UK FINANCE

# ACCELERATED SETTLEMENT

## Examining the case for trades to be settled more quickly in the UK – Moving to T+1


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## About UK Finance

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This paper forms part of UK Finance's contribution to the Accelerated Settlement Taskforce (Taskforce), which was launched by the Chancellor in December 2022 and is chaired by Charlie Geffen. The Taskforce, which comprises industry representatives, seeks to explore the potential for reducing the time between trade date and settlement date of financial trades in the UK.

This paper reflects the collective views of UK Finance members and presents a series of recommendations for the Taskforce to consider as it develops its report throughout 2023.

# WHAT IS T+1?

When trades are executed, there is usually a time lag between the 'trade date' (commonly referred to as 'T'), when the terms of the trade are agreed, and the 'settlement date', when the buyer receives the securities, and the seller receives the proceeds. This time lag exposes both parties to risk.

The settlement period has shortened over the last decade and the most common standard for securities is T+2, where the trade is settled two days after the trade date. Now, however, with the advancement of technology, potential risk reducing benefits and global developments with other jurisdictions moving to T+1, the UK is considering reducing its settlement period to T+1.

# UK FINANCE RECOMMENDATIONS

## SHOULD THE UK MOVE TO T+1?

1. UK Finance members recommend that the UK awaits the implementation of the US move to T+1, to benefit from lessons learnt, with a focus on the investor experience. Otherwise, the UK risks a lost opportunity with regards to evidence-based analysis.
2. A thorough and detailed evidence-based cost-benefit analysis and a HM Treasury (HMT) consultation would place the UK in a better position to determine whether a move to T+1 would be advantageous within appropriate timeframes. This should be followed by HMT and the Financial Conduct Authority (FCA) publishing a roadmap with clarity on scope and timelines.
3. As a more immediate, intermediary step, UK Finance members recommend the introduction of non-mandatory guidelines, published by HMT and the FCA, endorsing trade matching and allocation on T0. (Before moving to more formal regulations as part of a future move to T+1).
4. UK Finance members recommend the publication of best practice guidance, designed by industry and endorsed by the FCA, to support a smooth transition.
5. UK Finance members recommend either a descoping of primary markets, or an update to FCA rules on the IPO timetable to facilitate a move to T+1.
6. Regulatory coordination and cooperation with the EU will be essential, given the interconnectedness of capital markets and international nature of UK markets. Alignment with other key jurisdictions where appropriate is also prudent.
7. UK Finance members commend the approach taken by the UK government and advocate for continued and structured dialogue which accommodates the breadth and diversity of stakeholders that would be impacted by a UK T+1 transition.

| UK FINANCE'S SUGGESTED TIMETABLE | |
|---|---|
| December 2023 | Accelerated Settlement Taskforce to publish its initial recommendations. |
| May 2024 | Implementation of T+1 in the US (and Canada). |
| December 2024 | The Accelerated Settlement Taskforce should reconvene to benefit from the data and analysis gleaned from the US move to T+1, alongside developments in market structure and innovations. In doing so, it should update its initial findings from December 2023. |
| May 2025 | A more informed UK decision can be taken about the UK's move to T+1, leveraging all of the outcomes and analyses from the US. HMT should then publish a consultation on the Taskforce's recommendations to ensure an inclusive process, that considers the broad and global nature of investors in the UK's securities markets. This would ensure that a more informed UK decision is taken, leveraging all of the outcomes and analysis from the US and a greater range of market participants' feedback. |

# EXECUTIVE SUMMARY

On the face of it, moving to T+1 in the UK would be beneficial for financial markets. Faster settlement would help to minimise counterparty risk and margin costs, and further modernise UK capital markets.

However, as this paper explores, once you dig a little deeper, there are a host of considerations that will require careful attention. The way in which the market is structured today doesn't necessarily lend itself to T+1 for certain asset classes; product specific nuances and the unique associated post-trade processes will need to be taken into account.

Significant operational changes will need to take place across the market, impacting a wide range of stakeholders, from the largest to the smallest, all of which will come at a cost. There will also be market liquidity impacts to consider, which may not always be positive.

It will be important to carefully weigh up the risks and benefits, as well as maintaining an acute awareness of the innovations and developments taking place, which could revolutionise capital markets and enable T0 settlement in the future.

UK Finance believes there is benefit from awaiting the US implementation and transition to T+1 as a way of gauging adoption and reflecting on lessons learnt ahead of UK adoption. UK Finance members believe this approach would not incur any material frictional costs on the UK and enable swifter adoption benefitting from US industry feedback.

Should the UK determine that a move to T+1 would be advantageous following a robust cost-benefit analysis and understanding of the investor experience in the US, overlaying the unique characteristics of the UK market will be crucial. We then recommend that a clear and inclusive roadmap with realistic implementation timelines, coupled with collaboration between the government, regulators and industry will be vital in ensuring a successful transition to T+1 in the UK.

# BACKGROUND AND CONTEXT

## THE GOVERNMENT'S AMBITION TO ENHANCE UK COMPETITIVENESS

The Financial Services and Markets Act was granted Royal Assent on 29 June 2023[1]. It seeks to repeal EU retained law and tailor legislation to the specificities of the UK market. The UK government has described this Act as 'legislation to enhance the competitiveness of the UK financial services sector and unlock tens of billions of pounds of investment across the economy'[2].

As work on the Financial Services and Markets Act was underway, progressing through parliament, on 9 December 2022, the Chancellor announced a further set of reforms, known as the 'Edinburgh Reforms' to build on the government's vision to enhance UK competitiveness. As set out in the Chancellor's speech at Mansion House in 2021, for an open, sustainable, and technologically advanced financial services sector that is globally competitive and acts in the interests of communities by creating jobs, supporting businesses, and powering growth across all four nations of the UK.

As part of the Edinburgh Reforms, HMT announced the establishment of an 'Accelerated Settlement Taskforce'[3] with the following four objectives:

1. Explore the case for moving to an accelerated settlement cycle, such as 'T+1', in the UK, and outline how this could be implemented.
2. Evaluate current settlement performance across the UK sector and assess potential improvements and reforms.
3. Engage and consult with the wider financial services sector representatives and stakeholders, including retail investors.
4. Provide recommendations, including how any changes should be implemented by industry, regulators, and government, and what the appropriate timetable should be.

The Taskforce, chaired by Charlie Geffen, will look to publish an initial set of findings and recommendations by December 2023.

*UK Finance is a participant on the Taskforce and this paper is a collation of UK Finance member views to help inform the Taskforce's final recommendations.*

1 **https://bills.parliament.uk/bills/3326**
2 **https://www.gov.uk/government/news/financial-services-bill-to-unlock-growth-and-investment-across-the-uk**
3 **https://www.gov.uk/government/publications/accelerated-settlement-taskforce/accelerated-settlement-taskforce-terms-of-reference**

## THE NATURE OF UK CAPITAL MARKETS

The UK is a leading global centre for capital markets, underpinned by an open economy, strong institutions, and a robust regulatory framework. These strengths have facilitated the development of a UK capital markets ecosystem that comprises of global talent and international investors and companies. Given the global nature of the UK's capital markets, a potential move to T+1 in the UK would be a different experience to that of other capital markets which are more domestic in nature. This is an important differentiating factor for the UK.

## HOW DOES THE UK'S PROGRESS COMPARE INTERNATIONALLY?

While it can be helpful to look at other jurisdictions such as the US and Canada, who are in the process of moving to T+1, as well as India which has completed its implementation, it should be noted that the UK's markets are unique, and a direct comparison would be misplaced. Nevertheless, the following sections summarise international developments.

## INDIA

India has pursued a phased approach, which began in February 2022. This approach entailed batches of stocks shifting to a reduced settlement cycle from T+2 to T+1. It began with the bottom 100 stocks by daily average market capitalisation (as of October 2021) moving to a shortened settlement cycle. From March 2022 onwards, every last Friday of the month saw an additional 500 stocks moving to the T+1 settlement cycle. On 27 January 2023, the transition was completed. From that day, all of India's 5200 plus securities (equity shares, exchange traded funds (ETFs), real estate investment trusts, infrastructure investment trusts, sovereign gold bonds, government bonds and corporate bonds) have been settled on a T+1 basis[4].

The catalyst behind India's move was a desire for greater liquidity and a reduction in counterparty risk. In addition, the decision-making process was largely focused on the needs of domestic investors; foreign portfolio investors were considered relatively late in the decision-making process, which prompted the phased nature of implementation. Foreign Private Issuers (FPIs) typically invest in the top 500 stocks, which were the last to migrate to a T+1 settlement cycle.

It should also be highlighted that India's market is relatively nascent compared to other jurisdictions – it has only one currency and the level of coordination and regulatory change required is a simpler task (versus other jurisdictions). Nevertheless, it illustrates a successful transition and going forwards it will be interesting to analyse whether this move has resulted in greater trading volumes on India's capital markets and whether the settlement efficiency has faltered post T+1 compared with the former T+2 cycle.

UK Finance members emphasise that the experience of moving to T+1 in India cannot be replicated in the UK, given the differences in their respective markets, especially noting the number of UK assets that are dual-listed.

4 **https://flow.db.com/securities-services/india-trumpets-t1-settlement**

## US AND CANADA

The US and Canada are adopting a 'big bang' implementation approach in moving to T+1. In contrast to India, the principal driver behind the US move is to support retail investors, which resulted in the US Securities and Exchange Commission (SEC) officially communicating its decision to adopt rule amendments to shorten the standard settlement cycle of securities to T+1 with a compliance date of 28 May 2024[5].

Given the interconnectedness of North American markets, and the prominence of securities that trade in both Canadian and American markets, Canada chose to follow the US. However, the compliance date the US set of 28 May 2024 adds complexity. Canadian markets are open on 27 May; however, the US market is closed. Consequently, the first day of T+1 trading in Canada will be 27 May 2024 and in the US it will 28 May 2024[6]. Should the UK and the EU wish to move ahead in lockstep, which we strongly encourage, regulatory dialogue to overcome challenges and complexities such as this is imperative in contributing to a successful transition to T+1.

Across some corners of the market there is also a degree of unpreparedness in terms of participants both understanding what is required and undertaking significant change programmes to meet a reduced settlement cycle. In addition, the interests and perspectives of global investors and international market participants, were not fully taken into account in the US decision to move to T+1. Cross-border activity and dual-listed instruments would also have benefitted from greater consideration and clarification.

There is also a belief that the US timing is ambitious, especially for smaller participants who would not necessarily have the budget or resources available to deploy large scale transformation projects. This highlights the importance of shared best practice, communication and clear timelines to support all market participants, both domestic and international.

## PHASED APPROACH VS 'BIG BANG'

UK Finance members note the benefits of a gradual, phased approach which will enable challenges to be dealt with as they arise and provide the opportunity to stop and recalibrate, if needed. However, the operational complexity of a migration of this nature would require appropriate assessment and implication modelling to ensure that it is practical for all actors involved, most notably the investor. UK Finance members also note that the T+3 to T+2 transition was very much a big bang and was completed successfully. There is therefore precedent for a significant market transformation coalescing around one agreed date.

In determining the most effective approach, what is best for the investor should be the main consideration.

5 **https://www.sec.gov/news/press-release/2023-29**
6 **https://ccma-acmc.ca/en/wp-content/uploads/CCMA-Announces-Canadian-T1-Start-Date-March-14-2023.pdf**

# WEIGHING UP THE RISKS, CHALLENGES, BENEFITS, AND OPPORTUNITIES

## TYPES OF RISK

A shorter settlement cycle has the potential to reduce various types of risks, while at the same time, other types of risk could be heightened, if not managed correctly.

- **Operational risk** is the risk arising from manual processes requiring human intervention. On the one hand, operational risk might decrease if the UK moved to T+1 because of the need for greater adoption of 'straight-through-processing', the automation and streamlining of processes. On the other hand, there could be an increase in operational risk arising from the move to T+1 given that trade flows are sequential in nature, and a reduction in time places greater stress on the process, leaving less time for exception management.
- **Counterparty risk** is the risk that a counterparty might default and not fulfil its obligations. Counterparty risk would decrease in a reduced settlement cycle as exposure to the counterparty would be reduced.
- **Market risk** refers to the volatility in the price of assets due to movements in the market. This would be reduced as there would be less time for values to change in a reduced settlement cycle.
- **Interest rate risk** is the risk arising from changes in interest rates. Higher interest rates are likely to make borrowing more costly. In a T+1 environment, market participants may have to borrow more, for pre-funding purposes. Therefore, in the current macroeconomic environment, firms will need to pre-fund on behalf of their clients, which will come at a cost. One could also argue that interest rate risk may decrease in a shorter settlement cycle, as you have quicker access to cash over a shorter period of time, therefore exposure to interest rate risk might decrease.
- **Technology risk** is the risk of failure in technology which supports market activity. As referred to under operational risk, existing manual processes today would need to move to leveraging technological and automated solutions. This places greater reliance on technology and emphasis on the importance of operational resiliency in underpinning a T+1 environment.

## CHALLENGES AND CONSIDERATIONS

- **Operational considerations** – a move to T+1 would likely involve firms navigating significant operational complexities including:
  - Changes to systems to support a T+1 trade flow process, e.g., from trade booking systems to reconciliations and investigations, allocation and confirmation processes including issue resolution to trade reporting, through to settlement systems including exception management, matching and inventory management. UK Finance members recommend the introduction of non-mandatory guidelines which specify that matching (i.e., the process of identifying and effecting a trade between the buyer and seller of a security) should be completed on trade date in order to ensure a successful T+1 settlement. UK Finance members recommend the move to more formal regulation as and when a clear plan around the UK's move to T+1 materialises.
  - Investment and coordination among market participants, e.g., between UK Finance members, their clients and investors who will have a global footprint, as well as regulators and technology providers.
- **Impact on market liquidity** – debates around a move to T+1 tend to focus on operational changes. However, it should also be noted that there may be an impact to market liquidity, given the nature of trading, particularly in the context of repos, cash, collateral and funding within shorter timeframes. UK Finance members believe that: -
  - Secondary lending and repos –a reduced settlement cycle might impact the nature of trading given that securities may be harder to locate in a shorter timeframe which could alter the liquidity characteristics of a security. It is likely that there might be a period of uncertainty following a T+1 implementation, before the market adjusts to a new settlement cycle. This is another area where it will be useful to analyse market dynamics following the US implementation of T+1.
  - Foreign Exchange (FX) – the misalignment between different jurisdictions would most likely require pre-funding, which firms would need to provide from their balance sheet, introducing additional cost, which could be faced by the end investor, therefore reducing the attractiveness of the UK. There might also be wider spreads at market close, leading to lower liquidity and therefore increased costs in the FX space.
  - ETFs and other products like mutual funds, and depository interests (DIs) – their operating models require more than one day, which might lead to having to fund the deltas between the underlying assets settling on different cycles, which would introduce extra cost, which again could be faced by the end investor.
- **Balance sheet implications** – in a scenario where moving to T+1 may result in an increase in trade fails, this might have a risk-weighted assets (RWA) implication for firms' balance sheets. In addition, market makers might need to consider holding more inventory to deliver on T+1. This is where it will be useful to conduct further analysis, particularly in the US context to see if any trends emerge.

  Given the potential impact on market liquidity and the use of market makers' balance sheets, UK Finance members recommend that the Accelerated Settlement Taskforce considers a subgroup which focuses on the trading and liquidity implications, in order that this aspect is fully considered and not overshadowed solely by operational concerns.
- **Implementation costs** – the costs associated with these changes, in particular updating operations and technology, could be significant and might in some cases exceed firms' expectations, depending on their current processes. As a result, by seeking to enhance the attractiveness and competitiveness of the UK's capital markets, we do not wish to unintentionally create such high barriers to entry, that we inadvertently push up the cost of business in the UK and reduce UK competitiveness. This is why understanding the US investor experience is critical.
- **Regulatory change** – There is already a significant volume of regulatory change happening at pace in the UK, and large tranches of retained EU law are set to be repealed, reviewed, and replaced over the coming years. A substantial proportion of these changes relate to securities markets, and while this could be considered an opportune moment to progress accelerated settlement, the scale of a T+1 implementation programme may well instead serve to exacerbate the costs and complexities of operational transformation that firms are already contending with.

## PRODUCT SPECIFIC NUANCES AND THE RISK OF MARKET FRAGMENTATION

It is important that product specific nuances are suitably considered, given the differences in post-trade processes across different asset classes. For some products, such as gilts, a T+1 settlement cycle is already current market practice, given both the nature of the product and the technology and processes which underpin it are able to support accelerated settlement. Other products, however, will require fundamental technology, operational and market structural changes to operate on a T+1 settlement cycle.  The following sections consider some of these examples.

## PRIMARY MARKETS

UK Finance members recommend that either primary markets are descoped from a UK move to T+1, or that the FCA looks to update its listing rule 3.3. The settlement cycle and the listing application process need to be aligned.

UK Finance members also highlight the importance of preserving and enhancing the attractiveness of the small and medium (SME) growth market. The London stock exchange alternative investment market (LSE AIM) relies on market makers to ensure that there is a market in relatively illiquid stocks. Today the market has the flexibility to agree non-standard settlement and extended settlement dates – it is important that this flexibility continues and a move to T+1 doesn't unintentionally negatively impact this segment of the market.

## FX AND TIME ZONES

Different time zones could introduce operational risk and logistical complexity for investors in particular, in relation to trade confirmation and affirmation processes, breaks and fails management, end of day reconciliations, and foreign exchange (FX) management.

A further consideration is the potential for reduced access to liquidity in the FX market to support cross-currency trades, especially for investors. The industry will need to develop solutions to provide efficient access to liquidity outside of the current standard FX operating hours.

It should also be highlighted that from a time zone perspective, the UK does have a natural advantage over other jurisdictions. In addition, larger market participants operating globally will have effective 'follow-the-sun' models in place across their trade processing teams. For smaller market participants however, this will not necessarily be the case and will pose challenges.

## STOCK LENDING

Stock lending considerations around the recall process and the use of collateral and repo will need to be carefully considered, given their complexities and the further challenge of settlement within a compressed T+1 environment.

## ETFS, UNIT TRUSTS, MUTUAL FUNDS, OEICS

ETFs and other types of fund structures, such as unit trusts, mutual funds and open-ended investment companies (OEICs) etc. are unique in terms of their composition, as their underlying securities follow different settlement cycles across different markets. This characteristic puts these types of funds at greater risk of settlement failure, given the potential variation in time zones within a single fund. It will be important to consider this in greater detail, particularly for fund managers given the need to assess whether the subscription or redemption cycle of their funds need to adjust, in order to avoid funding issues related to the underlying asset.

## DEPOSITARY RECEIPTS

Depositary receipts (DRs) represent shares in a foreign company that can be traded on a stock exchange in another market, and therefore provide liquidity across different jurisdictions. DRs are an instrument representing an interest in the underlying shares, which trade and settle according to the settlement cycle of the jurisdiction in which they are placed. It is this cross-border nature of DR activity which will need to be considered in a T+1 environment, where global inconsistencies across settlement cycles will need to be navigated. This further illustrates why close coordination with the EU will be integral to a smooth transition to T+1, given that a share can be listed on the LSE, but settled outside of the UK (e.g. at Euroclear Bank).

The conversion of shares into and out of DRs can occur within a T+1 settlement cycle. It is incumbent on all parties involved in the process undertaking the necessary steps to facilitate the transfers in a timely manner. However, the challenges can sometimes occur in the issuer's home market due to their own settlement requirements (e.g. time zones, different business days, public holidays) which may impact the process.

In the context of UK competitiveness, it is important that we preserve the attractiveness of the DR model, given the liquidity derived from being able to trade the shares of internationally reputable companies here in the UK in our time zone. DRs as a product allow non-UK issuers the opportunity to list and raise capital on the LSE, accessing international investors who trade securities on the LSE.  The benefits of T+1 settlement cycle should be extended to include DRs as this will reduce counterparty risk and potentially increase liquidity.

## SETTLEMENT FAILS

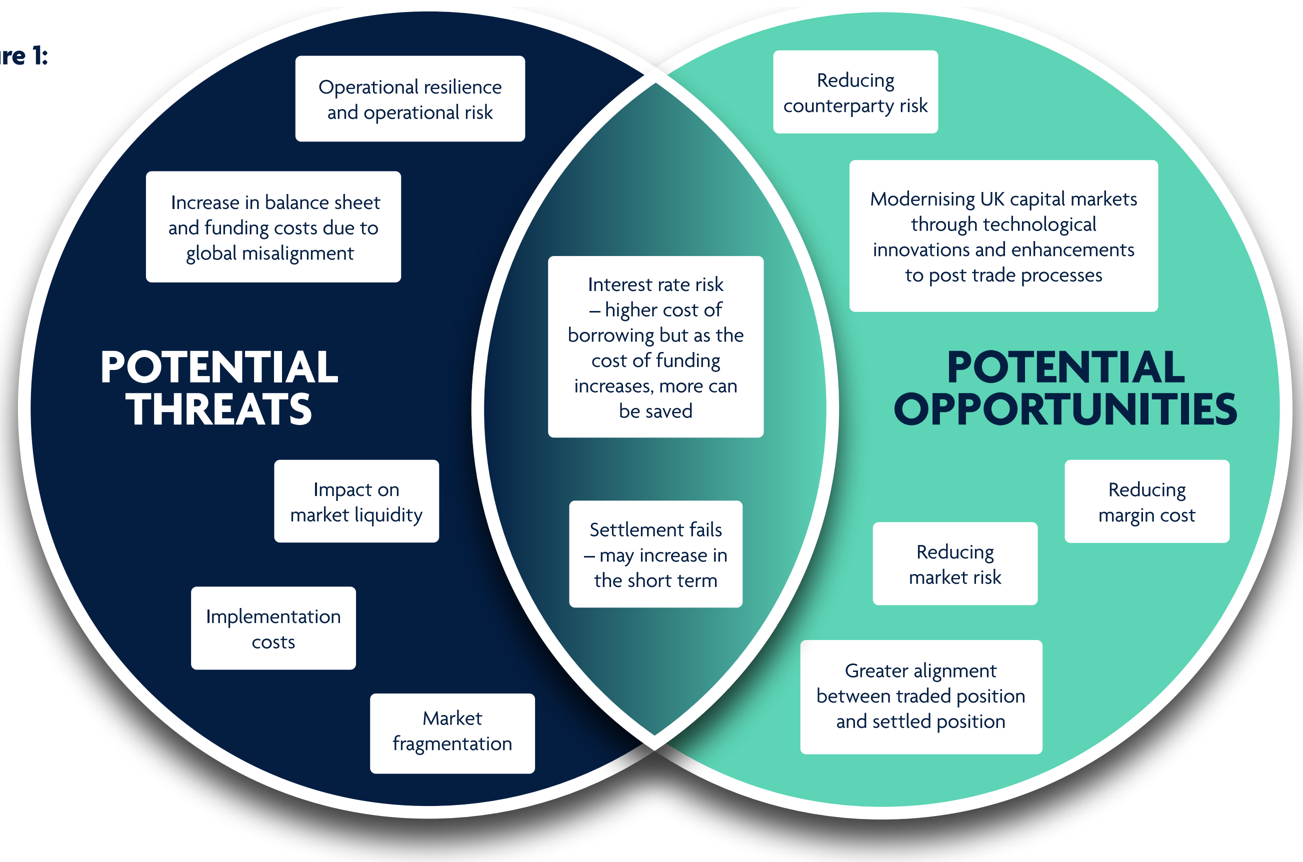
A shorter settlement cycle increases the potential risk of a greater number of settlement fails.  It is imperative that before any move to T+1 is mandated, improvements to settlement efficiency are made across the industry, and this could include timely matching and allocation on T0.

# BENEFITS AND OPPORTUNITIES

- **Capital release and reducing cost** – A shorter settlement cycle would reduce margin requirements on trades hedging against counterparty exposure, thereby releasing capital and increasing the velocity of collateral. UK Finance members caution against overstating this benefit, as the reduction in margin requirements may be substantially less than the 50 per cent as has previously been suggested by industry commentators. Future analysis will help to substantiate this point, which could include UK central counterparties (CCPs) running their margin/risk algorithms with one less settlement day to ascertain the impact on initial margin and the interoperable margin multiplier.
- **Modernisation and technological innovations** – The transition to T+1 presents an opportunity for market participants to enhance their post-trade processes and automation capabilities through investment in technology. These modernisations, following the upfront short-term sunk costs of embedding new technologies, are widely believed to deliver long-term operational cost savings. Coupled with this is the global trend of moving to T+1; as a leading global financial centre it is important that the UK is not left behind.
- **Greater alignment between traded positions and settled positions** – This delivers benefits both to investors, as counterparty risk is reduced, and to issuers, as at any point in time a greater proportion of the holders of shares in a company will have an economic interest in the company. This will improve the quality of shareholder identification and voting processes.

As this section and Figure 1 illustrate, a move to T+1 would not be straightforward. Just as accelerated settlement could benefit UK capital markets by eliminating or reducing one type of risk, it may just as easily introduce a different one. There is an important balance for policymakers to consider between the potential threats and opportunities of moving to T+1; these are currently difficult to accurately measure, quantify, and compare. This balancing act is a further reason why accelerating the settlement cycle in the UK must be underpinned by a robust and extensive cost-benefit analysis.

**Figure 1:**



# SCOPE

UK Finance members note that the scope of T+1 is not predicated on the settlement location, as this is not always known at the time of trade execution. Therefore, UK Finance members recommend that the scope of a UK move to T+1 should align to Article 5.2 of CSDR, including all CSD eligible MIFID II/MIFIR transferable securities (i.e., equity and bond like instruments including ETFs and securities that give a right to buy those securities) admitted to trading or traded on a UK trading venue or MTF.

It is important to note that under this criteria, it would not only capture transactions settling within the UK (in CREST) but it would also capture those settling in Euroclear Bank (the Belgian international central securities depository (ICSD)), as well as Clearstream Banking Luxembourg. Eurobonds are, for example, listed and traded on the LSE, and most ETF's include an LSE listing – in both cases the default place of settlement is the issuer CSD which is Euroclear Bank. This brings an element of extraterritoriality since the impact is not geographically limited to the UK. UK Finance members recommend that until there is alignment with EU markets, UK regulation should only mandate that trades executed within the UK should be on a T+1 basis.

This emphasises the importance of the need for close coordination and cooperation between the UK and the EU around the scope and timing of any respective future moves to T+1.

It is also important to note that according to the criteria above, we have descoped derivatives, however, there is a close link between the cash equities market and the derivatives market via hedging activity, so there will be a consequential impact.

UK Finance members also recommend that market practice, (not regulation) should be developed to encourage over-the-counter (OTC) trades to move to a T+1 settlement cycle, while in the interim giving clients the flexibility to continue to operate T+2 should they not yet have the means to move to T+1.

# IMPACT ON OTHER REGULATORY OBLIGATIONS

A shorter settlement cycle could have implications for other regulatory obligations, which also need to be factored in, should the UK choose to move to T+1.

## CSDR

**Background:** CSDR is an EU regulation that has been implemented in phases from 2014 for T+2. For the most part it has been copied over onto the UK statute book, with the exception of the settlement discipline regime which includes cash penalties and the now deferred mandatory buy-in regime. It is aimed at setting out a series of prudential, organisational and conduct standards relating to the settlement of securities. It impacts stakeholders across the industry – trading parties, CCPs, clearing and settlement agents and trading venues.

**T+1 impact:** CSDR can be perceived as a helpful enabler of a potential transition to T+1 as it has created a framework for harmonised settlement and related processes. The interconnectivity between T+1 and CSDR should be considered and appropriate amendments to CSDR be made accordingly. In particular, CSDR Article 5.2 (see Figure 2) will need to be reviewed given that it refers to settlement happening no later than on the second business day after the trading takes place.

As part of the UK's capital markets regulatory reform agenda, the UK will have an opportunity to consider the scope for CSDR Article 5.2 potentially aligning OTC with cleared transactions to prevent fragmentation and to ensure a matched book.

**Figure 2: Extract from CSDR[7]**
**Article 5 - Intended settlement date**

**5.1** Any participant in a securities settlement system that settles in that system on its own account or on behalf of a third-party transactions in transferable securities, money-market instruments, units in collective investment undertakings and emission allowances shall settle such transactions on the intended settlement date.

**5.2** As regards transactions in transferable securities referred to in paragraph 1 which are executed on trading venues, the intended settlement date shall be no later than on the second business day after the trading takes place. That requirement shall not apply to transactions which are negotiated privately but executed on a trading venue, to transactions which are executed bilaterally but reported to a trading venue or to the first transaction where the transferable securities concerned are subject to initial recording in bookentry form pursuant to Article 3(2).

**5.3** The competent authorities shall ensure that paragraph 1 is applied. The authorities competent for the supervision of trading venues shall ensure that paragraph 2 is applied.

7 https://www.legislation.gov.uk/eur/2014/909/title/II/chapter/II/adopted

## MOVE STRAIGHT TO T0?

Given the significant implementation costs which will need to be incurred across the industry, it could be argued that there is a case for delaying a move to T+1 and instead waiting to harness digital innovations, which would enable atomic settlement, or T0. From one perspective, upgrading existing systems with the inevitability of technology advances such as distributed ledger technology (DLT), could potentially render this transition redundant. Yet this would be at odds with the overarching desire to enhance the UK's competitiveness in the short to medium term.

As more detailed plans are developed for the UK's move to T+1, we recommend that a robust cost-benefit analysis is undertaken and published, and due regard is given to how it would align with any future potential transformative changes to financial markets, such as tokenisation[8] and the emergence of a digital pound. It should also be noted that depending on the characteristics and market structure, while efficient settlement might be possible, instant or atomic settlement might not be desirable, as it would not reflect the needs of the market and investor.

8 Please see UK Finance's report – Unlocking the power of securities tokenisation

# THINKING ABOUT THE CLIENT

UK Finance members strongly emphasise that the needs and desires of the clients they serve, should be the driving force behind a potential move to T+1. Do clients want to move to T+1? Is faster settlement desirable?

# TIMING AND COORDINATION

UK Finance members strongly recommend awaiting the conclusion of the US implementation project before proceeding with any planned move to T+1 in the UK. While there are differences between the UK and the US markets, it would be remiss of the UK not to leverage the lessons learnt and analyse relevant data from the US move.

In addition, given the interconnectedness of the European capital markets industry, there is benefit from a coordinated approach between UK and EU regulators. There is concern that misalignment between the UK and the EU could lead to market fragmentation.

It will be important to quantify the merits and consequences of misalignment between the proposed timings of UK and EU moved to T+1 before a UK plan is finalised and set in motion.

Finally, UK Finance members strongly advocate for a clear roadmap, including a public consultation and timelines to be published by the regulator with an appropriate lead time. This will be essential to providing certainty and clarity on to the market on any future UK changes.

# CONCLUSION

A move to T+1 settlement in the UK will be a complex and significant undertaking – it presents a host of compelling opportunities to deliver material benefits for UK capital markets, but also a host of challenges that could undermine the attractiveness of the UK capital markets. As other global financial centres begin to coalesce around the adoption of T+1, it will be important for the UK to thoroughly assess whether the benefits outweigh the costs given the overall ambition of enhancing the UK competitiveness globally.

All things considered, UK Finance members recommend that the UK:

- conducts a thorough and detailed cost-benefit analysis of a transition to T+1
- issues a public consultation to assess the wider market sentiment
- awaits the implementation in the US to benefit from lessons learnt

Only after, then, will the UK be in a position to make a considered decision that serves the best interests of the UK, enhancing its attractiveness as a leading global financial centre.

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