

BANK OF ENGLAND FMI RULEBOOK: UK CENTRAL COUNTERPARTIES: COLLATERAL INSTRUMENT [2026]

Powers exercised

- A. The Bank of England makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137T (General supplementary powers) as applied by paragraph 10 (Rules) of Schedule 17A (Further provision in relation to exercise of Part 18 functions by Bank of England); and
 - (2) section 300F (Rules relating to central counterparties and central securities depositories).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act as applied by paragraph 10 (Rules) of Schedule 17A (Further provision in relation to exercise of Part 18 functions by Bank of England).
- C. The Bank of England makes the rules in the Annex to this instrument.

Part	Annex
Collateral	A

Commencement

- D. This instrument comes into force on [DATE]

Citation

- E. This instrument may be cited as the Bank of England FMI Rulebook: UK Central Counterparties: Collateral Instrument [2026]

By order of the Financial Market Infrastructure Committee
[DATE]

Annex A

Collateral Part

The baseline text is the FMI Rulebook as it would stand on the basis that rules published as the draft Bank of England FMI Rulebook: UK Central Counterparties Instrument [2025], accompanying the consultation “Ensuring the resilience of CCPs” dated 18 July 2025, will have been made.

In this Annex, new text is underlined and deleted text is struck through.

COLLATERAL

Chapter content

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2 COLLATERAL REQUIREMENTS

- 2.1 (1) A CCP must only accept highly liquid collateral with minimal credit and market risk to cover its initial and ongoing exposure to its *clearing members*.
- (2) A CCP may accept cash, financial instruments, commercial bank letters of credit~~guarantees~~, central bank guarantees or gold as collateral subject to the requirements of this Part.

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5 COMMERCIAL BANK LETTERS OF CREDIT~~GUARANTEES~~ CONSIDERED AS HIGHLY LIQUID COLLATERAL

- 5.1 For the purposes of 2.1(1), a CCP may only accept a commercial bank letter of credit~~guarantee~~ as highly liquid collateral if it meets the following conditions:
- (1) it is issued to support the payment obligations of ~~guarantee a clearing member that is a non-financial counterparty that is a clearing member or client;~~
- (2) it specifies:

- (a) the CCP as sole beneficiary; or
 - (b) the CCP and the clearing member that posts the letter of credit on behalf of the client, as beneficiaries, provided that the consent of the CCP is required before the clearing member may redeem the letter of credit;
- (32) it has been issued by ~~an issuer~~ an authorised UK credit institution or an authorised overseas credit institution that has low credit risk based upon an adequate internal assessment performed by the CCP employing a defined and objective methodology that:
- (a) does not fully rely on external opinions; ~~and~~
 - (b) takes into consideration the risk arising from the establishment of the issuer in a particular country; ~~and~~
 - (c) monitors for any changes that would require a reassessment of that credit risk;
- (43) it is denominated in one of the following currencies:
- (a) a currency the risk of which the CCP is able to adequately manage; or
 - (b) a currency in which the CCP clears contracts, in the limit of the collateral required to cover the CCP's exposures in that currency;
- (54) it is irrevocable, unconditional and the issuer cannot rely on any legal or contractual exemption or defence to oppose the payment of the letter of creditguarantee;
- (65) it can be honoured, on demand, within the period of liquidation of the portfolio of the defaulting non-financial counterparty or clearing member providing it without any regulatory, legal or operational constraint;
- (76) it is not issued by:
- (a) an entity that is part of the same group as the non-financial counterpartyclearing member covered by the letter of creditguarantee; or
 - (b) an entity whose business involves providing services critical to functioning of the CCP, unless that entity is the Bank or a central bank of issue of a currency in which the CCP has exposures;
- (87) it is not otherwise subject to significant *wrong-way risk*;
- (8) ~~it is fully backed by collateral that meets the following conditions:~~
- (a) ~~it is not subject to wrong-way risk based on a correlation with the credit standing of the guarantor or the clearing member, unless that wrong-way risk has been adequately mitigated by haircutting of the collateral; and~~
 - (b) ~~the CCP has prompt access to it and it is bankruptcy remote in case of the simultaneous default of the clearing member and the guarantor;~~
- (9) the suitability of the issuerguarantor has been ratified by the board of the CCP after a full assessment of the issuer and of the legal, contractual and operational framework of the letter of creditguarantee in order to have a high level of comfort on the effectiveness of the letter of creditguarantee; ~~and~~
- (10) the CCP has notified the Bank of the outcome of the ratification and assessment carried out under 5.1(9); ~~and~~
- (11) the CCP has undertaken appropriate due diligence, including validation checks with the issuer, to confirm the authenticity and validity of the letter of credit.

- 5.2 If a CCP accepts a ~~letter of credit~~bank guarantee from ~~clearing member~~ that is a *non-financial counterparty*, it must take such ~~letter of credit~~guarantee into account when calculating its exposure to the ~~bank issuer~~ providing the ~~letter of credit~~guarantee if that ~~issuer~~bank is a *clearing member*.

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10 CONCENTRATION LIMITS

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- 10.4 ~~(1)~~ A CCP must ensure that no more than ~~5~~40% of its collateral ~~that is in the form of commercial bank guarantees is~~ in the form of letters of credit issued~~guaranteed~~ by:
- ~~(1a)~~ a single *credit institution*; or
 - ~~(2b)~~ a single *financial institution* that is based in a country or territory other than the *UK*; or
 - ~~(2e)~~ an entity that is part of the same *group* as the *credit institution* or *financial institution*.
- ~~(2)~~ Where the collateral received by the CCP in the form of commercial bank guarantees is higher than 50% of the total collateral, the CCP may set this limit up to 25%.

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