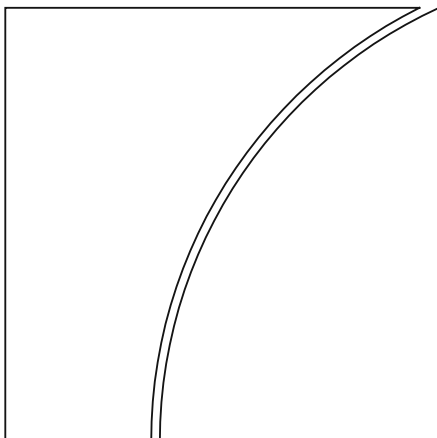


Committee on
Payments and Market
Infrastructures

Board of the International
Organization of Securities
Commissions



Implementation
monitoring of PFMI: Level 2
assessment report for the
United Kingdom – PSs and
CSDs/SSSs

April 2026



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1. Executive summary

In April 2012, the BIS Committee on Payments and Settlement Systems (CPSS)¹ and the International Organization of Securities Commissions (IOSCO) issued the *Principles for financial market infrastructures* (PFMI).² The principles within the PFMI (“the Principles”) set expectations for the design and operation of key financial market infrastructures (FMIs) in order to enhance their safety and efficiency and, more broadly, to limit systemic risk and foster transparency and financial stability. The Principles apply to all systemically important payment systems (PSs) and central securities depositories (CSDs)/ securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs), collectively referred to as financial market infrastructures (FMIs). These FMIs clear, settle and record transactions in financial markets. In line with the G20’s expectations, CPMI and IOSCO members have committed to implementing and applying the PFMI in their jurisdictions.

This report presents the CPMI and IOSCO’s conclusions on a Level 2 assessment on whether, and to what degree, the content of the legal, regulatory and oversight frameworks – including rules and regulations, any relevant policy statements or other forms of implementation – applied to systemically important PSs and CSDs/SSSs in the United Kingdom (UK) are complete and consistent with the PFMI.

Given that there are separate regulatory frameworks for PSs and CSDs/SSSs, the assessment team (AT) has assessed each of these separately.

The assessment reflects the status of the UK legal, regulatory and oversight frameworks as of 30 September 2023. Accordingly, assessment ratings, recommendations and key conclusions reflect the implementation measures in place for PSs and CSDs/SSSs as of 30 September 2023.

1.1 Legal and regulatory frameworks

There are separate regulatory frameworks for PSs and CSDs/SSSs. The relevant UK authorities are:

- PSs: the Bank of England (BoE) and the Payment Systems Regulator (PSR); and
- CSDs/SSSs: the BoE.

A mix of different types of implementation measures are used for PSs and CSDs/SSSs in the United Kingdom; in the case of PSs there are also differences in the implementation measures for private sector and central bank-operated PSs. The main implementation measures are:

- For PSs: the Banking Act 2009 and *The Bank of England’s approach to the supervision of financial market infrastructures* (BoE policy statement) (the former does not apply to central bank-operated PSs).
- For CSDs/SSSs: the UK Central Securities Depositories Regulation (UK CSDR).³ The UK CSDR is complemented by technical implementation measures (ie regulatory technical standards and

¹ The CPSS changed its name to the BIS Committee on Payments and Market Infrastructures (CPMI) on 1 September 2014. References to reports published before that date use the Committee’s old name.

² See CPSS-IOSCO, *Principles for financial market infrastructures*, April 2012, www.bis.org/cpmi/publ/d101.htm and www.iosco.org/library/pubdocs/pdf/IOSCOPD377-PFMI.pdf.

³ As at the assessment date, UK CSDR was unchanged in substance from the EU CSDR that entered into force on 17 September 2014, being part of retained EU law following the United Kingdom’s withdrawal from the European Union. The UK CSDR was amended by the Central Securities Depositories (Amendment) (EU Exit) Regulations 2018 and The Investment Exchanges, Clearing Houses and Central Securities Depositories (Amendment) (EU Exit) Regulations 2019. The complete name of the EU regulation is “Regulation (EU) No 909/2014 of the European Parliament and the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012”.

implementing technical standards),⁴ which were “onshored” into UK law following the United Kingdom’s withdrawal from the European Union and are legally enforceable;

- The Financial Markets and Insolvency (Settlement Finality) Regulations 1999; and
- Financial Services Update – Statement by the Chancellor of the Exchequer on 23 June 2020.⁵

1.2 Key findings of the assessment

The AT has found that the UK legal, regulatory and oversight frameworks for PSs are complete and consistent with all Principles under the PFMI.

The AT has found that the UK legal, regulatory and oversight frameworks for CSDs/SSSs are complete and consistent with the Principles in most aspects, with some areas for improvement where implementation was broadly or partly consistent or not consistent. For UK CSDs/SSSs that could provide banking-type ancillary services, the AT concluded that the regulatory and oversight framework is consistent with 15 Principles, broadly consistent with five (Principles 9, 11, 15, 16 and 23) and not consistent with Principle 10. For UK CSDs/SSSs that do not provide banking-type ancillary services, the AT found additional gaps in terms of the implementation of Principles 4 and 7, where implementation was assessed to be partly consistent.

1.3 Summary response from the assessed jurisdiction’s authorities

The Bank of England appreciates the opportunity to respond to the comprehensive assessment conducted by CPMI-IOSCO. We are grateful to the AT and secretariats for their diligent work in undertaking this review and compiling this report.

We are pleased that the assessment outcomes confirm that for payments systems, and broadly for CSDs/SSSs, the UK’s framework is complete and consistent with the PFMI. This assures us of the foundation of our approach and the expectations we hold for firms.

Since the assessment date cut-off on 30 September 2023, the BoE has continued to build on this foundation in responding to developments which impact UK FMIs. This progress is captured within the FMI Annual Report which is presented to the UK Parliament to meet relevant statutory obligations. Notably, in 2025, the BoE published Fundamental Rules for FMIs.⁶ These recognise that FMIs play a critical role in managing risk and allowing payments to be made safely. These Rules set out the outcomes that the BoE expects from FMIs, including with regard to their financial resources, operational resilience and the actions they should take to understand and manage the risk they may pose to the stability of the financial system. The Rules are based on the PFMI and the consultation sets out broadly how the Rules map to different Principles.

The BoE’s FMI agenda is also forward looking. For payments, the BoE will support the UK National Payments Vision, which sets out the UK Government’s ambition for a trusted, world-leading payments ecosystem delivered on next-generation technology, with a particular focus on the UK retail payments

⁴ Notably, *Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services* (UK BTS 2017/390) and *Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories* (UK BTS 2017/392).

⁵ See UK Parliament, “Financial services update – statement made on 23 June 2020”, 23 June 2020, questions-statements.parliament.uk/written-statements/detail/2020-06-23/HCW5309

⁶ See Bank of England, *Fundamental rules for financial market infrastructures: supervisory statement*, July 2025, www.bankofengland.co.uk/paper/2025/ss/fundamental-rules-for-financial-market-infrastructures

infrastructure.⁷ For CSDs, the assessment team's insights will be considered when undertaking any future work to establish rules applicable to CSDs. These will be made utilising new rulemaking powers granted to the BoE by the Financial Services and Markets Act 2000, as amended by the Financial Services and Markets Act 2023.

The BoE continues to supervise FMIs as part of its primary objective to protect and enhance the stability of the financial system of the UK. The BoE also expects and encourages all FMIs to innovate and believes that innovation can actively support FMIs' resilience and financial stability more broadly, in line with our secondary objective.

Once again, the BoE would like to extend its thanks to the CPMI and IOSCO membership and colleagues for undertaking this valuable assessment.

⁷ See Bank of England, *The National payments vision*, November 2025 www.bankofengland.co.uk/payment-and-settlement/the-national-payments-vision.

2. Introduction

Following the publication of the PFMI, the CPMI and IOSCO agreed to monitor the implementation of the PFMI in 28 jurisdictions that are members of the Financial Stability Board (FSB), the CPMI or IOSCO.⁸ To that end, the CPMI-IOSCO Steering Group⁹ established the Implementation Monitoring Standing Group (IMSG)¹⁰ to design, organise and conduct the implementation monitoring assessments. The implementation monitoring programme has proceeded at three levels: a Level 1 self-assessment of jurisdictions' progress in completing the process of adopting the legislation, regulations and other policies ("implementation measures") that will enable them to implement the PFMI; a Level 2 peer assessment of the completeness of the implemented frameworks and their consistency with the PFMI; and a Level 3 peer assessment of the consistency in outcomes of such frameworks.¹¹

This report presents the CPMI and IOSCO's conclusions on the Level 2 assessment of the Principles for PSs and CSDs/SSSs in the United Kingdom. The assessment reflects the status of the UK legal, regulatory and oversight frameworks for PSs and CSDs/SSSs as of 30 September 2023. The assessment was conducted as a peer review from October 2023 to May 2025.

The relevant UK authorities for the assessment, which are responsible for the regulation, supervision and oversight of FMI are:

- *for PSs*: the Bank of England (BoE) and the Payment Systems Regulator (PSR); and
- *for CSDs/SSSs*: the BoE.

2.1 Broader context of the Level 2 assessment

In line with the G20's expectations, CPMI and IOSCO members have undertaken to incorporate the Principles and Responsibilities included in the PFMI in their legal and regulatory frameworks. The CPMI and IOSCO regard full, timely and consistent implementation of the PFMI as fundamental to ensuring the safety and soundness of FMIs, avoiding regulatory arbitrage and supporting the resilience of the global financial system.

To that end, the CPMI and IOSCO have been actively monitoring the implementation of the PFMI based on a framework comprising three levels:

- Level 1 assesses whether jurisdictions have completed the process of adopting the legislation, regulations and other policies (implementation measures) that will enable them to implement the Principles and Responsibilities;
- Level 2 assesses the completeness and consistency of the content of legislation, regulations and policies (implementation measures) with the Principles and Responsibilities; and
- Level 3 assesses consistency in the outcomes of implementation of Principles and Responsibilities.

⁸ The 28 jurisdictions participating in the PFMI implementation monitoring programme are Argentina, Australia, Belgium, Brazil, Canada, Chile, China, the European Union, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia (until February 2022), Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Türkiye, the United Kingdom and the United States.

⁹ The Steering Group comprises a subset of the members of the CPMI and the IOSCO Board and is responsible for providing operational guidance on behalf of the "parent committees" (ie the CPMI and the BIS Global Economy Meeting (GEM) and the IOSCO Board) on joint CPMI-IOSCO work.

¹⁰ The IMSG comprises representatives from CPMI and IOSCO members that reflect a balance between the two standard-setting bodies and geographical dispersion.

¹¹ See www.bis.org/cpmi/info_mios.htm and www.iosco.org/v2/about/?subSection=cpmi_iosco&subSection1=monitoring for a list of completed Level 1, Level 2 and Level 3 assessments.

The Level 1 exercise reflects each jurisdiction's self-assessment of its progress in completing the process of adopting the legislation, regulations and other policies that will enable it to implement the PFMI. In contrast, the Level 2 and Level 3 assessments are designed to reflect the assessment by CPMI and IOSCO, via peer reviews.

The assessments related to the Principles are ongoing and are being considered separately at Level 2 and Level 3.¹² Overall, the 28 participating jurisdictions have made further progress in completing the adoption of legislation, regulations and/or policies to support implementation of the PFMI. The Level 1 assessments also showed that jurisdictions have implemented, or are in the process of implementing, the PFMI in different ways. Depending on their national legal and regulatory or oversight frameworks, some jurisdictions use a policy-based approach (ie rely on a policy statement as the primary tool for adopting the PFMI), some use a rules-based approach (ie rely on rules and/or regulations corresponding to the PFMI) and others combine these two approaches.

In this respect, the UK authorities can be described as having adopted a mixture of policy-based and rules-based approaches to implementing the PFMI.

The CPMI and IOSCO will continue to monitor jurisdictions' progress in implementing the Principles and Responsibilities in future assessments.

2.2 Objective and rating

The Level 2 assessment aims to determine whether, and to what degree, the content of the legal and regulatory or oversight frameworks, including any relevant policy statements or other forms of implementation measures, are complete and consistent with the PFMI. The focus of the Level 2 assessment is on the relevant frameworks (implementation measures) themselves, not on the application of this framework by the authorities or the FMIs' observance.

The rating framework used in Level 2 assessments (Table 1) is an adaptation of the approach described in the PFMI assessment methodology.¹³ The rating levels are: "Consistent", "Broadly consistent", "Partly consistent", "Not consistent" and "Not applicable". The ratings reflect conditions at the time of the assessment and are built on key conclusions that reflect the CPMI and IOSCO's collective expert judgment regarding the impact of identified gaps and/or shortcomings. Ratings are determined for each Principle after the jurisdiction's legislative and regulatory framework – including policy statements, as relevant – is compared with the corresponding content of the PFMI.

Status rating of the Level 2 assessment		Table 1
Consistent	The jurisdiction's regulatory framework is consistent with the Principle. The assessment has identified no gaps or shortcomings, or only a few gaps and/or shortcomings that have no material impact on completeness and/or consistency.	
Broadly consistent	The jurisdiction's regulatory framework is broadly consistent with the Principle. The assessment has identified gaps and/or shortcomings that have a minor impact on completeness and/or consistency.	

¹² For the Responsibilities, the IMISG combined the Level 2 and Level 3 assessments into a single exercise, whereby the IMISG focused on both the measures taken by the relevant authority to fulfil the Responsibilities, including its powers and the framework and processes in place to meet the requirements under the Responsibilities (Level 2), and how these measures translated into observed outcomes (Level 3). See CPMI-IOSCO, *Assessment and review of application of responsibilities for authorities*, November 2015, www.iosco.org/library/pubdocs/pdf/IOSCOPD514.pdf and www.bis.org/cpmi/publ/d139.htm.

¹³ See CPSS-IOSCO, *Principles for financial market infrastructures: disclosure framework and assessment methodology*, December 2012, www.bis.org/cpmi/publ/d106.htm and www.iosco.org/library/pubdocs/pdf/IOSCOPD396.pdf.

Partly consistent	The jurisdiction's regulatory framework is partly consistent with the Principle. The assessment has identified gaps and/or shortcomings that have a significant impact on completeness and/or consistency.
Not consistent	The jurisdiction's regulatory framework is not consistent with the Principle. The assessment has identified gaps and/or shortcomings that have a major impact on completeness and/or consistency.
NA – No implementation measures needed (ie not applicable)	This status corresponds to the case where no relevant FMI exists that is within the scope of the Principle. A rating of "NA" will be indicated only if no relevant regulatory measures are being taken and no such FMI is expected to develop within the jurisdiction.

2.3 Scope

This report covers the implementation measures for PSs and CSDs/SSSs in the United Kingdom.¹⁴ The implementation measures assessed include:

- For PS:
 - the Banking Act 2009 (including Part 5);
 - the Financial Services (Banking Reform) Act 2013 (Part 5);
 - *The Bank of England's approach to the supervision of financial market infrastructures*, April 2013 (BoE policy statement);
 - *The Bank of England's supervision of financial market infrastructures Annual Report 2022*, December 2022¹
 - *Bank of England Code of Practice and supervisory statement relating to governance of recognised payment system operators*, June 2017;
 - *Bank of England Code of Practice and supervisory statement – Operational resilience: Recognised payment system operators and specified service providers*, March 2021;
 - *The Bank of England Code of Practice and supervisory statement – Outsourcing and third party risk management: Recognised payment system operators and specified service providers*, February 2023;
 - BoE news release "Bank of England commences the direct delivery of the CHAPS service", 13 November 2017; and
 - PSR General Directions.
- For CSDs/SSSs:
 - the UK Central Securities Depositories Regulation (UK CSDR). The UK CSDR is complemented by technical implementation measures (ie regulatory technical standards and implementing technical standards), which were "onshored" into UK law following the United Kingdom's withdrawal from the European Union and are legally enforceable;
 - The Financial Markets and Insolvency (Settlement Finality) Regulations 1999; and
 - Financial Services Update: Statement by the Chancellor of the Exchequer, 23 June 2020.¹⁵

The assessed legal, regulatory and oversight frameworks are described further in Section 3.

¹⁴ The Level 2 assessment report for central counterparties and trade repositories in the European Union (which at the time included the United Kingdom) was published in February 2015. See www.bis.org/cpmi/publ/d128.htm and www.iosco.org/library/pubdocs/pdf/IOSCOPD478.pdf

¹⁵ See questions-statements.parliament.uk/written-statements/detail/2020-06-23/HWCS309

3. Overview of the regulatory, supervisory and oversight frameworks

Given that there are separate regulatory frameworks for private and central-bank PSs and CSDs/SSSs that do and do not provide ancillary banking services in the United Kingdom, the AT has assessed each of these separately.

3.1 Payment systems

In the United Kingdom both the BoE and the PSR are involved in the regulation, supervision and oversight of PSs. For the purposes of this Level 2 assessment, the BoE is the primary authority involved in the regulation, supervision and oversight of the systemically important PSs in the United Kingdom. The BoE has two main implementation measures: (i) a regime for recognised PSs under Part 5 of the Banking Act 2009;¹⁶ and (ii) a policy statement (The Bank of England's approach to the supervision of financial market infrastructures).¹⁷ The regime for recognised PSs uses a variety of implementation measures as set out in the Banking Act 2009: UK Principles (to which PSs must have regard), codes of practice and directions (which require/prohibit a specified action and set standards to be met). Further, for both recognised and public sector PSs, the BoE issues policy statements and an Annual Report on the supervision of FMIs (which are not legally enforceable but nevertheless are used by the BoE).

The PSR's mandate is to (i) promote competition in the markets for PSs and for services provided by PSs, in the interest of users; (ii) promote the development of, and innovation in, PSs with a view to improving the quality, efficiency and economy of PSs; and (iii) ensure that PSs are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by PSs. The PSR's implementation measures are primarily a mix of general directions¹⁸ and specific directions¹⁹ (used to intervene in support of the PSR's mandate). The PSR also has other powers, such as the ability to require changes to the rules of a PS. These powers, alongside its powers of direction, can be applied to systemically important PSs.

Given that the BoE implementation measures and the PSR directions power apply to all systemically important PSs in the United Kingdom, the AT has considered the combination of these measures in assessing the completeness and consistency of the UK regime for PSs. For the purposes of this Level 2 assessment, and given its focus on financial stability, the BoE is regarded as the main authority involved in the regulation, supervision and oversight of the systemically important PSs in the United Kingdom.

Prior to 2017, all of the systemically important PSs in the United Kingdom were operated by private entities and subject to the regime described above. In 2017, the BoE brought CHAPS (the UK real time gross settlement system) in-house. As a result, CHAPS was derecognised under Part 5 of the Banking Act 2009 and therefore CHAPS is no longer subject to the Banking Act regime and the related codes of practices and directions. At the time, the BoE issued a press release noting that "CHAPS will be supervised

¹⁶ See UK government, *Banking Act 2009*, February 2009, Part 5, www.legislation.gov.uk/ukpga/2009/1/part/5

¹⁷ See BoE, *The Bank of England's approach to the supervision of financial market infrastructures*, April 2013, at www.bankofengland.co.uk/-/media/boe/files/financial-stability/financial-market-infrastructure-supervision/the-boe-approach-to-the-supervision-of-fmi.pdf

¹⁸ See PSR, *General directions*, www.psr.org.uk/how-psr-regulates/regulatory-framework-and-approach/general-directions

¹⁹ See PSR, *General directions*, www.psr.org.uk/how-psr-regulates/regulatory-framework-and-approach/specific-directions

by the Bank's Financial Market Infrastructure Directorate to the same standards as other systemically important payment schemes".²⁰

3.2 CSDs/SSSs

For the purposes of this assessment, the main authority for UK CSDs and SSSs is the BoE. The main implementation measure for CSDs/SSSs in the United Kingdom is the UK CSDR.²¹ The UK CSDR explicitly states that "this Regulation should follow the existing principles for financial market infrastructures developed by CPSS-IOSCO". The UK CSDR is complemented by:

- technical implementation measures (ie regulatory technical standards and implementing technical standards), which were "onshored" into UK law following the United Kingdom's withdrawal from the European Union, and are legally enforceable; and
- specified ESMA guidelines, which were in force and complied with in the United Kingdom before the end of the EU exit transition period (31 December 2020). The BoE expects firms to continue to comply with these guidelines and recommendations as identified in the BoE's policy statement.²²

The UK CSDR makes a distinction between the requirements for CSDs/SSSs that provide banking-type ancillary services²³ and those that do not. Title IV of the CSDR (specifically articles 59(3) and 59(4), which relate to management of credit and liquidity risks) does not apply to CSDs/SSSs that do not provide banking-type ancillary services.

3.3 Process

The Level 2 assessment follows an established methodology to ensure consistency across jurisdictions and time. The methodology draws heavily on the PFMI Assessment Methodology. This Level 2 assessment was conducted as a peer review by an AT comprising technical experts from the CPMI and IOSCO.²⁴ The assessment was performed in several stages and included:

- (i) gathering and reviewing responses by relevant authorities to Level 2 survey questionnaires;

²⁰ See BoE, "Bank of England commences the direct delivery of the CHAPS service", November 2017, www.bankofengland.co.uk/-/media/boe/files/news/2017/november/bank-of-england-commences-the-direct-delivery-of-the-chaps-service.pdf. Note for Editors: "[...] The combined RTGS and CHAPS service will be overseen by a new governance Board at the Bank chaired by the Deputy Governor for Markets and Banking [...] Delivery of CHAPS will be supervised by the Bank's Financial Market Infrastructure Directorate to the same standards as other systemically important payment schemes. The Bank will also continue to work closely with the Payment Systems Regulator on enabling fair and open access to the CHAPS service, based on reasonable risk-related participation requirements, as a means of promoting innovation, competition and the interests of users, where consistent with the Bank's mission [...]."

²¹ As at the assessment date, this regulation is unchanged in substance from the EU CSDR that entered into force on 17 September 2014, being part of retained EU law post-Brexit. The complete name of the EU regulation is "Regulation (EU) No 909/2014 of the European Parliament and the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012".

²² See BoE and Prudential Regulation Authority (PRA), *Statement of Policy 1/19 Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU*, April 2019, www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop

²³ Section C of the Annex to the UK CSDR sets out the list of banking-type ancillary services.

²⁴ The AT was made up of AT Lead Emilie Walgenbach (Federal Reserve Bank of New York), Stephanie Bolt (Reserve Bank of Australia), Aaron Ferguson and Jalil El Moussadek (Ontario Securities Commission), Sudhanshu Prasad (Reserve Bank of India), and Samuel Irwin (Federal Reserve Board), supported by Jenny Hancock, Raul Morales and Amandeep Rehlon (CPMI Secretariat) and Josafat De Luna-Martínez, Hemla Deenanath and Jantakarn Pangutha (IOSCO General Secretariat).

- (ii) developing an understanding of the jurisdiction's legal, regulatory and oversight framework for FMIs;
- (iii) analysing the level of completeness and consistency of implementation measures against the Principles and identifying issues that warrant further exploration to follow up with the jurisdiction;
- (iv) assessing the materiality of identified gaps and shortcomings, determining ratings and developing key conclusions and recommendations as appropriate; and
- (v) providing the assessed jurisdiction with an opportunity to review the findings.

The AT was in regular contact with the relevant authorities to ensure that the team had a full and clear understanding of the intent and content of the local regulatory, supervisory and oversight framework. Exchanges between the AT and relevant authorities also provided relevant authorities with an opportunity to provide ongoing feedback on the AT's analysis. Finally, discussions with and review by the IMSG helped to ensure that a consistent approach was applied across all assessed FMI types and with previous Level 2 assessments.

4. Assessment and recommendations

4.1 Summary assessment of completeness and consistency with the Principles

This section provides a high-level summary of the consistency and completeness of the UK regimes for PSs and CSDs/ SSSs with respect to the Principles and Key Considerations (KCs). A more detailed assessment, including citations of the relevant legislation, regulation, policy and guidance, and notes explaining the assigned ratings, is provided in the online CPMI-IOSCO PFMI Level 2 implementation database.²⁵ Identified gaps and recommendations are tabulated in Section 4.2.

4.1.1 Overview and general observations

The AT has found that the legal, regulatory and oversight frameworks in the United Kingdom for CSDs/SSSs are complete and consistent with the Principles in most aspects, with some areas for improvement where implementation was broadly or partly consistent or not consistent. For PSs (both private sector PSs and central bank-operated PSs), the implementation of the PFMI was determined to be complete and consistent for all Principles.

4.1.2 Payment systems

The AT found that the legal, regulatory and oversight frameworks for both private sector PSs and central bank-operated PSs in the United Kingdom is complete and consistent with the applicable Principles. Table 4 and 5 summarise the consistency of the regulatory regime.

Ratings summary²⁶ for private sector PSs in the United Kingdom Table 4

Assessment category	Principle
Consistent	Principles 1, 2, 3, 4, 5, 7, 8, 9, 12, 13, 15, 16, 17, 18, 19, 21, 22 and 23
Broadly consistent	None
Partly consistent	None
Not consistent	None
Not applicable	None

Ratings summary²⁷ for central bank PSs in the United Kingdom Table 5

Assessment category	Principle
Consistent	Principles 1, 2, 3, 4, 5, 7, 8, 9, 12, 13, 15, 16, 17, 18, 19, 21, 22 and 23
Broadly consistent	None
Partly consistent	None
Not consistent	None
Not applicable	None

²⁵ Available at www.bis.org/pfmi/index.htm and www.iosco.org/v2/about/?subSection=cpmi_iosco&subSection1=monitoring.

²⁶ The rating summary lists all Principles that are applicable to different FMI types as defined in paragraphs 1.10 to 1.14 and shown in Table 1 of the PFMI. For further detail on ratings, see Section 4.2 of this report.

²⁷ See footnote 20.

The AT noted the following with respect to the frameworks for PSs in the United Kingdom.

- *Private sector PSs:* The BoE has different implementation measures in some cases for different Principles. In 2012, the BoE adopted the PFMI as a published set of principles to which recognised PS operators must have regard, pursuant to section 188 of the Banking Act 2009.²⁸ In June 2017, the BoE issued a Code of Practice and supervisory statement relating to governance of recognised payment system operators. In March 2021, it also issued a supervisory statement and Code of Practice on operational resilience for recognised payment system operators and specified service providers,²⁹ and in February 2023 it issued a further Code of Practice and supervisory statement on third party risk management and outsourcing for recognised payment system operators and specified service providers.³⁰

For some Principles and KCs, the BoE relies on a policy statement as the implementation measure. While the BoE policy statement does not have the same legal status as the Code of Practice, there is evidence of the BoE's ability to induce change and thus the AT deemed the implementation for private sector systems to be "consistent." The AT notes that, while not necessary, having a single implementation measure, such as a law or code of practice, for all Principles would increase clarity and provide a clear basis for adherence to the PFMI.

4.1.3 CSDs/SSSs

The AT found that the legal, regulatory and oversight framework for CSDs/SSSs is comprehensive and consistent with the majority of the applicable Principles. As Articles 59(3) and 59(4) of the UK CSDR do not apply to CSDs that do not provide banking-type ancillary services, the AT has come to separate conclusions with respect to the completeness and consistency of implementation measures for CSDs that do and do not provide banking-type ancillary services.

4.1.3.1 CSDs/SSSs that provide banking-type ancillary services

For CSDs/SSSs that provide banking-type ancillary services, the AT concluded that the regulatory and oversight framework is consistent with 16 Principles, broadly consistent with five and not consistent with one of the Principles. Table 6 summarises the consistency of the regulatory regime for CSDs/SSSs that provide banking-type ancillary services.

Ratings summary for CSDs/SSSs that provide banking-type ancillary services		Table 6
Assessment category	Principle	
Consistent	Principles 1, 2, 3, 4, 5, 7, 8, 12, 13, 17, 18, 19, 20, 21 and 22	
Broadly consistent	Principles 9, 11, 15, 16 and 23	
Partly consistent	None	
Not consistent	Principle 10	
Not applicable	None	

²⁸ See BoE, *Payment Systems Oversight Report 2012*, March 2013, www.bankofengland.co.uk/-/media/boe/files/payments/payment%20systems%20oversight%20reports/2012.pdf

²⁹ See BoE, *Supervisory Statement on operational resilience: recognised payment system operators and specified service providers*, March 2021, www.bankofengland.co.uk/-/media/boe/files/paper/2021/operational-resilience-recognised-payment-system-operators-and-specified-service-providers-ss.pdf

³⁰ See BoE, *Supervisory Statement on Outsourcing and third party risk management Supervisory Statement: recognised payment system operators and specified service providers*, March 2023, www.bankofengland.co.uk/paper/2023/ss/outsourcing-third-party-risk-management-ss-recognised-payment-system-operators

The AT's finding that implementation of Principle 10 (Physical deliveries) has not been completely and consistently implemented is based on its conclusion that there are no specific provisions in the implementation measures regarding the physical delivery of non-immobilised instruments. The provisions in the implementation measures concerning adequate safeguarding for physical protection of securities refer only to securities subject to immobilisation.

For those Principles where the AT has concluded that implementation is broadly consistent, the following gaps have been identified:

- *Money settlements (Principle 9)*: There are two minor gaps in the implementation measures. First, with respect to requiring settlement in central bank money, the UK CSDR focuses only on transactions denominated in the currency of the country in which settlement takes place. However, as KC 9.1 states "where practical and available" the AT concluded that this is only likely to lead to a small (or potentially no) gap. Second, with respect to KC 9.5, the United Kingdom does not have a provision requiring legal agreements between settlement banks and the CSD/SSS to clearly state when transfers are expected to occur.
- *Central securities depositories (Principle 11)*: There are two minor gaps in the implementation measures. First, there is a minor difference in terminology between the implementation measures (which state "reduce and manage risks") and Principle 11 (including KC 11.3) (which states "minimise and manage the risks"). A requirement to "reduce" could be met by any level of risk below a reference point, but a requirement to "minimise" would involve targeting the lowest possible level of risk subject to constraints. Second, the implementation measures for KC 11.6 focus on CSDs adopting a sound risk management framework that comprehensively manages their risks, rather than a CSD's actions to identify, measure, monitor and manage its risks from other activities that it may perform.
- *General business risk (Principle 15)*: There is a lack of specificity linking requirements for restructuring to the recovery plans that CSDs/SSSs are required to have, which results in a minor gap relative to KC 15.3. It is unclear whether the term "restructuring" fully covers the range of actions that may be included in a CSD/SSS's recovery plan. It is also unclear whether the financial resources a CSD/SSS would need to hold to cover "restructuring" would be consistent with the financial resources it would need to hold to implement the recovery plan under KC 15.2. However, the gap is only considered to be minor as there is a requirement for CSDs/SSSs to submit an adequate recovery plan to ensure continuity of their critical operations.
- *Custody and investment risks (Principle 16)*: Minor gaps were identified in relation to safeguarding assets (relative to KCs 16.1 and 16.2) and the disclosure of a CSD/SSS's investment strategy (relative to KC 16.4). The relevant implementation measures address the safeguarding of a CSD/SSS's own assets and participants' assets held at the CSD/SSS, but not participants' assets held outside the CSD/SSS. This could be a gap if participants provide collateral for CSDs/SSSs through security financial collateral arrangements and those assets are not held in the CSD/SSS. While collateral transfer via security interest is possible in the United Kingdom, it is not the typical method for providing collateral. A gap could also exist for non-cash assets in a CSD/SSS's guarantee fund that are not held at the CSD/SSS. In both situations, this risk would be mitigated if the collateral is held at a credit institution or at another authorised CSD, as it would be subject to the safeguards applicable to that entity. Under KC 16.4, an FMI's investment strategy is expected to be fully disclosed to its participants, while the UK CSDR states that "a CSD shall disclose to all clients information that allows them to assess the risks associated with the services provided". Consequently, the level of disclosure may fall short of what is expected in the Principle.
- *Disclosure of rules, key procedures, and market data (Principle 23)*: There is a gap in relation to disclosure standards relative to KC23.5. UK firms are directed to apply an existing industry-led framework regarding settlement discipline as the implementation measure for this KC. There is, however, no requirement under UK law or through explicit regulators' policy statements to

require firms to meet these disclosure requirements, and the direction by BoE lacks the necessary specificity of a policy statement or legal text that would refer to any of the disclosure requirements under this KC.

The AT also notes that CSDs/SSSs that provide banking-type ancillary services would be subject to regulation under the UK CSDR and as credit institutions. This includes both the prudential requirements for credit institutions in the UK equivalent of EU Directive 2013/36 and the recovery and resolution requirements under EU Directive 2014/59 (the Bank Recovery and Resolution Directive or BRRD). The potential for conflicting provisions is addressed in UK CSDR Article 54(3), which clarifies that the stricter requirements on prudential supervision shall apply.

4.1.3.2 CSDs/SSSs that do not provide banking-type ancillary services

In addition to the gaps described above, the AT concluded that the regulatory and oversight framework for CSDs/SSSs that do not provide banking-type ancillary services is partly consistent with respect to two additional Principles (Table 7).

Ratings summary for CSDs/SSSs that do not provide banking-type ancillary services		Table 7
Assessment category	Principle	
Consistent	Principles 1, 2, 3, 5, 8, 12, 13, 15, 17, 18, 19, 20, 21 and 22	
Broadly consistent	Principles 9, 11, 15, 16 and 23	
Partly consistent	Principles 4, 7	
Not consistent	Principle 10	
Not applicable	None	

Principles 4 (Credit risk) and 7 (Liquidity risk) require FMIs to effectively measure, monitor and manage their credit and liquidity risks exposures. UK CSDs/SSSs that are authorised to provide only core services and non-banking-type ancillary services that do not, on their face, entail credit or liquidity risks³¹ and are not allowed to offer any services that would expose them to credit or liquidity risks, such as provision of settlement guarantee when employing DvP2/DvP3 settlement models.³² However, Principles 4 (Credit risk) and 7 (Liquidity risk) require that if (i) there is no explicit settlement guarantee and (ii) participants face credit exposures arising from the payment, clearing and settlement processes, a deferred net settlement (DNS) SSS should address those risks, including by maintaining sufficient resources to withstand various adverse events, such as default of certain participants. Consequently, the AT flagged a regulatory gap with regard to the requirements addressing the credit and/or liquidity exposures that participants may incur vis-à-vis each other when participating in the aforementioned CSDs/SSSs.

The AT also observed that the framework could be further strengthened by explicitly requiring CSDs/SSSs that do not provide banking-type ancillary services to provide relevant authorities with the information needed for the purposes of resolution planning (consistent with KC 3.4 of the PFMI). For CSDs/SSSs that provide ancillary banking services, this gap is filled by the information-gathering powers provided to the resolution authority under the UK equivalent of the BRRD (EU Directive 2014/59).

³¹ As defined in Sections A-B of the Annex to the UK CSDR.

³² DvP2/DvP3 is a settlement mechanism that links a securities transfer and a funds transfer in a way that ensures that delivery occurs if and only if the corresponding payment occurs. DvP model 2 implies the settlement of securities on a gross basis, with final transfer of securities from the seller to the buyer occurring throughout the processing cycle, but settles funds on a net basis, with final transfer of funds from the buyer to the seller occurring at the end of the processing cycle. DvP model 3 implies the settlement of both securities and funds on a net basis, with final transfers occurring at the end of the processing cycle.

4.2 Assessment of completeness and consistency with the Principles – observations and recommendations

4.2.1 Payment systems

There are no observations or recommendations for PSs.

4.2.2 CSDs/SSSs

4.2.2.1 CSDs/SSSs that provide banking-type ancillary services

Principle 9: Money settlements An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.	
<i>Principle rating</i>	Broadly consistent
<i>Implementation measure</i>	- UK CSDR - UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)
<i>Key conclusions/recommendations</i>	Key conclusions There are two minor gaps in the implementation measures. The UK CSDR focuses on the use of central bank money only in transactions denominated in the currency of the country in which settlement takes place. However, as KC 9.1 is qualified “where practical and available”, the AT concluded that this is only likely to lead to a small (and potentially no) gap. In addition, there is no provision consistent with KC5 stating that “an FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur.” Recommendation The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KCs 1 and 5.
KC 1	Key consideration text An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks. Implementation measure - UK CSDR - UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) Key conclusion The UK CSDR focuses on the use of central bank money only in transactions denominated in the currency of the country in which settlement takes place. However, as KC 9.1 is qualified “where practical and available”, the AT concluded that this is only likely to lead to a small (and potentially no) gap.
KC 5	Key consideration text An FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks. Implementation measure - UK CSDR - UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) - The Financial Markets and Insolvency (Settlement Finality) Regulations 1999 Key conclusion There is no provision stating that “an FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur.”

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Principle rating Not consistent

Implementation measure

- UK CSDR
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusions/recommendations **Key conclusions**

There are no specific provisions in the implementation measures regarding the physical delivery of non-immobilised instruments. The provisions in the implementation measures concerning adequate safeguarding for physical protection of securities refer only to securities subject to immobilisation.

Recommendation

The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KCs 1 and 2.

KC 1

Key consideration text

An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.

Implementation measure

- UK CSDR
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusion

There are no specific provisions in the implementation measures regarding the physical delivery of non-immobilised instruments. The provisions in the implementation measures concerning adequate safeguarding for physical protection of securities refer only to securities subject to immobilisation.

KC 2

Key consideration text

An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.

Implementation measure

- UK CSDR
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusion

There is no specific provision regarding the delivery of physical instruments. However, Article 59 (3) of UK BTS 2017/392 provides that "where the reconciliation process concerns securities subject to immobilisation, a CSD shall put in place adequate measures to protect the physical securities from theft, fraud and destruction. Those measures shall at least include the use of vaults whose design and location ensure a high level of protection against floods, earthquakes, fire and other disasters."

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle rating Broadly consistent

Implementation measure

- UK CSDR
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusions/recommendations **Key conclusions**

The implementation measures refer to "reduce" rather than "minimise" in regard to the risks associated with the safekeeping and transfer of securities. The AT is comfortable that the UK CSDR implements the requirement that a CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Recommendation

The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KC 6.

KC 6	Key consideration text A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks. Implementation measure • UK CSDR • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) Key conclusion There is an absence of specific implementation measures to address the “risks from other activities”.
Principle 15: General business risk An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services. <i>Principle rating</i> Broadly consistent <i>Implementation measure</i> • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) <i>Key conclusions/recommendations</i> Key conclusions There is a lack of specificity in linking requirements for restructuring to the recovery plans that CSDs are required to have. Recommendation The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KCs 2 and 3.	
KC 2	Key consideration text An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) Key conclusion There is a lack of specificity in linking requirements for restructuring to the recovery plans that CSDs are required to have. It is unclear if the financial resources a CSD/SSS would need to hold to cover “restructuring” would be consistent with the financial resources it would need to hold to implement the recovery plan under KC 15.2.
KC 3	Key consideration text An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

	Key conclusion There is a lack of specificity in linking requirements for restructuring to the recovery plans that CSDs are required to have. It is unclear if the term “restructuring” fully covers the range of actions that may be included in a CSD/SSS’s recovery plan.
Principle 16: Custody and investment risks An FMI should safeguard its own and its participants’ assets and minimise the risk of loss on and delay in access to these assets. An FMI’s investments should be in instruments with minimal credit, market, and liquidity risks.	
<i>Principle rating</i>	Broadly consistent
<i>Implementation measure</i>	• UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)
<i>Key conclusions/recommendations</i>	Key conclusions There is a potential gap where participants provide collateral as a security interest or the collateral is not held in the CSD/SSS with respect to the requirement to safeguard these assets. Recommendation The UK authorities are recommended to implement measures to address the minor gaps or inconsistencies related to KCs 1, 2 and 4.
<i>KC 1</i>	Key consideration text An FMI should hold its own and its participants’ assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) • UK BTS 2013/575 (onshoring Commission Delegated Regulation (EU) 2013/575) Key conclusion There is a potential gap where participants provide collateral as a security interest or the collateral is not held in the CSD/SSS with respect to the requirement to safeguard these assets.
<i>KC 2</i>	Key consideration text An FMI should have prompt access to its assets and the assets provided by participants, when required. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) • UK BTS 2013/575 (onshoring Commission Delegated Regulation (EU) 2013/575) Key conclusion There is a potential gap where participants provide collateral as a security interest or the collateral is not held in the CSD/SSS with respect to the requirement to safeguard these assets.
<i>KC 4</i>	Key consideration text An FMI’s investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusion

The implementation measures lack a specific requirement regarding full disclosure of a CSD/SSS's investment strategy.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle rating Broadly consistent

Implementation measure

- UK CSDR

Key conclusions/recommendations **Key conclusions**

There is a gap where UK firms are directed to apply an existing industry-led framework regarding settlement discipline as the implementation measure. There is no requirement under UK law or through explicit regulators' policy statements to require firms to meet these disclosure requirements.

Recommendation

The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KC 5.

KC 5

Key consideration text

An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

Implementation measure

- UK CSDR
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)
- UK BTS 2013/575 (onshoring Commission Delegated Regulation (EU) 2013/575)

Key conclusion

There is a gap where UK firms are directed to apply an existing industry-led framework as regards settlement discipline as the implementation measure. There is no requirement under UK law or through explicit regulators' policy statements to require firms to meet these disclosure requirements.

4.2.2.2 CSDs/SSSs that do not provide banking-type ancillary services

In addition to the observations and recommendations set out in Section 4.2.2.1, the following additional observations and recommendations were identified for CSDs/SSSs that do not provide banking-type ancillary services.

Principle 3: Comprehensive framework for the management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Principle rating Consistent

Implementation measure

- UK CSDR
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392)

Key conclusions/recommendations **Recommendations**

None

KC 4

Key consideration text

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

	Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392) Key conclusion There is no specific implementation measure with respect to the following part of KC 4: "Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning." Instead, it is up to the UK authorities to ensure that the UK CSDR requirement is duly implemented under the relevant national rules.
	Principle 4: Credit risk An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.
<i>Principle rating</i>	Partly consistent
<i>Implementation measure</i>	• UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • Financial Services Update – Statement made on 23 June 2020
<i>Key conclusions/recommendations</i>	Key conclusions A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should effectively measure, monitor and manage the credit risk exposures arising from its payment, clearing, and settlement processes as well as maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system. In this case there are no implementation measures. Recommendation The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KCs 1, 2, 3, and 7.
<i>KC 1</i>	Key consideration text An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • Financial Services Update – Statement made on 23 June 2020 Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to credit exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
<i>KC 2</i>	Key consideration text An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • Financial Services Update – Statement made on 23 June 2020

	Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to credit exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 3	Key consideration text A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to credit exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 7	Key consideration text An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to credit exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
Principle 7: Liquidity risk An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.	
<i>Principle rating</i>	Partly consistent
<i>Implementation measure</i>	• UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) • Financial Services Update – Statement made on 23 June 2020
<i>Key conclusions/recommendations</i>	Key conclusions A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should effectively measure, monitor, and manage liquidity risk as well as maintain sufficient liquid resources in all relevant currencies to effect same-day settlement and, where appropriate, intraday or multi-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions. In this case there are no implementation measures.

Recommendation

The UK authorities are recommended to implement measures to address the gaps or inconsistencies related to KCs 1, 2, 3, 5, 6, 7, 8, 9, and 10.

KC 1**Key consideration text**

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

Implementation measure

- UK CSDR
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)
- Financial Services Update – Statement made on 23 June 2020

Key conclusion

A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.

KC 2**Key consideration text**

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

Implementation measure

- UK CSDR
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)

Key conclusion

A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.

KC 3**Key consideration text**

A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

Implementation measure

- UK CSDR
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)

Key conclusion

A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.

KC 5**Key consideration text**

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

Implementation measure

- UK CSDR
 - UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)
-

	Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 6	Key consideration text An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan. Implementation measure • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 7	Key consideration text An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider. Implementation measure • UK CSDR • UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390) Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 8	Key consideration text An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk. Implementation measure • UK CSDR Key conclusion A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.
KC 9	Key consideration text An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday

period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

Implementation measure

- UK CSDR
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)

Key conclusion

A CSD/SSS that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.

KC 10

Key consideration text

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

Implementation measure

- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390)

Key conclusion

A CSD that employs DvP2/DvP3 settlement models and that does not provide any settlement guarantee should adopt the measures prescribed above in relation to liquidity exposures that participants may incur vis-à-vis each other. In this case there are no implementation measures.

Annex A: List of abbreviations

AT	Assessment team
BoE	Bank of England
BRRD	Bank Recovery and Resolution Directive
BTS	Binding technical standard
CCP	Central counterparty
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payment and Settlement Systems
CSD	Central securities depository
FMI	Financial market infrastructure
FSB	Financial Stability Board
IMSG	Implementation Monitoring Standing Group
IOSCO	International Organization of Securities Commissions
PFMI	Principles for financial market infrastructures
PS	Payment system
PSR	UK Payment Systems Regulator
SSS	Securities settlement system
TR	Trade repository
UK CSDR	UK Central Securities Depositories Regulation

Annex B: Reference documents

Payment systems

- The Banking Act 2009.
- *Bank of England Code of Practice and supervisory statement relating to governance of recognised payment system operators*, June 2017.
- *Bank of England Code of Practice and supervisory statement – Operational resilience: Recognised payment system operators and specified service providers*, March 2021.
- *Bank of England Code of Practice and supervisory statement – Outsourcing and third party risk management: Recognised payment system operators and specified service providers*, February 2023.
- *The Bank of England's approach to the supervision of financial market infrastructures* (BoE policy statement), April 2013
- *The Bank of England's Supervision of financial market infrastructures - Annual Report 2022*, December 2022
- BoE news release "Bank of England commences the direct delivery of the CHAPS service", 13 November 2017.
- PSR General Directions and its other regulatory powers.

CSDs/SSSs

- UK Central Securities Depositories Regulation (UK CSDR).
- UK BTS 2017/390 (onshoring Commission Delegated Regulation (EU) 2017/390).
- UK BTS 2017/392 (onshoring Commission Delegated Regulation (EU) 2017/392).
- The Financial Markets and Insolvency (Settlement Finality) Regulations 1999.
- Financial Services Update – Statement by the Chancellor of the Exchequer on 23 June 2020.

Annex C: PSs and CSD/SSSs subject to the Principles in United Kingdom (as at 30 September 2023)

Systemically important PSs

- Bacs
- CLS
- CREST
- LCH Ltd
- Faster Payments Services
- ICE Clear Europe
- Visa Europe
- LINK
- Mastercard Europe S.A.
- Sterling Finality Payment System
- CHAPS

CSDs/SSSs

- Euroclear UK & International Limited

Annex D: Members of the IMSG

IMSG co-chairs

European Central Bank

Securities and Exchange Commission, US

Fiona Van Echelpoel

Elizabeth L. Fitzgerald (until Feb 2025)

IMSG members

Reserve Bank of Australia

Bank of Canada

European Central Bank

European Securities and Markets Authority

Bank of France

Kylie Stewart

Harold Gallagher

Beata Wróbel

Maud Timon

Katia Pascarella (until Jul 2025)

Amadéo Sobrecases (from Jul 2025)

Osbert Lam

Vishal Shukla

Enrico Silvaggi

Takashi Hamano

Atsushi Yamada

Young Seok Kim

Tze Hon Lau

Edward Oei

Hanna Eklöf

Nalan Sahin Urkan

Francesco Fici (until Sep 2023)

Priya Mistry (from Sep 2023)

Dibora Spiegler (until Dec 2024)

Jamie Lee (from Jan 2025)

Emilie Walgenbach

Jennifer Levin

Stephanie Kim Park

Raluca Tircoci-Craciun

Hong Kong Monetary Authority

Securities and Exchange Board of India

Bank of Italy

Bank of Japan

Financial Services Agency, Japan

Bank of Korea

Monetary Authority of Singapore

Sveriges Riksbank

Capital Markets Board, Türkiye

Bank of England

Board of Governors of the Federal Reserve System

Federal Reserve Bank of New York

Commodity Futures Trading Commission, US

Securities and Exchange Commission, US

IOSCO Assessment Committee

IOSCO Secretariat

Tajinder Singh

Josafat De Luna Martínez

Hemla Deenanath (from Feb 2024)

Jantakarn Pangutha (from Jun 2024)

Jenny Hancock (until Oct 2023)

Raul Morales (from Nov 2023 to Nov 2024)

Amandeep Rehlon (from Nov 2024)

CPMI Secretariat

The IMMSG would like to extend its thanks to Emilie Walgenbach, the Team Lead for this assessment, and the experts that made up the Assessment Team (see footnote 24). In addition, the IMMSG thanks the assessed authorities for their cooperation in the Level 2 assessment process.