Association for Financial Markets in Europe

AFME response to the UK Accelerated Settlement Taskforce's consultation on Draft Recommendations Report

Introduction

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the UK Accelerated Settlement Taskforce's (AST) consultation on the Draft Recommendations Report.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its Members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors, and other financial market participants.

We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA), a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

General considerations

AFME supports the overarching approach of the AST Technical Group in developing a comprehensive set of recommendations to guide the UK market's transition to T+1 settlement.

We particularly welcome the establishment of a clear product scope early in the process, as outlined in Recommendation Zero. Defining the scope at the outset is crucial for market stability and operational readiness, and clearly identifying which instruments will be subject to T+1 settlement and which will be temporarily exempted in the event that the EU does not move simultaneously, will provide much-needed clarity to market participants.

AFME is generally supportive of the outcome-based approach set out in the report, whereby a T+1 default settlement cycle for in-scope securities and transactions would be mandated via regulation (i.e., through an update to UK CSDR Article 5) and supported by the development of industry best practices that all market participants should comply with.

Nevertheless, we consider that the final report should further clarify how the proposed 'Code of Conduct' would work in practice, and how compliance will be monitored and assessed. We believe it should be an instrument to be adhered to by market participants while still providing flexibility/proportionality for individual business model requirements.

AFME is also supportive of the creation of an industry-wide Playbook and a Transition Command Centre to manage the T+1 transition effectively. These initiatives will provide clear guidance and communication channels, thus laying the foundations for a successful migration to T+1.

We emphasise the importance of ensuring automation across the entire post-trade lifecycle to avoid reliance on manual interventions, which can significantly impact timely settlement in a T+1 environment. We note that the lessons learned from the US transition demonstrate the increased operational risks that can derive from insufficient automation.

Responses to the consultation

1. **Do you believe that the recommendations for the scope of the UK transition to T+1 settlement, including for the potential provision of exemptions for Exchange Traded Products (ETPs) and Eurobonds, are sufficiently clear and workable?** If not, please outline which areas you think need further clarification.

   We generally agree with the proposed product scope.

   We propose the following recommendations to complement 'Recommendation Zero' for UK-issued equities, which will help to provide clarity and transparency for investors and market practitioners alike when investing/operating in UK securities markets.

   - Venues should publicise the default place of settlement for all tradeable instruments.
   - Unless otherwise agreed, venues should align the place of settlement for the securities listed on the venue with the place of settlement of the primary listing exchange of the security to avoid the duality of the same instrument "trading line" defaulting into different CSDs based on the venue of execution.
   - A public record of the default place of settlement for a security should be maintained potentially as part of the FCA FIRDS https://data.fca.org.uk/#/viewdata

   We support the proposed exemptions that would apply in the event of the EU and Switzerland not transitioning to T+1 at the same time as the UK. However, we reiterate the importance for the UK to maintain dialogue and seek a coordinated regional approach. Our preference would be for a simultaneous move where there will be no need for these exemptions to apply.

   It would be beneficial for the final recommendations to clarify the treatment of derivatives to provide a full scope overview noting that this became an important point of clarification late in the US T+1 implementation.

2. **Do you agree with the Principal recommendations related to the completion of post-trade, pre-settlement activities on Trade Date, and do you think these measures are sufficient to support timely settlement on T+1?** If not, please outline which areas you disagree with or think need further clarity.

   We generally consider that the measures laid out in the recommendations would be sufficient to support a timely settlement on the reduced operating window of T+1.

   We agree with the recommendation that post-trade and pre-settlement activities must be completed on the trade date; however, we suggest that the recommendations should emphasise that market participants should aim to complete these 'as soon as practically possible'.

   - **<u>Recommendation SETT 01 (Trade Date activity- settlement instruction deadlines)</u>**

     We consider that this recommendation needs to be further clarified as an aspirational timeline (i.e., specifying that this is not a strict cut-off time at the CSD-level, after which new instructions will not be accepted). We note that there will be cases where the instruction will not be submitted to the CSD on trade date –which doesn't necessarily imply that the trade will not settle in time. We do not agree with including this in CSD rulebooks.

     With regards to the proposed different instruction deadlines that would apply depending on where the counterparty is domiciled, we query how this would be monitored, since the CSD does not have visibility on the location of the trading party.

     We propose that SETT 01 should be reformulated to promote as best practice the completion of the allocation and confirmation process on trade date, with a potential extension for non-domestic trading parties.

   - **<u>Recommendation STAT 01 (Static data policies, processes and systems)</u>**

     This recommendation should state that it also applies to corporate action processes.

3. **Do you agree with the categorisation of the recommendations as Principal and Additional to the transition to T+1 settlement in the UK?** If not, which recommendations do you believe are incorrectly categorised?

   We generally agree with the categorisation of recommendations and we consider that the topics are appropriately allocated.

   - **<u>Recommendation SETT 08 (Systematic use of Auto Shaping)</u>**

     We think that this recommendation would be better placed amongst the other additional/environmental recommendations, as we do not consider it to be a prerequisite for T+1.

     This recommendation should clarify that shaping is mostly applicable to debt instruments (noting that Gilts already settle on T+1 in CREST) rather than equities.

4. **Are there any recommendations that you think are incorrect, unnecessary or need to be further clarified?** If yes, please identify the recommendations and why you think they're incorrect, unnecessary or need greater clarity.

- **Recommendation Zero and LEL 01 (Regulatory and supervisory support)**

  The LEL 01 recommendation refers to specifying the instruments and transactions that will be in scope of T+1, however, Recommendation Zero only captures the instruments. We would welcome for further clarification on the types of transactions involving these instruments that would fall within the scope of T+1.

- **Recommendation LEL 03 (UK T+1 Process automation)**

  We note that the wording refers to real-time/intraday as interchangeable with the concept of 'automation'. However, these do not necessarily correlate, since a participant may have its operational processes fully automated but scheduled to be completed at specific times.

- **Recommendations SETT 03 (Settlement performance benchmarks) & SETT 04 (Performance monitoring)**

  It should be clarified that settlement performance is monitored based on 'intended settlement date' rather than 'T+1', as not all transactions will be booked for T+1.

  We propose that settlement performance monitoring is done at a global level, because it is not possible to for the CSD to differentiate between UK and non-UK domiciled counterparties; the CSD only has visibility of the direct CSD participant.

  Settlement efficiency should be monitored on an ongoing and dynamic basis in order to take account of any volatility and market events.

  Any changes to the CREST fail penalty regime need to be proposed in collaboration with the industry, with full disclosure and due assessment

  We note that pre-settlement matching tools could also provide similar benchmarks to track post-execution / pre-settlement operational efficiency.

- **Recommendations SETT 07 (Use of auto partialing/splitting) & SETT 10 (Hold & Release)**

  We consider that these recommendations should also be applicable to trading parties, not only CSD participants.

  SETT 07.00 – As the parties to the trade intermediaries, such as custodians and settlement banks, can only act on their clients' requests – in this respect the decision will come from the trading parties for the custodian and CSD to act on. It should also be noted that partial settlement in omnibus accounts will require strong oversight and control by custodians/settlement banks to ensure that safeguarding of clients assets is upheld. To this end, Partial Release will also need to form part of the Code of Conduct.

We recommend that auto partialing minimum and maximum ranges should be set by the CSD and not each individual participant. There needs to be a single standard to avoid complexity and confusion and maximum efficiency and settlement risk mitigation.

- **Recommendations SETT 09 (PSET)**

  We support PSET accuracy and transparency; however, we believe that the explicit communication should come from the client if they require settlement outside of the default place of settlement of the trading line. Such communication by the client to the executing broker will allow the correct set up on the broker side and improve the accuracy of the instructions sent into the market as the place of settlement and settlement cycle of each particular transaction will be known at the point of allocation. In addition it will also allow the broker to price the trade effectively and minimise/manage its risk.

  We therefore propose to reword this recommendation as follows:

  - *What: Clients must confirm their PSET of choice for a given transaction if it differs from the default place of settlement of the instrument trading line. Brokers should confirm and agree that request from their clients. Settlement cycle will remain as the default settlement cycle for the trading line unless otherwise agreed at the point of execution.*
  - *Why: knowing the place of settlement and settlement cycle at the point of execution will help with routing the trades to the correct PSET on T and avoid the need for re-matching after the initial instruction. Settlement cycle should be clear at the point of execution for financing and risk purposes.*

- **Recommendation COAC 01 (Dividend processing)**

  The title of this section could be refined/clarified, as the recommendation not only refers to dividends, but also references voluntary corporate actions in general –and a dividend is not necessarily a voluntary corporate action (VOLU) in the definition of the SMPG, but a mandatory event with options (CHOS).

- **Recommendation COAC 03 (Electronic Election Entitlement)**

  We suggest to incorporate a definition/description of Electronic Election Entitlement (EEE) and the scope of events to which it is applicable. Not all corporate events require interim securities.

5. **Are there any recommendations that you think are missing from this list that would be necessary for a UK transition to T+1 settlement?** If yes, please clarify what you think they are.

- **<u>Corporate Actions</u>**
  - <u>Impact on multi-listed securities</u>

    We note that the Corporate Action section of the report does not include any considerations on how to determine the key dates for corporate events on multi-listed securities. We realise that this is particularly relevant in the case that the UK and the EU move is not synchronised. The recent move to T+1 in the US evidenced concerns regarding the processing of corporate actions of multi-listed securities highlighting the need of for having clear market practices for such cases.
    We consider that the report should acknowledge that this represents a potential issue and highlight the need for further industry analysis on how to address it.

    We suggest the following proposals to be considered:

    - For multi-listed securities primarily deposited in the UK that are listed on a European trading venue: corporate actions key dates should be aligned with those provided by the local agent in EU appointed by the issuer. The local agent should use a set of key dates aligned with the settlement cycle of the country of this trading venue (i.e., T+2 if the settlement cycle of this market was still on T+2).
    - For multi-listed securities primarily deposited in the EU that are listed on a UK trading venue: corporate actions key dates should be aligned with those provided by the local agent in UK appointed by the issuer. The local agent should use a set of key dates aligned with the settlement cycle of the country of this trading venue (i.e., T+1 after the UK migration to T+1).
  - <u>Currency election events</u>

    There may also need to be extensions to deadlines as many currency election events have record date as deadline and partial elections are not allowed, so potentially in a T+1 environment the deadline would need to be later than the record date and all registrars would need to allow partial currency elections.
  - <u>ACON Buyer protection</u>

    ACON buyer protection deadline and rules may require revision, as they have been designed for T+2 flow. T+1 will shorten the broker protect window and increase the risk of missed instructions.

    We consider that it will be important that clear trade date guidelines and deadlines are included in the COAC section of the Code of Conduct to ensure the means for client entitlements are upheld in a T+1 operating environment. A consideration might be to move the ACON to the afternoon from the current market convention of 11.00am.

- **<u>Temporary suspension of CREST penalties</u>**

  We consider that the report should include a recommendation for a temporary suspension of CREST penalties during the immediate migration period.

6. **Do you have any other comments to make with regards to the UK transition to T+1 settlement?**

- **<u>Implementation timeline</u>**

  We note that the timeline for implementing each recommendation needs to be duly considered.

  As a general approach, AFME is supportive of a sequenced implementation whereby some of the proposed industry best practices are adopted before the actual T+1 changeover date. In this context, we believe that 2025 should be used for further development and refinement of the 'Code of Conduct' for adoption in 2026 or 2027 where applicable, ahead of regulatory compliance, which we consider can only be at the point of migration. This would allow firms, vendors and FMIs to integrate the necessary financial and operational adjustments into their 2026 budgets, ensuring they have adequate time to allocate resources and plan for the transition. It will also provide the required time to carry out the corresponding end-to-end testing.

  The required testing for Corporate Actions (including claims) should be scheduled outside of the dividend 'peak season'.

  We note that it is critical that all market participants are engaged early in the market testing, and also actively participating, including smaller participants involved in the provision of ancillary services, who may have limited resources in terms of technology and staffing. This will be a success criteria to successful implementation.

- **<u>Recommendation STAT 02 (SSI Market Practice)</u>**

  We refer to the AFME & AGC joint response to the FMSB's consultation on Draft Standards for Sharing SSI Information. Similarly to the abovementioned considerations on timeline, we recommend that 2025 is used for planning and allocating the implementation of these standards in 2026 and for the corresponding deployment to take place in 2027.

- **<u>Trading hours</u>**

  We note that the approach taken by the UK in relation to trading hours differs from the one taken by the EU Industry Task Force, which has opted for allowing flexibility in trading hours and facilitating T+1 settlement even for late trading by making changes to the timetable of post-trade processes.

- **<u>CCP considerations</u>**

  We consider that further analysis is required with regards to the CCPs management process and how this might change in a T+1 environment, notably:
  - Harmonisation of CCP cut-off times
  - Margin impacts/estimates
  - Settlement/fail management processes

We note that these provisions are not sufficiently laid out in the report and the industry should look to provide further insights. We recommend that these works are conducted along Q1 2025.

- **Collateral**

  We note that there should be further industry discussion on how collateral management processes may need to be adapted.