



Accelerated Settlement in the UK

Technical Group Update

20 June 2024

Agenda

- ▶ **13:30** Registration and Refreshments
- ▶ **14:05** Welcome and Housekeeping
- ▶ **14:10** UK Finance Introduction – Conor Lawlor, UK Finance
- ▶ **14:20** Opening Remarks – Charlie Geffen, Chair of UK AST
- ▶ **14:30** Keynote: Reflections on the US transition – Chair Gensler, SEC
- ▶ **15:00** Networking Break
- ▶ **15:15** Panel Discussion: Lessons learnt from US transition and look ahead
- ▶ **15:45** Networking Break
- ▶ **16:00** Technical Group Leads Presentation
- ▶ **17:10** Closing Remarks - Andrew Douglas, Chair of the Technical Group
- ▶ **17:20** Networking Drinks
- ▶ **18:00** Carriages

Welcome and Housekeeping

Ayesha Ghafoor – Principal, Capital Markets and Wholesale Policy,
UK Finance

UK Finance Introduction

Conor Lawlor – Managing Director, Capital Markets and Wholesale Policy, UK Finance

Opening Remarks

Charlie Geffen – Chair, Accelerated Settlement Taskforce – Senior Adviser, Flint Global

Reflections on the US transition

Gary Gensler – Chair, US Securities and Exchange Commission

Panel Discussion: Lessons learnt from the US transition and look ahead

Panel discussion: Lessons learnt from US transition and look ahead



- **Moderator: Ayesha Ghafoor** (Principal, Capital Markets and Wholesale Policy, UK Finance)
- **Andrew Douglas** (Chair , UK T+1 Taskforce Technical Group)
- **Emma Johnson** (Executive Director, Securities Services Global Custody Industry Development, JP Morgan)
- **Sebastijan Hrovatin** (Deputy Head of Unit, Financial Markets Infrastructure Unit, DG FISMA, European Commission)
- **Sachin Mohindra** (Executive Director, Global Banking & Markets, Client & Market Solutions, Goldman Sachs)

Technical Group Leads Presentation

Technical Group leads presentation

- Operations
- Alignment
- Trading & Liquidity
- Lessons learnt
- Legal & Regulatory

- **Repo and collateral**

Thomas Hansen (Managing Director, Head of Short Term Markets,
Banco Santander)

- **Operational issues**
- **Deadlines and processes**
- **Corporate actions**
- **Infrastructure resilience**

Sarah Yoon (Manager, Risk consulting, Forvis Mazars)

Mimi Yan (Senior Technical Specialist, FMSB)

Operational Issues Working Group



Working Group Leads: Ben Johnson (Forvis Mazars) and Mimi Yan (FMSB)

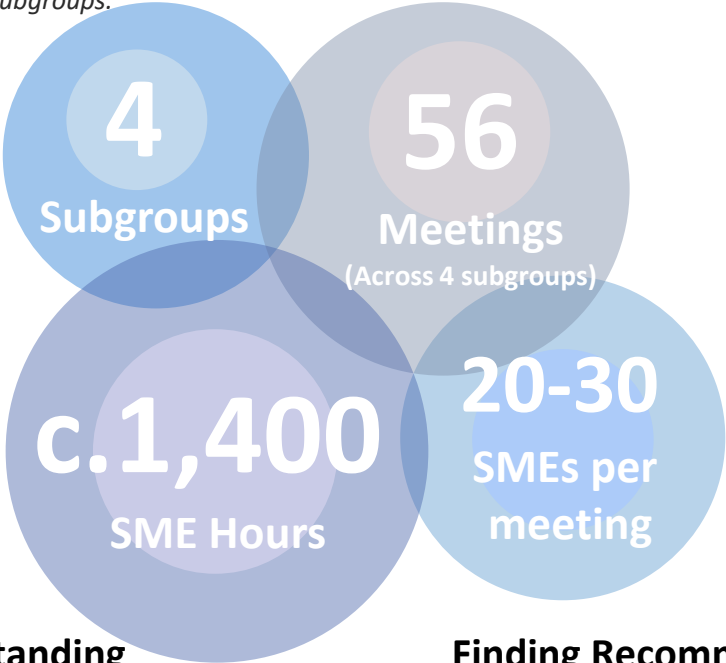
4 Subgroups

Deadlines and processes (separately identified as “Static data” and “Trade date and processes”), Corporate Action and Infrastructure Resilience Subgroups.

From January 2024

The subgroup meetings were initiated immediately upon the UK T1 Taskforce chair’s decision to set up the Technical Taskforce.

- 1** Static Data
- 2** Trade date and Processes
- 3** Corporate Actions
- 4** Infrastructure Resilience



Understanding the UK market

A great amount of SME hours have been used to understand the current UK market

Finding Recommendations appropriate for UK Market

What, When and How these recommendations should be implemented in the UK market has been discussed.

Deadlines and processes: Static Data Subgroup

Subgroup Lead: Jensen Armour (Citi)

Introduction

- **Objective:** Identify the what and when of exchange of static / reference data required to enable settlement on a T+1 basis.
- **In Scope:** Static and Reference data required to effect settlement.
- **Out of Scope:** Economic trade data, static data that doesn't affect settlement.
- **Problem Statement:** Recommend what static data is required and when during the trade life cycle to allow timely settlement under a T+1 environment. Recommend how to improve quick and accurate exchange.



Approach

- ✓ Identified data items required for settlement.
- ✓ Considered the earliest point they could be expected to be available (pre-trade, trade, post-trade).
- ✓ Considered potential exceptions, and how quicker and more accurate exchange could be achieved.

The composition of the working group constitutes of **84** members.



Current State

- **Challenges:** Some legitimate trading activities result in the counterparty not being able to confirm underlying settlement account until after the point of trade, meaning that onboarding and account set up must occur rapidly if not already within reference databases (in particular, onboarding data and SSIs)
- Certain transaction-specific reference data identified as frequent causes of friction
- Manual processes still exist, and for some market participants, automation may not be commercial.



Future State

- Even greater adoption of industry automated solutions for the exchange of static data.
- Where not adopted, in order to avoid restricting the market, industry standardized templates should ensure more accurate and consistent exchange than freeform, and allow firms to automate data ingestion.
- Where bringing forward the exchange of data cannot be achieved, further adoption of automated solutions will be critical.

Barriers to T1

- No show-stoppers have been identified.



Recommendations

- Automation and use of industry platforms are required to minimise fails in a T+1 environment, with standardised templates could allow for greater efficiency when facing manual clients.
- In the longer term, the government or delegated agencies should consider the backing of digital identity for corporates and automatic generation of LEI upon incorporating new legal entities.
- Discussions on transaction-specific reference data ongoing.



Deadlines and Processes: Trade date and Processes Subgroup

Subgroup Lead: Simon Daniel (SWIFT)

Introduction

- **Objective:** Workstream concerns potential changes required to the flows and timings of trade processes in a T+1 environment.
- **In Scope:** All round trade lifecycle flow that interacts bilaterally and/or centrally cleared on market infrastructure and platforms.
- **Out of Scope:** Gilts (already on T+1 cycle), Securities lending / Repo flows and FX (as confirmed to be covered by other subgroups).
- **Problem Statement:** To determine necessary changes to continue to allow timely settlement under a move to T+1. Recommend changes to Trade Date / CREST / other FMI opening hours.



Approach

- ✓ Worked through trade flows for [securities] happy day / exceptions.
- ✓ Identified key data exchanges during the trade life cycle and identified the potential pinch points.
- ✓ Discussed extensions necessary, if any, to CREST opening hours.
- ✓ Identified recommendations, considering the likely efficacy of the form of implementation.

constitutes of **100** members.



Current State

- Over 95% of current equity trades and 86% of fixed income are allocation matched in CTM on T (00:00)
- **Challenges:** Manual processing, Mismatch (Economic – e.g., amounts / instruments / dates), Mismatch (Non-economic – e.g., SSI fields, settlement location), Timing / Late Counterparty (e.g., allocation/instruction/give-up), Inventory and CSD Limitations, time zone alignment



Future State

- Allocation data, exchange of confirmation data, trade level matching to be completed on T
 - Exceptions due to significant time zone differences still being considered
- No conclusive view yet on extension to CREST opening hours



Barriers to T1

- No show-stoppers have been identified.



Recommendations

- Market Guidance on specific timings for each post-trade stage.
- FMI Rulebook change to clarify timings for processing.
- Metrics to monitor market performance.
- Market participants to evaluate their bilateral agreements with counterparties especially SLAs and timing.
- Exploring any regulatory changes to ensure all post-trade processes are complete by T.



Corporate Actions Subgroup

Subgroup Lead: Richard Nicholls (Morgan Stanley)

Introduction

- **Objective:** Workstream concerns potential changes required to the flows and timings of corporate actions processes, to enable settlement on a T+1 basis.
- **In Scope:** All CSD eligible MIFIDII/MIFIR transferable securities.
- **Out of Scope:** Rights issue and any gilts consideration.
- **Problem Statement:** Establish market standards to continue to allow timely settlement under a move to T+1 and Recommend changes to Ex-date / Record-date.



Approach

- ✓ Worked through current flows for corporate actions & identify nuances for different events.
- ✓ Identified pinch points in the corporate action events as well as challenges.
- ✓ Identified recommendations.

The composition of the working group constitutes of **88** members.

Current State

- Asset servicing is **heavily reliant on the upstream processes**.
- The current corporate action lifecycle from issuer to payment has been discussed – from Voluntary and Mandatory corporate action events, market deadlines (including buyer protection deadlines) and to proxy voting.
- **Challenges:** Challenges faced in current state were differentiate between the challenges that exist today and the challenges that would be enhanced through a move to T+1 settlement cycle.



Future State

- Working group has noted that there may be no compelling requirement to move any corporate action deadlines (such as buyer protection or market deadline dates for voluntary / mandatory with options events).
- There are still uncertain consequences of T+1 continuously being uncovered as the U.S. and a few other countries have transitioned to a T+1 settlement cycle.

Barriers to T1

- No barriers have been identified, however, the impact on dual listed securities from T+1 is continuously being discussed by the working group.



Recommendations

- Use of Market best practice available (e.g., LSE dividend procedures) and use of available functionalities in CREST (e.g., Electronic Election Entitlement process).
- The impact of T+1 needs to be considered on corporate action systems which capture entitlements and claims – review of internal processes to ensure systemically prepared and be prepared for amendment to entitlement dates.
- Automated solutions for manual corporate action claims, tax consequences and reconciliation issues.

Infrastructure Resilience Subgroup

Subgroup Lead: John Worden (UBS)

Introduction

- **Objective:** Ensure that critical function providers can withstand the move to T+1 (transition / BAU) and within an acceptable risk tolerance for exceptions.
- **In Scope:** BoE regulated FMIs with products in scope for T+1 move and others deemed to meet three stage test of critical function; market concentration / substitutability; and potential for contagion.
- **Out of Scope:** Infrastructure excluding those in scope.
- **Problem Statement:** Recommend testing or changes to financial market infrastructures to prepare for T+1.



Approach

- ✓ Defined Financial Market Infrastructures (FMIs).
- ✓ Defined resilience (assuming that current regulatory and testing environment on probability of outage is adequate).
- ✓ What trigger events could increase in T+1?
- ✓ Are current recovery protocols sufficient in T+1?

The composition of the working group constitutes of **54** members.

Current State

- FMIs are currently highly regulated. This was concluded by mapping out the regulatory and supervisory environments of FMIs (e.g., IOSCO CPMI Self Qualitative Assessment) and analysed for CREST, CBOE and LCH against parameters of RTO, recovery set up info, CCP net transactions timing, connectivity with venues, messaging with CCPs, BoE handoffs and peak volumes.
- **Challenges:** Only limited additional break points and trigger events were identified that could cause an outage due to a move to T+1.



Future State

- Working group has noted that there are no fundamental issues observed with a move to T+1.
- “Trigger events” for outages have not been determined to be more likely under accelerated settlement, except:
 - potential market volatility over transition weekend
 - potential for increased cyber-attacks given the profile of the transition
- The current recovery processes after an outage generally adequate.

Barriers to T1

- No show-stoppers have been identified.



Recommendations

- FMIs should review:
 - impact tolerances (including review of contingency arrangements).
 - platform code for T+1 rules / conditions.
- BoE should include ‘Critical 3rd Parties in existing operational resilience framework or regulation prior to T+1 go-live.
- CREST should consider the T+1 schedule in their transformation project and not conflict with testing schedule or implementation. Operational efficiency and resilience changes should be implemented before T+1, if feasible.
- Playbook to prepare the industry for the transition weekend.

- **Scope**
- **Alignment**

Sachin Mohindra (Executive Director, Global Banking & Markets, Client & Market Solutions, Goldman Sachs)

Gareth Nicholas Jones (Director, Product Management, Euroclear)

Scope

Our Approach

- ▶ Firstly, we wanted to understand **how the current T+2 settlement cycle applies today**.
- ▶ Determining that under UK CSDR, transactions that are both **executed on a UK trading venue and settled through a UK CSD** are caught by the T+2 obligation (subject to some carve-outs).
- ▶ This **does not capture transactions executed OTC** or via an Systematic Internaliser (SI).
- ▶ Existing **market conventions** are designed so that transactions not captured explicitly by the rules also settle on the same settlement cycle as the UK CSDR Rule.
- ▶ This works in practice today by creating a **harmonised approach and mitigates misalignment risk**.
- ▶ This results in **minimal change to the existing methodology** to determine settlement cycles in the UK, while providing a harmonised and pragmatic approach.

Scope

Summary of Proposed Scope Matrix

Security	Scenario	Sett. Cycle	Enforcement	Requirement	Safe Harbour
Cash Equities	1. Cash equities traded on a UK trading venue and settled on a UK CSD	T+1	Secondary legislation	Update to Article 5 ("intended settlement date shall be no later than on the first business day after the trading takes place")	None
	2. Cash equities traded OTC (off-venue) and settled on a UK CSD	T+1	Industry best practice guidelines	T+1 guidelines for OTC transactions to be endorsed by Trade Associations	n/a
	3. Cash equities traded on a UK trading venue and settled on a non-UK CSD	T+n	FMI rulebooks	Trading Venue rulebooks to reflect local market settlement cycle convention (i.e. T+1 for US, T+2 for EU)	n/a
	4. Cash equities (UK issuer/GB ISINs) traded and settled outside of the UK	T+n	None (local settlement jurisdiction respective settlement cycle convention applies)	No change	n/a
Corporate & Sovereign Bonds	5. GB ISIN bonds traded on a UK trading venue and settled on a UK CSD	T+1	Secondary legislation	Update to Article 5 ("intended settlement date shall be no later than on the first business day after the trading takes place")	None
	6. GB ISIN bonds traded OTC (off-venue) and settled on a UK CSD	T+1	Industry best practice guidelines	T+1 guidelines for OTC transactions to be endorsed by Trade Associations	n/a
	7. GB ISIN bonds traded and settled outside of the UK	T+1	Industry best practice guidelines and FMI rulebooks	T+1 applies for GB ISINs in all cases (may require combination of changes in the respective settlement jurisdictions)	n/a
	8. Non-GB ISIN pre-fix bonds traded on a UK trading venue and settled on a UK CSD	T+n	Secondary legislation + SAFE HARBOUR (SI and/or FCA rules)	Update to Article 5 ("intended settlement date shall be no later than on the first business day after the trading takes place")	Yes, will require non-GB ISIN pre-fix bonds not already subject to T+1 (i.e. US) to settle as per local settlement jurisdiction respective settlement cycle (i.e. T+2 for EU)
	9. Non-GB ISIN pre-fix bonds traded on a UK trading venue and settled on a non-UK CSD	T+n	FMI rulebooks	Trading Venue rulebooks to reflect local market settlement cycle convention (i.e. T+1 for US, T+2 for EU)	n/a
	10. Non-GB ISIN bonds traded OTC (off-venue) and settled on a UK CSD	T+n	Industry best practice guidelines	T+n guidelines for OTC transactions to be endorsed by Trade Associations (i.e. T+1 for US, T+2 for EU)	n/a
Eurobonds	11. Eurobonds traded on a UK trading venue and settled on a UK CSD	T+2	Secondary legislation + SAFE HARBOUR (SI and/or FCA rules)	Update to Article 5 ("intended settlement date shall be no later than on the first business day after the trading takes place")	Yes, all Eurobonds (i.e. XS ISINs) to settle T+2 until the EU moves to T+1
	12. Eurobonds not traded on a UK trading venue and settled on a UK CSD	T+2	Industry best practice guidelines	T+2 guidelines to be endorsed by Trade Associations (to follow safe harbour)	n/a
	13. Eurobonds traded on an EU trading venue and settled on an EU CSD	T+2	EU legislation (Central Securities Depositories Regulation)	No change	n/a
	14. Eurobonds not traded on an EU trading venue and settled on an EU CSD	T+2	Industry best practice guidelines	No change	n/a

Scope

Next Steps

- ▶ Open questions still remain with respect to **potential safe harbours and their scope**, this includes **ETFs and non-GB ISIN bonds**.
- ▶ Collaboration with the **Legal & Regulatory workstream** to identify the specific rule changes required to implement T+1 in the UK.
- ▶ **Final recommendations** to be submitted to the Taskforce report by Q4 2024.

Alignment

Our Approach

- ▶ **Misalignment risk exists in my different forms**, across functions, asset classes and jurisdictions.
- ▶ In reality, misalignment with the US is already in effect, so the key questions become **how quickly should the UK transition to T+1**, and most importantly, if it should do so in lock step **with the EU and Switzerland?**
- ▶ **Misalignment potentially leads to increased costs**, primarily from the additional funding requirements it causes for instruments which heavily trade cross-border (i.e. ETFs and Eurobonds).
- ▶ The workstream reviewed four key asset class categories and functions which could potentially give rise to the most prominent misalignment risks, these are **i) Funds and Investors, ii) Multi-listed Equities and Depository Receipts, iii) Exchange Traded Funds and iv) Bonds**. Plus one non-asset class specific – **Organisational and Operations**.

Alignment

Conclusions

- ▶ **Bonds** – strong conclusion to keep all non-GB ISIN bonds out of scope and settlement cycle aligned with country of issue. This mirrors the approach taken by the US migration to T+1.
- ▶ **Organisation and operational** – no specific organisational misalignment issues identified for a UK and EU alignment. US and UK alignment challenges already exist.
- ▶ **Multi-listed equities and depository receipts** – challenges of US misalignment already exist, (for example, ex-dates). Similar issues due to EU misalignment. Work on going to try and quantify the relative merits of a US misalignment versus an EU misalignment.
- ▶ **Funds & Investors** – end investment from UK is more focussed into US than EU, and is experiencing misalignment today. Whilst flows from outside Europe are often on a regional basis, and misalignment brings operational challenges, they can be managed.
- ▶ **ETFs** – still work-in-progress. Single primary market with fragmented secondary market liquidity pools in Europe is a driver of a potentially aligned settlement cycle. The challenge to that is where the ETF underliers are T+1 US and/or UK securities.

- **Stock lending**
- **Funding**

Roy Zimmerhansl (Practice Lead, Pierpoint)

Adam Conn (Head of Trading, Baillie Gifford)

- **FX**
- **Trading**

Andrew Harvey (Managing Director – Europe, GFMA)

Adam Conn (Head of Trading, Baillie Gifford)

- **Lessons from
North America
Move**

Emma Johnson (Executive Director, Securities Services Global Custody Industry Development, JP Morgan)

- **Legal and
Regulatory**

Ashley Rowlands - Senior Associate – Knowledge, Derivatives and Structured Products, Linklaters

John Siena - Associate General Counsel, Co-Head – Regulatory Strategy, Brown Brothers Harriman

- **Audience Q&A**

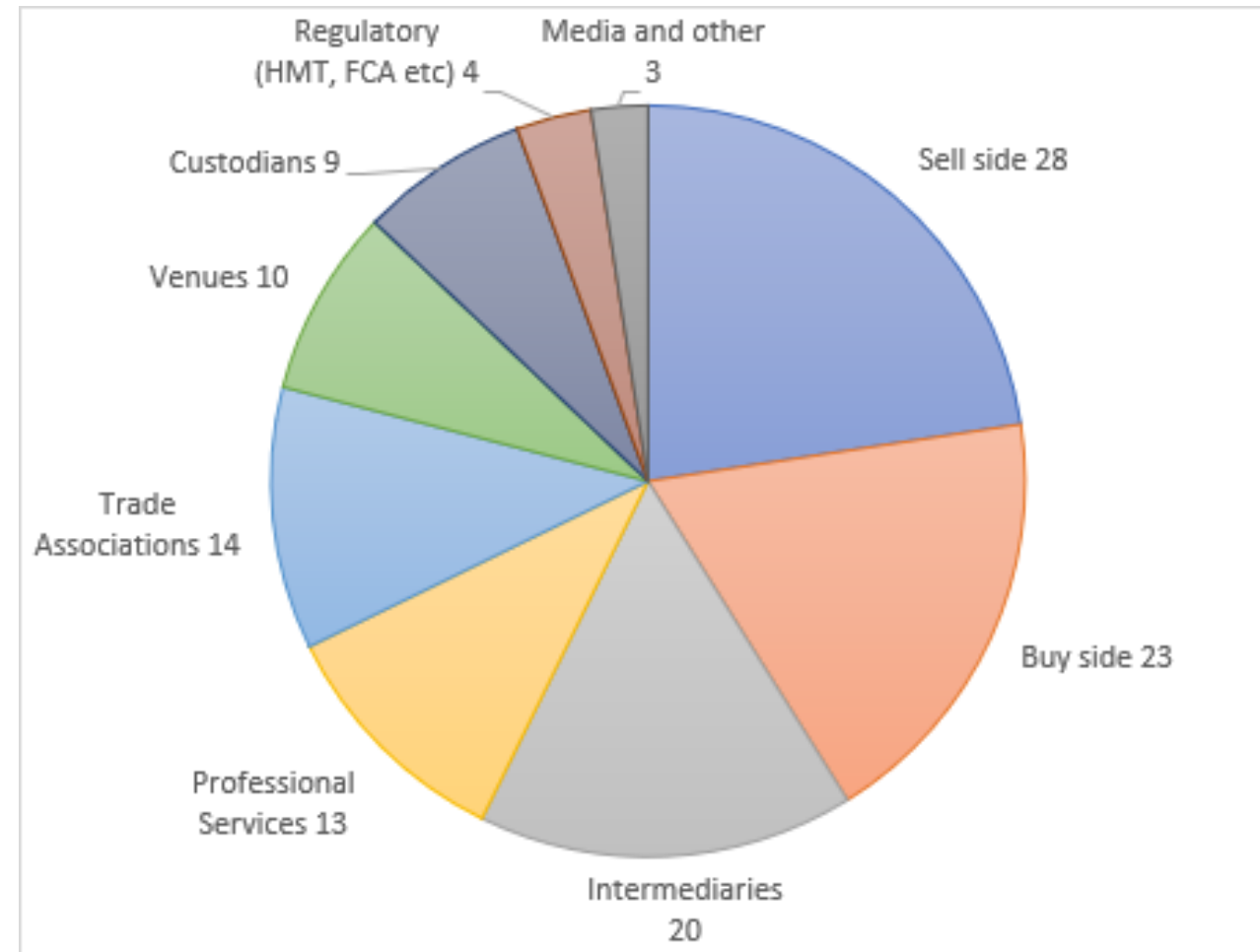
Moderator: Andrew Douglas – Chair of the Technical Group

Closing Remarks

Andrew Douglas – Chair of the Technical Group

Technical Group, TGT1, by the numbers

- ▶ 450+ volunteers
- ▶ 120+ Financial Institutions
- ▶ 5 workstreams:
 - ▶ Ops,
 - ▶ Alignment,
 - ▶ Trading & Liquidity,
 - ▶ Lessons learned,
 - ▶ Reg/Legal
- ▶ 13 substreams
- ▶ 6 months elapsed



Technical Group, key activities for 2024

- ▶ End of June
 - ▶ Workstreams submit recommendations for inclusion in September draft of 2025 implementation plan
- ▶ End of September
 - ▶ Publication of draft of 2025 implementation plan/recommendations
 - ▶ Short industry consultation on the recommendations
- ▶ End October/Mid November
 - ▶ Submission of consultation responses
- ▶ End of December:
 - ▶ Final report containing
 - ▶ 2025 industry implementation plan
 - ▶ Recommended transition date

For more information, please visit the Technical Group's [website](#)

Networking Drinks & Football