IA response to UK Accelerated Settlement Taskforce Technical Group Draft Recommendations Report and Consultation issued 27th September 2024

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The Investment Association welcome the UK Accelerated Settlement Taskforce Technical Group's Draft Recommendations and the opportunity to feed into them. We note that the IA and their members fed into many of these recommendations, and largely support the work of the taskforce and the recommendations themselves.

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?
a. If not, please outline which areas you think need further clarification?

We note that the recent EU taskforce consider ETFs out of scope – we ask that the FCA confirm current scope around ETPs application to CSDR, such that this taskforce's work around scope can be verified.

We agree with the inclusion on exemptions for Exchange Traded Products (ETPs) and Eurobonds in the event that the UK transitions ahead of other jurisdictions in which these products are traded.

We agree that the exemptions as they are written are sufficiently clear and workable.

We await the proposal for how these exemptions will be written into legislation, such that the exemption expires once the EU and Switzerland transition to T+1 settlement in the event that the UK transitions ahead of these markets.

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?
a. If not, please outline which areas you disagree with or think need further clarity?

We understand that this question relates to the below recommendations:

SETT 01.00 Trade date activity – settlement instruction deadlines
SETT 02.00 Trade date activity – pre-settlement deadlines

We are of the view that the definitions laid out under SETT 01, which states that UK domiciled counterparties or their agent should confirm instruction receipt by 21:00 on T, and non-UK domiciled counterparties should confirm by 06:00 on T+1 are confusing and add unnecessary complexity.

Pooled vehicles and entity structures can be complex, with an assortment of UK and non-UK entities leading up to the submission of the trade. It is not apparent which entity, out of a client, investment manager, middle office, custodian and potential sub-custodian, would populate the role of counterparty or agent in this structure and there may be inter-entities within this.

We believe that a single deadline for all entities would work better. We note that the requirement to match a trade by end of day in the US, followed by a 7PM ET confirmation and 9PM ET affirmation deadline worked well. APAC investors followed the 9PM ET affirmation cut-off where they could, but were still being able to transact in US stocks where they weren't yet able to adapt by the transition date.

We also note that matching after the CREST closing time on trade date at 8PM incurs a higher fee. We are of the view that this should be referenced in any taskforce recommendation that encourages matching after this cut-off.

We are aware that the taskforce is recommending that CREST amend opening hours and therefore the settlement window, from 8PM to 9PM. Whilst we support this, we believe there's value in CREST using this opportunity to extend this window to later (12AM (midnight) at a minimum), to grant a greater window to match and to try futureproof against further changes.

We also believe that the UK Taskforce should designate guided timelines for broker confirms (fills), allocations and confirmations to be sent. We recognise the challenge in assessing progress against these benchmarks, given they are not exchanged on the platforms owned by the same entity as the CSD (unlike allocations & affirmations with DTCC in the US, which also operates the US CSD), but note that more prescriptive timelines will encourage better market standards. With the US transition, the cut-offs of 7pm for allocations, confirmations and 9PM for affirmations generally worked well but believe it warrants more discussion at a UK/EU level.

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

We agree with the categorisation of recommendations as Principal and Additional, but do not think that the taskforce captures the balance of these quite right. We note "Recommendation Zero" has been separated as a truly core recommendation necessary to transition to T+1 Settlement and agree, but don't think many of the other 43 principal recommendations are crucial for the transition, and risks confusing smaller participants on the key changes that need to be made.

Under the US transition, many of these "principal recommendations" that the taskforce proposes would have been comprised in the industry playbook rather than the SEC document legislating the transition. We think similarly separating out the core recommendations/requirements from what are now the principal recommendations, will give the crucial items greater focus and clarity.

Whilst we are open to what the rest of the market think are core recommendations, we are of the view that as a starting point the below are crucial for the transition alongside "recommendation zero":

SETT 01.00 Trade date activity – settlement instruction deadlines
SETT 02.00 Trade date activity – pre-settlement deadlines
SFT 05.00 Market cut-off for Stock Lending recalls

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

LEL 01.00 UK regulatory and supervisory support
LEL 02.00 UK T+1 Post-trade 'Code of Conduct'

Our members appreciate the challenge for the technical group in treading the fine line between regulatory enforcement of the practices necessary for a transition to T+1 Settlement, and best practice. We agree that regulating for up to 57 recommendations will create an overbearing burden on firms, particularly smaller entities, and also agree that market practice can lack the "bite" in making firms adhere, though we note that the transition to T+2 occurred without those enforcement(s).
Equally our members have discussed that having an element of regulator supervision is necessary for getting budget approved for regulatory change.

We are aware that further conversations are ongoing to define the Post-trade "Code of Conduct", and how the regulators might apply them in their supervisory functions against firms, so note that our answer may be based on a concept that has since evolved.

We note that many firms will be seeking further clarity over the "Code of Conduct", with some potential examples questions including:

What is the view from the regulators on this (FCA, PRA, BoE)? – We note that the recommendations have been created by the Accelerated Settlement Taskforce Technical Group, with only a short informal consultation to determine any suggested changes. To date, the regulators have participated in an oversight role, but have made no public statement on the work done. It would be helpful to get a signal from the FCA on whether they agree with the post-trade "Code of Conduct" as they're currently written and whether they'd look to enforce them through the existing framework mentioned (FCA Principles, Threshold Conditions, Senior Management Arrangements etc) in LEL 01 and LEL 02.

How do firms follow which recommendations from the code of conduct apply to them? – As an example, we note that **SFT 03 – Stock Lending Pre-Sale Order Instructions,** applies to the Investment Association (though we disagree with this recommendation and comment on this later).

- Does this by default apply to IA members?
- What about non-member investment managers or hedge funds?
- What if the investment managers' custodian and agent lender intermediaries are unable to adapt to this change, is the investment manager non-compliant?
- It is often the client (and not investment manager) who engages in a sec lending programme, though it is the investment manager instructing sales. Who is liable in this case?

We anticipate a level of complexity across a number of recommendations.

What constitutes compliance? – If a small investment firm chooses not to engage in FX PvP netting as they consider the cost too prohibitive and don't want to pass on the costs to their client(s), how does adherence to the code of conduct (which encourages FX PvP netting) align to their fiduciary duty to the client(s).

We acknowledge that some of the usefulness of the "Code of Conduct" approach will rely on the ambiguity – if firms are unsure if the Code of Conduct applies, they will likely err on the side of caution and invest in change. A similar example in the US was around the permission of extended settlement during the US transition, with firms unsure whether it was permitted and thus trying to minimise where possible. We believe that an element of "reasonable endeavours" language should be introduced.

We are also of the view that, for the Code of Conduct to stay relevant, there should be governance behind it as well as periodic review periods (for example every 3 years) to ensure that it remains relevant to what it is trying to achieve. Is it ultimately the FCA that would own this process?

Generally, though we can appreciate what the taskforce are looking to do through calling for a Code of Conduct, we are of the view that further clarity and signals from the FCA are necessary before the wider industry will be in a position to endorse or advocate against the proposed code.

Finally, we note that some of the recommendations within the Post-Trade "Code of Conduct", may apply beyond Post-Trade (for example onboarding and contractual measures), so a different name may be necessary (Securities Settlement Code of Conduct?)

SETT 03.00 Settlement performance benchmarks
SETT 04.00 Settlement performance monitoring
We appreciate the sentiment behind defining a UK market level post-T+1 settlement efficiency rate to measure before and after the transition date and thus given an indication of how the transition has gone.

We note that this is relatively simple at a market level, with CREST (the UK CSD, owned by EUI) able to provide pre-matching and settlement efficiency statistics relatively easily but that it becomes more challenging as more detail is required. CREST is unable to breakdown per market participant type or market participant, as many market users will hold securities under a custodian bank, and potentially through an omnibus account at the CSD.

We also note that CREST will be unable to provide allocation and confirmation statistics, as these are communicated outside of CREST.

These recommendations should be narrowed to focus on wider market adoption and the success of T+1 and cannot be used to compel and assess against market participants in the way the recommendation is written and under current CSD infrastructure.

SETT 07.00 Systematic use of auto partialing/splitting
Our member firms are broadly supportive of auto-partialing, but we note that it is not offered by all custodians and that there may be limitations contingent on an account at a custodian (e.g. omnibus account). We note auto-partialing must be offered by all custodians before it can be opted into by the wider investment manager community and their client base.

SETT 09.00 Cross border transactions/PSET
We appreciate the sentiment behind PSET matching and our member firms generally agree that it should be supplied, with many marking it as a matching field within matching tools like CTM.

We note that the PSET field cannot always be supplied correctly by the buy-side unless they are supplied with information on where securities are held. This is commonly communicated via field 94a (PSAF – Place of Safekeeping) under an MT535 and is communicated by most, but not all, custodians.

This recommendation should be amended to include a requirement for custodian banks to supply the PSAF if the wish is for market participants to supply the PSET for transactions.

SFT 02.00 Stock Lending confidentiality policy
SFT 03.00 Stock Lending pre-sale order instructions
SFT 05.00 Market cut-off for Stock Lending recalls
We do not agree with the stock lending proposal recommendations and particularly the confidentiality policy and pre-sale order instructions.

An investment manager may appoint an agent lender on behalf of own funds, or may have delegated mandate clients who contract with an agent lender themselves. Visibility of securities on loan are not always visible to the investment manager, and in theory, this has not presented an insurmountable challenge under T+2 settlement as there are mechanisms in place to recall the securities once the investment manager has lodged an instruction to sell.

We agree that with a move to T+1, changes will be required for securities lending as often the second (middle) day of a T+2 cycle is used as part of the recall process.

We note that the investment manager and/or their client will already have confidentiality clauses in place with their middle-office service provider, custodian and agent lender, so SFT02.00 is somewhat redundant

In relation to SFT03.00 we also note that some of our member firms will refuse to send pre-sale order instructions to lending intermediaries concurrent with sending the orders to the executing broker. Firms are aware that an indication to sell can be market moving and thus look to avoid sharing that information until the sale is fully agreed. Even if the middle office provider, custodian and agent lender keep the information confidential, triggering the recall with borrowers may signal market intent on a particular security.

Should the requirement be that firms have to send a recall instruction ahead of a sale being agreed, there may be cases where either the investment manager is unable to comply, or that they and the asset owner pull UK securities from their lending programme, reducing overall liquidity in the UK market.

Our member firms and middle office intermediaries have also discussed that having pre-execution information may change the regulatory status under MAR of each person holding that information at the investment manager, middle office, custodian and agent lender, potentially incurring further costs in registering them with the FCA.

Instead we believe that it's more reasonable to send this information post-execution, but pre-matching. This could be encouraged through a PREA (pre-advice SWIFT) or similar/equivalent communication mechanism.

SFT05.00
We do not agree with a 16:30 cut-off for recalls. We note that lots of trading is done in and around market close of 16:30, so this will in some cases leave very little to zero time to issue the recall.

We think a buffer of at least one hour after market close will be necessary and the more time provided, the more likely an investment manager will be able to adhere to the cut-off.

Contingent on the ongoing allocation deadline under SETT.02, this information may effectively be conveyed at a reasonable time anyway.

FX03.00 - CLS & Custodian cut-offs
We are of the view that the taskforce should recommend that CLS access custodian cut-off deadlines are after the UK and EU markets close, such that they enable buyers and sellers to trade the necessary FX and put trades through CLS. As a starting point, we understand that some of our members have looked for a cut-off of 10:45PM GMT.

ENV 06.00 LEI adoption
ENV 07.00 LEI issuance
We believe that the above are somewhat redundant as LEIs are mandatory under transaction reporting anyway but are not required for settlement. This works well currently.

LEL 03.00 UK T+1 Process automation
COAC 04.00 Corporate Actions automation
SFT 04.00 Automation of Stock Lending recalls
More broadly, we believe that there is scope to simplify the report and number of recommendations, either by removing them or consolidating them into other recommendations (for example there are 3 automation points above). Recommendations that apply to single entities (such as the CSD or the taskforce) should be split out from those applying to all market participants to make the change requirements simpler.

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?
a. If yes, please clarify what you think they are?

We think that the follow-up report should separate out a section noting impact on international investors, either on UK capital markets' products or through pooled products such as mutual funds and ETFs.

We note challenges with FX funding in the US which will carry over into the UK market, with an example being access to Australian Dollars to settle a UK equity transaction under a T+1 settlement cycle given minimal overlap.

We note that much of the analysis of the workstreams (such as the FX workstream) have been condensed into the recommendations only, and that some of the context is not available to the wider taskforce and investor membership. The report is missing analysis where there are fewer or no recommendations, such as on some of the funding challenges.

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

Interim deadlines on recommendations

We note that the Taskforce does not make any recommendations on dates but that they are still considering interim steps for many of the recommendations with milestones across 2025, 2026 and 2027.

It is our view that adding milestone dates to these recommendations will increase complexity and make it more challenging for firms to adhere to the changes recommended. Given an already lengthy transition, splitting out the go-live into 4-5 stages will require a longer, more resource intensive transition plan. There is also a risk that firms will not adhere to the interim stage go-lives, which could then impact market confidence in the Code of Conduct and transition more broadly ahead of the key transition date chosen.

Per our response to question 4, we see value in splitting out requirements against single infrastructure entities such as CREST and CLS. For these entities it may make sense to retain interim deadlines. For general market participants, we are of the view that the transition deadline of the recommendations that apply to them should all match the overall transition deadline.

Mutual fund settlement cycles – INV11.00

We are aware that there have been increasing questions around mutual fund settlement cycles and whether they'll be brought into scope by the work of this taskforce.

We are comfortable with the recommendation INV11.00 itself, having contributed to its drafting in recommending that the UK mutual funds are encouraged to transition to T+2 fund settlement cycle, but that it is not mandated.

We believe that the taskforce could be more prominent in its endorsement, and we hope to leverage the taskforce's convening power to encourage the transition amongst fund managers including non-IA member firms.

UK, EU, Swiss alignment

We also re-iterate the desire to align with the EU and Switzerland and welcome notes from ESMA, Commission and UK representatives to support this. A more formal joint announcement would be welcomed.

We believe that a future report should suggest support for an aligned transition, noting that the timeline was pushed back to "before the end of 2027" to encourage alignment.

Euroclear patronage and endorsement

We welcome the announcement at the AST Technical Group event on the 17th October that Euroclear UK & Ireland (EUI) will be sponsoring the taskforce going forward. We note that EUI, as the firm running the UK CSD CREST, have a key role to play in this transition and it's co-ordination.

Legislator and regulator engagement

We would like to see more public signals from the FCA and HMT of their views around the T+1 transition and their support behind it.

We note that the “code of conduct” grants additional power and potentially resource pressure on the FCA and note that it’s challenging to have a view on this aspect of the report without their view on how they would approach supervision under this aspect.

Transition date governance

Finally we note that there has been no consultation on a UK T+1 transition date, either under Charlie Geffen’s taskforce or the following technical group. Although we can accept the October 2027 date that the taskforce leads have signalled at industry events, we are of the view that this decision could have been made with better governance.

The IA endorses the work of the T+1 AST Technical Group

Although we haven’t agreed with all the recommendations, we broadly endorse the report and work done so far, it’s content and the collaborative nature in which the report has been drafted. We thank Andrew Douglas and Charlie Geffen for their contributions.