FMIs play in protecting and upholding the financial stability of the UK, as well as other global markets.

- ***Fundamental Rules:*** We have finalised the Fundamental Rules for Financial Market Infrastructures (FMIs), which is the first use of our general rulemaking power for CCPs and CSDs.[14] These clearly set the outcomes that the Bank requires from FMIs, including in respect of their financial and operational resilience. Fundamental Rule 10 will also require an FMI to identify, assess and manage the risks that its operations could pose to the stability of the financial system, reflecting the critical importance of their services to the financial system, including in global markets.

- ***The Bank's CCP rulebook:*** We have worked with HM Treasury (HMT) to consult on the repeal of the UK European Market Infrastructure Regulation (UK EMIR) for CCPs and replace relevant parts of it with an adaptable and dynamic CCP rulebook that aligns with evolving international standards, particularly on margin transparency.[15] We are also proposing to increase the amount of capital CCPs hold (known as 'skin in the game') to further align the incentives of those who lead the most significant FMIs with good financial stability outcomes, particularly in times of stress, consistent with other major jurisdictions.

- ***Operational resilience:*** FMIs are now expected to meet the **Operational Resilience** policy expectations, which came into effect at the end of March 2025. We are continuing to work with FMIs to ensure they are operationally resilient to the changing landscape. The final policy on **Critical Third Parties to the UK financial sector** was published in November, and will help manage risks to the stability of, or confidence in, the UK financial system from FMIs relying on critical third parties, while ensuring the benefits of the related operational efficiencies.[16] We also published proposals on **operational incident and outsourcing and**

14 See the Bank's Policy Statement on Fundamental Rules for FMIs

15 See the Bank's Consultation Paper on 'Ensuring the resilience of CCPs'

16 **PS16/24 – Operational resilience: Critical third parties to the UK financial sector | Bank of England**

third-party reporting (IOREP) requirements for FMIs.[17] These will 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, and we expect that standardisation and automation of reporting will be efficient for FMIs. We intend to publish the final policy on this later in the year, alongside the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). The Bank is also developing more detailed guidance to formalise our **expectations on cyber resilience**, also alongside the PRA, and in line with the increased sophistication and risk of cyber events.

(ii) 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.

- ***Supporting the transition to T+1 settlement:*** The UK is joining many jurisdictions around the globe in shortening the time needed to settle financial market transactions such as settling sales of shares or bonds. Work is ongoing to increase automation of processes across the market and shorten the settlement cycle to T+1, which has the potential to release around £1 billion of margin into the financial system for more productive uses.[18] The Bank will continue to work with FMIs to ensure that their rulebooks are amended to accurately set out the updated T+1-compatible systems and processes.

- ***New forms of collateral:*** As part of our work to establish the Bank's CCP rulebook, we are seeking views on other instruments that could safely be permitted as eligible collateral or options that could improve the availability of existing collateral, including letters of credit. In addition, tokenised assets may allow market participants to use the assets on their balance sheet more efficiently and support access to a wider pool of assets, and we plan to continue engaging with these changes in support of safe innovation, including to understand any barriers to their adoption.[19]

- ***Industry Engagement:*** We have maintained continued engagement between the Bank and FMIs, through speeches setting out innovation as a Bank priority,[20]

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17 Operational resilience: operational incident and outsourcing and third-party reporting for financial market infrastructures | Bank of England

18 Innovation in UK Financial Markets - shortening the settlement cycle – speech by Sasha Mills | Bank of England

19 See the Bank's Consultation Paper on 'Ensuring the resilience of CCPs'

20 Financial Market Infrastructure (FMI) regulation in a changing world: our priorities for 2025 − speech by Sasha Mills | Bank of England.

roundtables (such as the Innovation Workshop hosted in 2024),[21] and ongoing supervisory dialogue with FMIs on new technologies. We conducted an innovation survey of emerging and regulated FMIs to gather their insights on the Bank's approach to innovation in April 2025. This has allowed us to better understand how we can most effectively facilitate innovation in our regulatory and supervisory frameworks, and we have published a summary of the results in the Bank's Annual Report on the Supervision of FMIs.

(iii) The role of proportionate regulation in facilitating growth.

- ***Post Trade Risk Reduction:*** The Bank is responsible for specifying the classes of OTC derivatives that are subject to the Clearing Obligation. The Bank is exploring how Post Trade Risk Reduction transactions can support financial stability and expects to consult on exempting transactions arising from Post Trade Risk Reduction services from the Clearing Obligation in late 2025.

- ***Publishing our supervisory approach to onboarding new FMIs:*** Alongside the Bank's role in facilitating safe and sustainable innovation at existing FMIs, new and innovative FMIs are emerging, including to trial new technologies that would provide existing and new payments, clearing and settlement services to digital markets. We have published our risk-based and proportionate supervisory approach to support new FMIs' individual journeys in adjusting to the regulatory framework while maintaining our financial stability objective. The onboarding approach explains the different routes a firm could take to become authorised. The approach can be adapted to reflect each FMI's specific circumstances, subject to supervisory agreement, to ensure their business is established and scaled within a safe and compliant framework.[22]

- ***Transparent and responsive policymaking:*** We are providing clarity in our approach to policymaking and building the tools to ensure that the Bank's rules are flexible and responsive to feedback. In December, we published our **Statement of Policy on our approach to Cost Benefit Analysis (CBA)**.[23] This plays an important role in helping the Bank assess the costs and benefits of regulation. We have embedded the role of the independent CBA Panel as part of our CBA process, which allows us to consider and respond to their feedback.[24] Understanding the economic costs and benefits, including to innovation, helps

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21 **Workshop on the secondary innovation objective | Bank of England**.

22 See the Bank of England's supervisory approach to onboarding new financial market infrastructure firms

23 **The Bank of England's approach to cost benefit analysis | Bank of England**

24 **Cost Benefit Analysis Panel | Bank of England**

ensure policy that is proportionate in both upholding financial stability, while also facilitating innovation in FMI services, and ultimately, sustainable growth. We have published a **consultation on the Bank's approach to rule permissions and waivers**, which will allow us to be proportionate in our requirements, including as new or emerging innovative FMIs scale up, and help existing FMIs make use of flexibility in our rulebook.[25] We will also later this year publish a **consultation on the Bank's approach to conducting rule reviews**. 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 FMIs. The review of rules can also inform future policy development and improve existing policies, which may better facilitate innovation at FMIs, in line with the Bank's secondary innovation objective. Finally, the Bank has **refreshed its online rulebook**, to help FMIs better understand and navigate the regulatory framework by placing the Bank's requirements and expectations in a single place.[26]

(iv) Streamlining administrative burdens and processes for FMIs to offer new products and services where possible, whilst maintaining high regulatory standards.

- ***Simplifying and shortening regulatory processes:*** As part of our work with HMT to repeal UK EMIR for CCPs and replace relevant provisions with Bank rules we have consulted on how we could simplify and shorten certain processes, while maintaining the same standards, such as for approving CCP margin models and authorising new products. This is consistent with facilitating innovation at FMIs.[27]

- ***Publishing permissions metrics:*** As part of our approach to the use of our permissions power, which allows for the waiver and modification of specific rules where appropriate, we have proposed to commit to publishing data on how long the Bank takes to make decisions on permissions that allow rules to be waived or modified for CCPs and CSDs. This is to give industry transparency over the Bank's efficiency in assessing these requests.[28]

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25 **https://www.bankofengland.co.uk/paper/2025/cp/the-boes-approach-to-rule-permissions-and-waivers**

26 See the Bank's FMI rulebook

27 See the Bank's Consultation Paper on 'Ensuring the resilience of CCPs'

28 See the Bank's Consultation Paper on the Bank's approach to rule permissions and waivers

(v) Maintaining and enhancing the UK's position as a world-leading global finance hub and demonstrating continued leadership in global regulatory fora

- ***Robust international standards:*** We are committed to robust, internationally agreed standards, including through our engagement with the Committee on Payments and Market Infrastructures (CPMI), its related work with the International Organization of Securities Commissions (IOSCO), as well as the Financial Stability Board (FSB). The Bank co-chaired with the US Commodity Futures Trading Commission (CFTC) international work on centrally cleared margin practices stemming from the March 2020 market turmoil, or 'dash for cash'.[29] The Bank also plays an active role in the CPMI-IOSCO Operational Resilience Group (ORG). We will also continue to 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 FMIs.

- ***International approach to supervising FMIs:*** The Bank recognises the importance of taking a consistent and international approach to supervising FMIs. In its role as 'home authority' for UK FMIs systemically important in other jurisdictions the Bank hosts supervisory colleges consisting of other global regulators and central banks for each of our UK CCPs, which meet in person once a year. As a 'host authority' for non-UK FMIs providing critical services in the UK, the Bank's approach is 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 whenever it is appropriate to do so.

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29 **The Bank of England and the Commodity Futures Trading Commission input into report | Bank of England**.