

27 November 2025

Via online submission: GiltreporesilienceDP@bankofengland.co.uk.

Bank of England
Threadneedle St
London, EC2R 8AH
United Kingdom

Re: Enhancing the resilience of the gilt repo market

Dear Sir/Madam,

MFA¹ appreciates the opportunity to represent the views of the global alternative asset management industry in this written response to the Bank of England's ("the Bank") Discussion Paper on enhancing the resilience of the gilt repo market (the "**Discussion Paper**").² We have set out our responses to the relevant questions of the Discussion Paper in the Annex.

MFA's members use government bond repurchase ("**repo**") and reverse repo transactions and cash market transactions for a range of different reasons depending upon their investment strategies. These include using cash and repo transactions for the purpose of: (i) investment; (ii) hedging risk from other investment products; (iii) financing; (iv) collateral; and (v) managing portfolio risk. MFA members value these markets and want to ensure that they are efficient, fair, liquid, transparent, and low-cost for investors. As such, MFA and its members have a strong interest in regulatory developments in the government bond markets, including with respect to central clearing and risk management practices, including haircuts.

We support efforts to enhance government bond market efficiency and resilience by modernising the market infrastructure to account for the increasing size of the market and to mitigate potential vulnerabilities in market

¹ Managed Funds Association ("**MFA**"), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

² Bank of England, Discussion Paper: Enhancing the resilience of the gilt repo market (Sep. 4, 2025), available at: <https://www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market>

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functioning. While the imposition of a central clearing mandate in the UK gilt repo market would be premature given its current size and scale, we support efforts to encourage greater adoption of voluntary central clearing of gilt repos. The potential benefits of central clearing in the cash (vs. repo) market appear less significant, while the costs likely outweigh those potential benefits. To encourage more voluntary central clearing of gilt repo, the Bank should work to develop the clearing infrastructure to ensure it better supports increased central clearing. If the UK gilt repo market increases in size and market infrastructure continues to develop, including through the participation of a broader set of market participants, the Bank can revisit the question whether a mandate would be appropriate. Finally, we encourage the Bank to take a gradual approach to making changes to the clearing infrastructure and clearly communicate those changes to market participants to avoid potential market disruption.

Executive Summary

In our detailed comments that follow in the Annex, MFA addresses certain specific questions important to member firms. MFA's comments are summarised as follows:

- The Bank should encourage more voluntary central clearing for repo transactions, not impose a clearing mandate at this time.
- The Bank should expand the availability of central clearing by making it more attractive, including by addressing capital requirements, netting and accounting rules, pre-trade credit checks, and close-out provisions upon default.
- The movement to greater adoption of central clearing should be focused on reducing counterparty credit risk, not targeting particular trading strategies or singling out particular types of market participants.
- Firms should have the flexibility to apply proportionate, risk-based margining to their non-centrally cleared bilateral repo transactions.
- Requiring haircuts on repo transactions would ignore risk-reducing offsetting transactions and determinations of counterparty creditworthiness, deviate from longstanding market practices, and impair market liquidity.
- Promoting the availability of cross-margining is important to encourage the greater adoption of central clearing.

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MFA appreciates your consideration of our recommendations. We look forward to working with the Bank to enhance the resilience of the gilt repo market. We would be pleased to discuss our recommendations in further detail. Please do not hesitate to reach out to me on +44 20 3585 2300 or rhailey@mfaalts.org.

Yours sincerely,

/s/ Rob Hailey

Rob Hailey

Managing Director, Head of EMEA Government Affairs

MFA

ANNEX

QUESTIONS AND RESPONSES

Characteristics of the gilt repo market

Q1. *Do you agree with the assessment of the gilt repo market dynamics described in Section 2? Are there any further dynamics that you would highlight, beyond those identified above? Which of the issues described in Section 2 do you see as key risks to gilt repo market resilience, given current market structure?*

MFA Response

Some of the episodes referenced in Section 2 of the Discussion Paper were caused by events outside the control of any regulator or market participant. Certain structural issues have contributed to, or exacerbated, these periods of market stress. For example, in recent years, growth in the gilt market has outpaced the capacity of banks, broker-dealers, and proprietary trading firms to make markets and intermediate gilt transactions. While the markets have grown, the relative ability of these firms to absorb net market flows, particularly during periods of increased market stress and volatility, has decreased due, at least in significant part, to regulatory constraints and other limitations on balance sheet and capital capacity allocated to gilt market activity.

In assessing why banks may be prevented from extending additional gilt repo lending to existing and new counterparties during market stress, paragraph 13 of the Discussion Paper states this behaviour is “exacerbated by the fact that banks’ haircuts were, for the most part, set at zero percent at the onset of the stress.”³ Paragraph 13 further points to research that claims “approximately 70% and more than half of non-centrally cleared government bond repo transactions are conducted with zero haircuts in the euro area and the US, respectively.”⁴ Paragraph 14 contends that the “practice of applying near-zero haircuts in the non-centrally cleared gilt repo market may be evidence of market failure and lead to under-collateralisation even in relatively stable market conditions.”⁵

These claims about zero haircuts overlook that the statistics summarising the share of bilateral repo transactions not subject to haircuts are not necessarily evidence of a market failure or imply that these positions are not prudently risk managed. The OFR statistics do not capture cross-margining across products or portfolio margining. Cross-margining takes account of offsetting margin requirements between products, while portfolio

³ Paragraph 13 of the Discussion Paper.

⁴ Paragraph 13 of the Discussion Paper (citing a 2025 European Central Bank (ECB) Macroeprudential Bulletin and research by the US Office of Financial Research).

⁵ Paragraph 14 of the Discussion Paper.

marginining allows a firm to consider the full set of exposures and offsets from transactions with each counterparty when setting margin requirements.⁶ In these cases, the margin collected on other positions mitigates the risk on the repo position. The mere fact that a repo transaction apparently faces a low or zero haircut is not by itself a reliable indicator of how effectively that position is marginined.

For example, in a government bond cash-futures basis trade financed in the repo market, cross-margining accounts for other sources of collateralisation to the dealer, such as the margin posted to futures positions.⁷ In the United States, a fund may enter a cleared treasury futures position. In connection with this transaction, a Futures Commission Merchant (“**FCM**”) will collect margin consistent with clearinghouse requirements. Simultaneously, the fund may enter a repo transaction to finance the deliverable treasury securities with the same bank counterparty. Doing so reduces potential risks to the counterparty and the financial system and allows for more accurate and efficient margining. Mandatory repo haircuts may limit the margin savings available from cross product margining which would reduce the incentive for clients to maintain offsetting risks with the same counterparty.

By contrast, requiring haircuts on all repo transactions on a standalone basis would ignore risk-reducing offsetting transactions and determinations of counterparty creditworthiness, deviate from longstanding market practices, and impair market liquidity. As the Federal Reserve publication acknowledged, “[I]n many cases minimum haircuts would not lead to proportionate margining, and therefore could decrease liquidity in repo and securities markets without offering a substantial increase in protection.”⁸

Firms should have the flexibility to apply proportionate, risk-based margining to their non-centrally cleared bilateral repo transactions. Establishing haircuts (or margining) is a risk-management decision and affects the credit exposure of both counterparties. The lack of a haircut in a particular transaction does not imply the position is not effectively risk managed. Prudent haircuts (or margin) should be set in concert with other risk management techniques; haircuts (and margin) are only one of several ways that a firm can effectively manage the risk of its repo transactions.

⁶ R. Jay Kahn & Matthew McCormick, “Proportionate margining for repo transactions,” FEDS Notes (Feb. 14, 2025), available at: <https://www.federalreserve.gov/econres/notes/feds-notes/proportionate-margining-for-repo-transactions-20250214.html>.

⁷ Commodity Futures Trading Commission. Treasury Cash and Futures Basis Trade Report, available at: https://www.cftc.gov/media/11671/mrac121024_TreasuryCashFuturesBasisTradeReport/download.

⁸ R. Jay Kahn & Matthew McCormick, “Proportionate margining for repo transactions,” FEDS Notes (Feb. 14, 2025), available at: <https://www.federalreserve.gov/econres/notes/feds-notes/proportionate-margining-for-repo-transactions-20250214.html>.

Potential measures to enhance gilt repo market resilience

Q2. *What is your view on the potential benefits, risks and broader market implications of greater central clearing of gilt repo? To what extent do you expect greater central clearing, especially in the dealer-to-client segment, would expand dealers' gilt repo intermediation capacity in normal times and in stress? To what extent would greater central clearing reduce counterparty credit risk exposures as well as uncertainty during periods of stress and counterparty defaults, and increase market participants' appetite to extend further gilt repo lending? How do you expect dealers would deploy any additional capacity, both in stress and in stable market conditions?*

MFA Response

We expect the benefits of greater central clearing to be significant in the bilateral repo market. Expanding netting of repo transactions through more central clearing could increase market capacity by reducing the balance sheet and capital costs of repo transactions to liquidity providers. In addition, repo transactions involve more counterparty credit risk than cash market transactions, which can be mitigated through central clearing via a clearing agency's margining and default management practices. Central clearing also provides more transparency to regulators regarding repo activity.

However, balance sheet netting can only be achieved when liquidity providers/intermediaries can clear both sides of their flow. Therefore, it is important that as much of the repo ecosystem, and as many participants, have access to central clearing as possible. This may require a slightly different setup for participants who only engage in cash lending, and who generally will not be willing to pay a haircut or contribute to default funds. Also, if dealers were able to clear their usage of the Bank's Open Market Operations—specifically, the Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) facilities — then it would make the use of these facilities more attractive, especially during times of liquidity scarcity. The Bank could benefit from such a development because it would make implementation of monetary policy more efficient.

For the sake of comparison, in the United States, relative to bilateral repos, triparty repo transactions already provide for additional risk mitigants and protections due to the role of the triparty agent and related regulatory oversight of the market. In addition, there is significantly less experience and track record with respect to central clearing of triparty repo transactions than is the case for bilateral repo.

Cash transactions, in turn, do not present the same extent of credit risk as repo transactions, which means that a principal benefit of central clearing—risk mitigation—is significantly less evident in these markets. Certain existing and more frequently used clearing models for cash transactions also do not provide meaningful opportunities for clearing-related netting and risk mitigation benefits for indirect participants.

To encourage more central clearing for repo transactions, it is important for the Bank to expand the availability

of central clearing by making it more attractive. These measures include addressing capital requirements, netting and accounting rules, and close-out provisions upon default. In addition, the Bank should make “done-away” transactions (*i.e.* transactions executed by an indirect participant with a party other than the direct participant through which the indirect participant clears the transactions) more available by making it attractive for clearing members to clear for third party clients/trades. It is important to certain non-clearing member participants that they are able to consolidate their clearing activities in a small number of clearing member participants to enhance the benefits of central clearing and minimise the costs, which requires a robust done-away clearing market.

Experience from the US Treasuries market points to the necessity of done-away clearing in order for market participants to be able to continue to trade anonymously on inter-dealer broker platforms, given that the brokers who operate those platforms generally do not offer customer clearing and so platform participants who are not self-clearing will need to give up their trades for clearing to direct participants willing to clear those trades as done-away transactions.

Q3. *How do you expect greater central clearing would impact the build-up and unwind of highly leveraged, concentrated trading strategies in the gilt repo market? Which market activities and types of participants do you expect would be most affected?*

MFA Response

The movement to central clearing should be focused on reducing counterparty credit risk, not targeting particular trading strategies or one type of market participant. More central clearing will not be effective at reducing counterparty credit risk, let alone the build up and unwind of highly leveraged, concentrated trading strategies without effective cross-margining and appropriate haircuts and margin requirements. Furthermore, depending on the direct and indirect costs of central clearing, there is a risk of squeezing smaller participants out of the market if higher haircuts for cleared repos are required. Fixed costs associated with a move to mandatory clearing could therefore result in more concentrated activity with a smaller number of firms. It also increases the cost of intermediation, which may bring risks for the broader stability of the gilt repo and cash markets.

Q4. *What would the largest impacts of greater central clearing be for market participants? How would it affect your business model/trading strategies and what actions would you take in response? How would greater central clearing impact cash gilt market liquidity and pricing? Please provide worked examples or quantitative evidence where possible.*

MFA Response

It is difficult to answer this question because it is unclear what types of products would be centrally cleared—bilateral repos, triparty repos, cash transactions? On the run, off the run transactions? Will transactions in the

Bank's own repo facility be centrally cleared? What type of clearing models will be available? Until these questions are answered (or a proposal is put forward), it is not possible to answer this question.

While there is no conclusive evidence yet from the U.S. market, the general consensus among researchers is that more central clearing will enhance the efficiency of the market.⁹

Q5. *To what extent do you think market participants would be prepared to manage the potential increases in liquidity needs that could come with greater central clearing in the gilt repo market? Which policy initiatives might be able to help mitigate this risk?*

MFA Response

As noted above in response to Q1, promoting the availability of cross-margining is important to encourage the greater adoption of central clearing. Furthermore, encouraging a greater range of clearing models will help to address increased liquidity needs and promoting changes to the clearing infrastructure to promote “done-away” transactions.

When markets are under stress, margins become procyclical, whether centrally cleared or not. Variation and initial margin requirements increase. However, centrally cleared markets tend to respond more quickly to stress in the financial system.

Q6. *Do you see any risks to financial stability generated by an increase in centrally cleared gilt repo activity at CCPs and, potentially, a limited number of sponsoring banks? In your view, how material are these risks, and how could they be best mitigated?*

MFA Response

When there is only one clearing agency that provides clearing services for government securities, this creates concentration risk for the clearing of the transactions—the clearing agency becomes a potential single point of failure. The Bank should work with other entities that may seek to provide clearing services for government securities to mitigate this concentration risk, while recognising that the gilt market may not be sufficiently large or liquid to support multiple central counterparties.

⁹ Duffie, Darrell. 2023. “Resilience Redux in the U.S. Treasury Market.” In Structural Shifts in the Global Economy: Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, 77–119.

- Q7. *In your view and given your business model, what are the costs and benefits of different clearing models? What are the key features of a central clearing model which maximises benefits to market resilience and financial stability while minimising any potential increase in trading costs?***

MFA Response

The Bank should work to ensure that clearing agency rules are designed to ensure that market participants have sufficient access to central clearing, without mandating central clearing. Access to clearing services is particularly important for firms that are not direct members of the clearing agency. Furthermore, it is important that market participants have the flexibility to choose from a variety of access models so they can select the one that meets their specific needs, whether that be done with or done away, direct access, limited access for cash lenders, etc.

Rules should ensure that a non-clearing member participant can consolidate the clearing of its portfolio in one or a small number of direct participants by requiring a direct participant offering customer clearing to accept transactions executed by the customer with third-party executing firms (done-away transactions). To maximise the benefits of central clearing and minimise the costs, rules should ensure that a non-clearing member participant may centralise the clearing of its in-scope portfolio in one or a small number of direct participants, to the extent desired by that indirect participant.

Non-clearing member participants should be able to access central clearing models that provide for the clearing agency to guarantee settlement of their transactions. This is not the case with certain clearing models today in the United States, such as the Fixed Income Clearing Corporation's ("FICC") correspondent and prime brokerage clearing models. Those models do not provide indirect participants the benefits of central clearing. Settlement remains dependent upon the direct participant, because the indirect participant does not face FICC.

A non-clearing member participant should have the ability (although not the obligation) to fund the margin obligations of the direct clearing members clearing on its behalf which are attributable to the non-clearing member participant. In such cases, the margin posted by the non-clearing member participant should be segregated from the clearing member participant's house margin, and it should not be subject to loss mutualisation vis-à-vis other clearing member participants. Given that many non-clearing member participants have fiduciary obligations to their own clients, it is crucial that indirect participants are able to post margin on a segregated basis such that their clients are not subject to the credit risk of others (and, likewise, that their funds are not subject to loss mutualisation). Such an approach also promotes systemic risk mitigation by facilitating a defaulter-pays model for clearing by non-clearing member participants.

- Q8. *To what extent could incentives achieve a sufficient expansion in central clearing to deliver meaningful benefits to the resilience of the gilt repo market? Would a clearing mandate be necessary?***

MFA Response

As noted above, we support efforts to promote greater voluntary central clearing in the UK gilt repo market. This market does not yet have sufficient scale to warrant imposing a clearing mandate at this time. By taking steps to encourage voluntary central clearing, the Bank can create incentives that increase the usage of central clearing. This has been the experience in the United States, where the central clearing of U.S. Treasuries has increased significantly without a mandate being in effect, in part due to the overall cost to dealers of providing sponsored access to central clearing was lower than the cost of trading bilaterally. If the gilt repo market increases in size and market infrastructure continues to develop, including through the participation of a broader set of market participants, the Bank can revisit the question of whether a mandate would be appropriate.

Q9. *What is your view on the potential benefits, risks and broader market implications of introducing minimum haircut on non-centrally cleared gilt repo transactions? To what extent could minimum haircuts effectively address observed market failures around margining practices in the non-centrally cleared gilt repo market? To what extent would this measure reduce counterparty credit risk and uncertainty during periods of stress, and bolster market participants' appetite to extend further repo lending?*

MFA Response

As noted above in response to Q.1, firms need flexibility in applying proportionate, risk-based margining to their repo transactions. Establishing haircuts (or margining) is a risk management decision based on a variety of factors; if no haircut is applied in a particular transaction, it does not follow that appropriate risk management of the position is absent.

Financing counterparties currently rely on haircuts, margin requirements, and central clearing to help them manage their counterparty credit risk. Financing counterparties negotiate these requirements into the terms of their transactions with alternative asset managers. Each of these tools can be effective at reducing risk to individual financing counterparties and to the financial system.

Financing counterparties developed these standard market practices to manage their counterparty risk effectively. Regulators can support the stability and efficiency of financial markets by encouraging all relevant market participants adopt these best practices.

Regulators should not, however, prescribe specific activity-based measures that banks and their counterparties must use to manage their risks. The risks posed by a particular alternative asset manager to a bank counterparty are based on the unique features of the parties and the trading or financing relationship. For example, a transaction with a traditional credit fund, where the risk involved is unlikely to be idiosyncratic, does not merit the same degree of diligence as a fund with a complicated trading strategy.

Haircuts and margin requirements can be effective tools that bank counterparties should consider using, but regulators should not restrict banks' flexibility to choose the appropriate tool and calibrate the requirements to each relationship with a different counterparty. This is especially true when the market identifies new measures for managing counterparty credit risk that may prove to be more effective.

In addition, risk management tools, particularly haircuts and margin requirements, come with a cost to market participants that ultimately affects the broader economy. It is important that bank counterparties apply haircuts and margin requirements that are appropriately tailored to the unique risks posed by each counterparty and trading or financing relationship to avoid unnecessary costs and market inefficiencies.

Q10. *To what extent could minimum haircuts help dampen procyclical increases in haircuts in stress? What is your view on the materiality of this benefit in the context of broader liquidity shocks that repo market participants may face?*

MFA Response

In addition to the reasons set out in the previous question, another reason not to establish minimum haircuts is that it will affect how market participants decide to allocate risk among various investment opportunities. This risks pushing activity away from well-capitalised firms that are active participants in this market to less well-capitalised firms. This shift could lead to more systemic risk, not less.

Q11. *How do you expect minimum haircuts would impact the build-up of leveraged, concentrated trading strategies in the gilt repo market? Which strategies and types of market participants do you think would be most affected?*

[No response]

Q12. *What would the largest impacts of minimum haircuts be for market participants? How would they affect your business model/trading strategies and what actions would you take in response? How would minimum haircuts on gilt repo impact cash gilt market liquidity and pricing? Please provide worked examples or quantitative evidence where possible.*

MFA Response

The general impact would be to disincentivise participation by market participants, including hedge funds, who contribute to market efficiency. Low risk positions would tend to be over-margined, leading to inefficiencies in the market.

Q13. *Is there a particular model or calibration of minimum haircuts which maximises benefits to financial stability while minimising potential costs to market participants?*

MFA Response

No, there is not.

As noted above, in many cases minimum haircuts would not lead to proportionate margining. As a result, minimum haircuts could decrease liquidity in repo markets without offering a substantial increase in protection.

Other potential measures to enhance gilt repo market resilience

Q14. *Aside from greater central clearing and minimum haircuts in non-centrally cleared transactions, what are the measures, or combination of measures, that you think could effectively alleviate different constraints to the expansion of gilt repo lending in a stress?*

MFA Response

As noted above in response to Question 3, depending on the direct and indirect costs of central clearing, there is a risk of squeezing smaller participants out of the market if higher haircuts for cleared repos are required. More generally, creating artificial barriers through the imposition of higher costs could lead to less diversity in the market, which may make the gilt repo market less resilient and liquid. For this reason, we recommend taking steps to expand the access to central clearing to promote greater diversity of participants in the gilt repo market.

Q15. *In particular, what are the risks and benefits associated with greater private and public disclosures of leveraged positions generated via gilt repo? How do you expect market participants' behaviour to evolve as a result of these potential measures?*

MFA Response

Prudent risk management practices also include providing certain disclosures to bank counterparties. Market participants have mutually determined the disclosures that bank counterparties require to effectively manage their risk, which notably does not include position-specific information.

Position-specific information is not needed for risk management purposes and disclosing such information could run counter to important commercial objectives. For example, such information is highly sensitive and disclosing it to bank counterparties could inadvertently reveal information about confidential proprietary trading and counterparty diversification strategies.

Bank counterparties are better positioned than regulators to know what requirements to impose on alternative asset managers to manage their counterparty credit risk effectively. If every counterparty had to be provided with their own form of disclosure, it would be operationally burdensome for alternative asset managers to comply. However, this information is commercially sensitive. To the extent there needs to be high-level disclosure, it should not compromise sensitive proprietary information.

Q16. *In your view, what is likely to be the most effective combination of potential reforms to effectively address the vulnerabilities in the gilt repo market and enhance its resilience?*

MFA Response

As discussed above, greater utilisation of central clearing on a voluntary basis will provide the most benefits to the repo market. But the infrastructure must be sufficiently developed to handle the increased transaction volume and haircuts must be proportional to the risk.