4 September 2026

VIA ELECTRONIC SUBMISSION

Bank of England

Re: Bank of England's Discussion paper "Central counterparty resolution execution and resolvability outcomes"

The Global Association of Central Counterparties ("CCP Global") is the international association for central counterparties ("CCPs"), representing 45 members who operate over 60 individual CCPs across the Americas, EMEA, and the Asia-Pacific region. CCP Global appreciates the opportunity to respond to the Bank of England's Discussion paper "Central counterparty resolution execution and resolvability outcomes"[1] (the "Discussion Paper"). We appreciate the Bank's decision to publish its initial thinking in the form of a discussion paper and to seek stakeholder views before developing any policy proposals. Given the complexity and significance of CCP recovery and resolution arrangements, this consultative approach provides an important opportunity for authorities, CCPs, and market participants to discuss the practical implications of different approaches and ensure that any future framework supports both financial stability and the continued resilience of central clearing.

We welcome a number of aspects of the Discussion Paper. In particular, we support the Bank's objective of improving preparedness for a potential CCP resolution while recognising that resolution should remain an exceptional measure. We agree that effective planning and resolvability assessments can contribute to financial stability, provided they recognize CCPs' core risk management practices that mitigate the likelihood of CCP recovery or resolution occurring in the first place and preserve the incentives that underpin the central clearing model.

General observations

As a general matter, any evaluation of existing resources and tools for CCP recovery and resolution should recognise the fundamental allocation of responsibilities within the central clearing model. Market participants are responsible for managing the risks they bring to the CCP, while the CCP acts as the central risk manager, promoting the financial performance of the cleared contracts through its comprehensive risk management framework. Accordingly, any changes to the recovery and resolution framework should preserve, rather than weaken, the incentive structure that underpins central clearing.

[1] Bank of England's Discussion paper "Central counterparty resolution execution and resolvability outcomes": Link.

For example, default funds are sized based on the clearing member's portfolio and are designed to provide an incentive structure that promotes active participation in a CCP's default management process. An effective CCP resolution framework should also respect the hierarchy of claims established under the CCP's rulebook, the applicable insolvency regime, and the internationally recognised "no creditor worse off than in liquidation" ("NCWOL") safeguard. These principles are fundamental to providing legal certainty and maintaining confidence in central clearing arrangements.

In this context, we have concerns with approaches that would inappropriately alter the treatment of CCP equity. Such approaches are inconsistent with the established hierarchy of claims and could have unintended negative consequences for financial stability. A CCP's role is to guarantee the financial performance of the contracts it clears through prudent risk management. That role supports the stability of the broader financial system by reducing systemic risk. CCPs do not, and should not, provide protection against risks that fall outside their clearing services function, such as the failure of third-party entities.

Recovery should remain the primary mechanism

CCPs' existing operational arrangements, including their default management procedures, and recovery tools should remain the primary mechanism for addressing CCP stress, and resolution should be reserved for circumstances where recovery has demonstrably failed or where financial stability would otherwise be compromised. Accordingly, we believe the Bank should allow the recovery tools and resources established *ex ante* under the CCP's rulebook and recovery plan to be implemented wherever they remain credible and effective, while retaining the ability to escalate supervisory engagement or initiate resolution where there is clear evidence that continued reliance on recovery would likely compromise financial stability.

The Bank should be as clear as possible on the grounds on which it might place a CCP into resolution before recovery tools are exhausted. It is critical for financial stability that the conditions for entry into resolution, including the relevant triggers and the point of non-viability, are clear, transparent and do not pre-empt the execution of a CCP's recovery plan. This provides market participants with the greatest level of certainty regarding how a recovery event will operate and preserves incentives for clearing members and other participants to continue fulfilling their obligations and actively participate in the default management process and recovery efforts.

Premature intervention by the Bank could inadvertently signal that the authorities themselves lack confidence in the CCP's ability to recover. Such a signal could undermine market confidence, discourage market participants from continuing to meet their contractual obligations, and reduce their willingness to participate constructively in default management and recovery actions. Early intervention may also create uncertainty regarding whether, and to what extent, recovery tools provided for under the CCP's rulebook will ultimately be implemented, thereby weakening the *ex ante* legal certainty upon which market participants rely.

Recovery should remain the primary mechanism for managing CCP stress, while recognising that authorities may appropriately engage early where credible indicators suggest that recovery actions may not be sufficient to contain systemic risk. Such early engagement should support, rather than pre-empt, the CCP's execution of its recovery plan. The Bank should therefore distinguish clearly between early supervisory escalation—such as enhanced information sharing, scenario analysis, coordination with other authorities, and readiness planning—and the formal entry into resolution. This distinction is important to preserve legal certainty, market confidence, and participant incentives, while ensuring that authorities retain the ability to act promptly if recovery is unlikely to restore viability or if delay would materially increase systemic risk.

Resolution tools and compensation

We support appropriate compensation for clearing members and their clients where this is consistent with the NCWOL safeguard and reflects recoveries from the defaulting participant's estate. However, we have concerns regarding compensation mechanisms based on future profits, equity interests, or similar instruments. Such approaches risk creating unintended incentives by discouraging market participants from participating fully in the default management process or actively supporting recovery efforts. They may also reduce incentives for private recapitalisation of the CCP and, as a consequence, make entry into resolution more likely than successful recovery. We therefore encourage the Bank to carefully consider the behavioural consequences of any compensation framework.

We also note that proposals involving partial tear-up as a resolution tool are likely to be particularly contentious and should remain a true measure of last resort. Notwithstanding the comments above on early intervention, use of this tool requires analysis needed to understand how specific approaches to tear-up could affect participants' hedging strategies and their behaviour in liquidation and any use of such tool must prioritize supporting broader financial stability. For example, a pro-rata approach could amplify price volatility or impair market functioning if contracts selected for tear-up are concentrated in less liquid products. We would also note that even if a pro-rata allocation may appear neutral, the economic impact may differ materially across participants depending on portfolio purpose, liquidity needs, and ability to re-hedge. Any analysis should consider any pass through from clearing members to clients. Any decision based only on clearing member-level data may not fully capture the economic impact on end users. We also believe that additional consideration should be given to the practical challenges associated with applying the NCWOL safeguard in the context of a partial tear-up.

Resolvability and operational preparedness

We support the Bank's objective of enhancing resolvability and related operational preparedness. At the same time, given that this remains a discussion paper, greater clarity will ultimately be needed regarding the specific information, capabilities, and functionality that the Bank would expect CCPs to maintain in order to demonstrate resolvability. We also believe it is important to recognize that given the robustness of CCPs' risk management practices, which are underpinned by equally robust regulatory frameworks, resolution remains remote, so a focus on resolvability should not distract from a CCP performing its core risk management practices. It has been demonstrated time and time again the resiliency of CCPs in the face of various market stress events, including the 2008 financial crisis and 2020 COVID market volatility. While we believe preparedness for resolution, however unlikely, is important, the focus should continue to be on supporting the ongoing resiliency of CCPs.

For example, the expectation contained in resolvability outcome 3 that CCPs should be able to "provide data, modelling and analytical capabilities" in resolution would benefit from considerably greater detail regarding the underlying assumptions, scope, timing, and operational requirements. As the Bank develops any future operational expectations, it should carefully consider whether the relevant information is already available through existing supervisory reporting channels (e.g. trade repository data), with a view to avoiding duplicative reporting obligations. We would also welcome further detail on the Bank's expectations around CCPs supporting the production of modelled outputs.

We also have reservations regarding the suggestion in Section 2.1 that the Bank could further develop its analytical capacity to assess the insolvency counterfactual and require CCPs to develop modelling capabilities to support that assessment. We recognise the objective of reducing uncertainty by undertaking preparatory work in advance of any resolution scenario and agree that *ex ante* planning can improve operational readiness. However, it is not yet clear what such modelling would entail in practice, how it would be used in a live resolution, or the extent to which it could provide sufficiently reliable or objective outcomes. Given the speed with which a CCP resolution scenario could evolve, and as noted in the Discussion Paper, any insolvency counterfactual would necessarily rely on assumptions regarding participant exposures at a particular point in time. As a result, such modelling may still leave considerable uncertainty and could reinforce perceptions that key decisions, such as the calculation of any cash call or the application of the NCWOL safeguard, are inherently arbitrary, since the outcomes are likely to diverge from the modelled scenario. We therefore encourage the Bank to consider limitations of the modelling outlined under Section 2.1, including relative to the stated purpose, and practical application of this modelling before considering any corresponding expectations for CCPs.

Wider policy considerations

As the Bank develops its policy framework, it should carefully assess the broader implications of any proposed measures. In particular, any changes should be evaluated against their potential impact on the economics of clearing (including incentives to centrally clear and the overall cost of clearing).

The wider implementation context should also be considered. As mentioned above, reforms requiring changes to CCP rulebooks will have implications on clearing members, including international members. Changes may also require approvals from overseas regulatory authorities. The Bank could consider what role it can play in ensuring that any such changes are understood and accepted.

Conclusion

CCP Global welcomes the Bank's engagement with the industry at this early stage and looks forward to continuing the dialogue as the work progresses. We believe any future framework should reinforce the incentives that underpin central clearing, preserve legal certainty, respect the established hierarchy of claims and the NCWOL safeguard, and ensure that CCPs' operational and recovery arrangements remain the primary mechanism for managing CCP stress. These principles have been central to the resilience of the clearing ecosystem and should continue to underpin any future enhancements to the UK's CCP resolution regime.

ABOUT CCP GLOBAL

CCP Global is the international association for central counterparties ("CCPs"), representing 45 members who operate over 60 individual CCPs across the Americas, EMEA, and the Asia-Pacific region.

CCP Global promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP Global leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions, and position papers.

For more information, please contact the office by e-mail at office@ccp-global.org or through our website by visiting www.ccp-global.org.

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