THE INVESTMENT ASSOCIATION

Sarah Breeden
Deputy Governor, Financial Stability
Bank of England
Threadneedle Street
London
EC2R 8AH

18th November 2025

Dear Sarah,

RE: Ensuring the resilience of CCPs

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 51% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The IA is supportive of the Bank of England's objective of upholding financial stability and supporting economic growth. As major investors and users of Central Counterparties, the IA welcomes the opportunity to respond to the Bank of England's consultation paper on ensuring the resilience of CCPs.

We do not respond to every question in the consultation paper. Instead we would like to use this opportunity to highlight a particular area of importance for our members, namely our support for widening the pool of eligible collateral used by CCPs.

Under current requirements, CCPs can only accept cash or highly liquid collateral such as gilts, in order to ensure collateral retains its value during times of market stress. However, this can also have a negative impact during periods of high volatility. During times of stress, such as those seen during the 2022 gilt market crisis, for aggregate demand for cash within the financial system increases due to rising margin costs. This in turn forces investors into further asset sales to raise cash to meet those costs, leading in turn to further pricing pressures.

In order to help mitigate these risks, the IA calls for CCPs to accept a wider pool of non-cash collateral, including gilts and pooled fund units such as Money Market Funds (MMFs) and Exchange Traded Funds (ETFs).

If CCP members can post a wider variety of assets as margin, they are less likely to engage in fire sales of the few eligible assets (like government bonds or cash) when stressed. This diversifies sources of liquidity and avoids concentration of demand in one market. Allowing a wider range of eligible collateral also helps reduce the chances of a negative feedback loop where the need to meet higher margin calls leads to a forced sale of

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assets, which leads to a drop in the price of those assets which in turn creates higher margin calls and further liquidity and pricing constraints.

Permitting a wider pool of eligible collateral would also help incentivize a wider range of market participants to voluntarily clear more transactions. For example, the Bank of England, in its recently published Discussion Paper on enhancing the resilience of the gilt repo market, is looking at ways to encourage greater levels of central clearing of gilt repo transactions – while the IA is opposed to mandation of central clearing, widening the pool of eligible collateral that investment managers could post to CCPs (particularly those investors, such as pension funds, that hold relatively small reserves of cash) would help create better incentives for voluntary clearing.

We note, for example, that Public Debt Constant Net Asset Value (or PD CNAV) MMFs have characteristics that make them suitable for use as collateral.

- They have low credit risk, given they must invest at least 99.5% of assets in government- issued or guaranteed money market instruments or reverse repos backed by such government bonds. Further, the MMF manager is obliged to invest only in instruments for which it maintains a favourable assessment of the credit quality of the issuer.
- They have low market risk, given PD CNAV MMFs are by design intended to trade at a value of 1 or equivalent. Unlike other MMF types, PD CNAVs do not consider scenarios in which the price varies from 1. Further, by construction, PD CNAVs should have extremely low market risk due to their exposure to high credit quality government issued or guaranteed instruments and with strict limits on maturity.
- They are available in most major currencies, including GBP.
- They are freely transferable with the issuer of the MMF on a daily basis, typically with multiple payment runs during the day. There are no incidents of PD CNAV MMFs suspending redemptions historically. While the MMF regulation does provide for liquidity fees and/ or temporary redemption suspensions for the PD CNAV MMF type, it is improbable that a PD CNAV could fail this test.
- They publish price information daily
- They are issued by entities other than CCPs
  They are typically not subject to wrong way risk, due to their holding of high quality short-dated government securities. In contrast, the record shows they tend to receive inflows during periods of wider market stress, in a form of safe harbour seeking behaviour.

We also note that broadening the pool of eligible collateral could assist with financial innovation. The UK is exploring fintech solutions like tokenisation of assets. Tokenisation has recently emerged in MMFs, with multiple pilots showing that MMF units can be moved in collateral transaction. The IA considers that this trend will continue leading to the widespread use of tokenised MMFs in repo transactions. We believe it is incumbent on the UK authorities to embrace this development to ensure the UK remains competitive, noting the FCA's recent consultation on the topic of fund tokenisation and recent developments in the US from the CFTC. If tokenised MMF units could be used as collateral, it could accelerate innovation in how collateral is sourced and transferred, contributing to significant developments in market efficiency and innovation.

We therefore commend the Bank for considering tokenised collateral. However we note that non-standard collateral can already move in bilateral transactions but in practice does not, largely because of haircuts. It is important that haircuts are reviewed to ensure they accurately reflect actual underlying risk. In the case of MMF units, particularly such as those described above, any haircut should be low and certainly not prohibitive. We are in any case opposed to mandatory minimum haircut policies.

We look forward to continuing to work with the Bank in order to help promote a financial ecosystem that promotes economic growth while also preserving financial stability.

Yours sincerely

Hugo Gordon
Head of Capital Markets