

The Bank of England's approach to tiering incoming central counterparties

The Bank of England has today published a Consultation Paper and draft Statement of Policy on the Bank's approach to 'tiering' non-UK central counterparties (CCPs) based on the level of systemic risk they could pose to UK financial stability.

Published on 08 November 2021

News release

The Bank of England has today published a Consultation Paper and draft Statement of Policy on the Bank's approach to 'tiering' non-UK central counterparties (CCPs) based on the level of systemic risk they could pose to UK financial stability.

CCPs lie at the heart of the financial system, providing crucial functions that help the economy and financial markets operate. They are key to financial stability. They improve the efficiency and stability of financial markets by placing themselves in the middle of trades between buyers and sellers and guaranteeing their performance to each other on certain transactions. Central clearing has grown significantly as a direct and desirable result of the reforms that were put in place after the financial crisis. CCPs operate across borders to serve a wide range of financial firms over many jurisdictions. This provides significant financial stability benefits through deeper pools of liquidity, reduced concentration risk, and reduced fragmentation in regulation and supervision produce, as well as reducing costs and increasing efficiency for users.

However, the international nature of CCPs means that risks can also be transferred across borders if not properly managed. This is particularly the case for the UK as an open and global centre for financial services, as many institutions based here access clearing services from CCPs across the world. Effective cross-border supervision of CCPs requires close international cooperation and the ability to rely on other authorities, where justified by the quality of the home regime. This is crucial so that overlapping or conflicting requirements don't create financial stability risks.

Today's proposals follow the Bank of England acquiring new powers following the UK's withdrawal from the European Union. Currently non-UK CCPs can provide services in the UK under a temporary recognition regime. In order to continue to provide services in the UK after the temporary regime expires, non-UK or 'incoming' CCPs will need to be recognised by the Bank under the on-shored European Market Infrastructure Regulation (EMIR).

Under the Bank's tiering proposals, incoming CCPs will be assessed to establish if they might pose systemic risks to the UK. They will initially be triaged against the following indicators: i) whether the incoming CCP held at least £10bn of UK clearing member initial margin; ii) whether the incoming CCP held at least £1bn of UK clearing member default fund contributions; or iii) if the incoming CCP has an interoperability arrangement in place with a UK CCP. The Bank will undertake a more detailed assessment of systemic importance for CCPs meeting one or more of these indicators. Incoming CCPs that are assessed as not systemically important under this triage assessment will be classified as Tier 1 CCPs and will not progress to the next stage of the tiering assessment.

For those that do progress, the Bank will undertake an ‘informed reliance assessment’ to consider to what extent it is able to rely on home regulation and supervision of the incoming CCP, and the strength and reliability of cooperation and information sharing arrangements in place with the home authority. Where a jurisdiction is committed to meet our expectations with respect to cooperation, reliance and, information sharing with respect to a large CCP, we will deem that CCP Tier 1 remaining under home authority supervision, provided that we can see on an ongoing basis that its home regulators are delivering the outcomes we need to protect UK financial stability. Those that do not meet these expectations would be classified as Tier 2. The Bank will have higher expectations of cooperation and trust from home authorities of CCPs where the UK proportion of total initial margin or default fund contributions is greater than 20%.

CCPs that do not meet the expectations of the informed reliance assessment and are assessed as systemically important will therefore be considered as Tier 2. A Tier 2 CCP is required to meet specific UK standards under on-shored EMIR and can be subject to direct supervision by the Bank. There may however be specific regulatory provisions for which these CCPs can be granted “comparable compliance”, and the UK can defer its supervision in these areas to the home authorities, as outlined in an additional Consultation Paper published today.


Deputy Governor for Financial Stability, Jon Cunliffe, said:

“As a leading global financial centre, with numerous CCPs conducting their business activity in the UK, we require a robust and transparent framework for managing cross-border risks. The Bank’s approach to incoming CCPs is built upon the principle of deference to other regulator’s regimes - where justified - and a proportionate but diligent approach to overseeing the risk channelled from overseas CCPs. This allows the market to maximise the benefits from access to cross-border clearing while ensuring the risks are appropriately managed.”

Under EMIR Article 25(2c), the Bank may also recommend to HM Treasury that it make location regulations if the Bank considers that an incoming CCP is of such substantial systemic importance to the UK that it should not be recognised. HM Treasury may then make ‘location regulations’ requiring that some or all of the clearing services of the CCP may only be provided to clearing members and trading venues established in the UK if they are offered from inside the UK. The Bank does not envisage at present recommending the use of location regulations or ‘Tier 3’ as part of this framework.

The Bank proposes that the implementation date for the final policy will be Friday 1 July 2022. This consultation closes on Friday 25 February 2022.

Notes to Editors

1. The [Consultation Paper on the Bank of England's approach to tiering incoming CCPs](#).
2. The Bank has also today published a Consultation Paper today on its [approach to assessing comparable compliance for incoming CCPs](#) that have been designated as Tier 2 by the Bank. The Bank will consult separately on its approach to charging fees to recognised incoming CCPs.
3. The [list of incoming CCPs](#)  that are taken to be eligible for temporary deemed recognition in the UK by virtue of the Temporary Recognition Regime.
4. The speech delivered by Christina Segal-Knowles, Executive Director for Financial Markets Infrastructure on "[The UK's approach to cross-border clearing](#)" hosted by the Futures Industry Association on 8 November.