



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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

The Bank of England's annual report into its supervision of financial market infrastructures is published today.

As part of its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability, the Bank supervises UK central counterparties (CCPs), recognised payment systems and securities settlement systems. These financial market infrastructures (FMIs) sit at the heart of the UK economy and financial system, and their importance is only set to increase in light of global regulatory initiatives such as the mandatory use of CCPs for certain derivatives contracts. Recognising this, the Bank has intensified its focus on them as part of its Strategic Plan which was launched in March 2014.

The report published today sets out how the Bank has exercised its responsibilities for FMI supervision over the past year. It includes a foreword from the Bank's Deputy Governor for Financial Stability, Sir Jon Cunliffe. The report highlights a number of significant developments with respect to FMIs such as the implementation of the European Market Infrastructure Regulation which has catalysed significant improvements in UK CCPs' risk management over the past year. For example, features have been introduced into their margin models to better guard against procyclicality.

Furthermore, all UK FMIs supervised by the Bank of England now have in place recovery plans designed to ensure the ongoing provision of their critical services should they, or their operating companies, suffer financial distress. In particular, UK CCPs have introduced arrangements to manage losses arising from their investment activities which might otherwise threaten their solvency.

Finally, UK securities markets moved to a T+2 settlement cycle on 6 October 2014 in line with requirements in the EU Central Securities Depositories Regulation. This has reduced counterparty credit risk in these markets by moving trades to settlement after two rather than three days.

Given the importance of supervised UK FMIs to global financial markets, the report describes how the Bank co-operates in its FMI supervision with other authorities not just within the UK but also internationally. The report concludes by setting out the Bank's current priorities for supervised UK FMIs in 2015.

Sir Jon Cunliffe, Deputy Governor for Financial Stability, said: "An important part of the Bank's mission is the supervision of FMIs which sit at the heart of the UK economy and financial system. Many of these FMIs are also key to truly global financial markets, and, as described in this report, the Bank therefore collaborates closely in its supervision with authorities across the globe."

David Bailey, Director for Financial Market Infrastructure, said: "During the past year, the Bank has significantly increased its focus on the supervision of FMIs including through the establishment of a dedicated directorate responsible for the task. The annual report outlines the real achievements made over the past year in addressing risk in FMIs, as well as the priorities for 2015."

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