

Accelerated Settlement Taskforce Technical Group (TGT)
T+1 Recommendations

Andaz Hotel, 40 Liverpool Street, London EC2M 7QN

17 October 2024

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T+1 Recommendations

Welcome & Housekeeping



Ben Johnson

Director
Forvis Mazars



T+1 Recommendations - Agenda

13:30 – Registration

14:00 - Welcome & Housekeeping – Forvis Mazars (Ben Johnson)

14:10 - Opening Remarks – Chair, TGT (Andrew Douglas)

14.20 - Headline Session 1

14:20 - Scope (Sachin Mohindra)

14:35 - Legal & Regulatory (John Siena + Ashley Rowlands)

14:50 - Trade Date Deadlines (Ben Johnson + Mimi Yan + Simon Daniel)

15:05 – Financial Market Infrastructure (John Worden)

15:20 - Q&A Headline Session 1

15:40 - Coffee Break

16:00 - Headline Session 2

16:00 – Static Data (Mimi Yan + Edward Notton)

16:15 - Corporate Actions (Richard Nicholls + Peter Tomlinson)

16:30 – Securities Lending Recalls (Roy Zimmerhansl + Adrian Dale)

16:45 - Q&A Headline Session 2

17:10 – Closing Remarks – Chair, TGT (Andrew Douglas)



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T+1 Recommendations

Opening Remarks



Andrew Douglas

Chair, Accelerated Settlement
Taskforce Technical Group (TGT)



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T+1 Recommendations

Scope



Sachin Mohindra

Executive Director, Client & Market Solutions Goldman Sachs



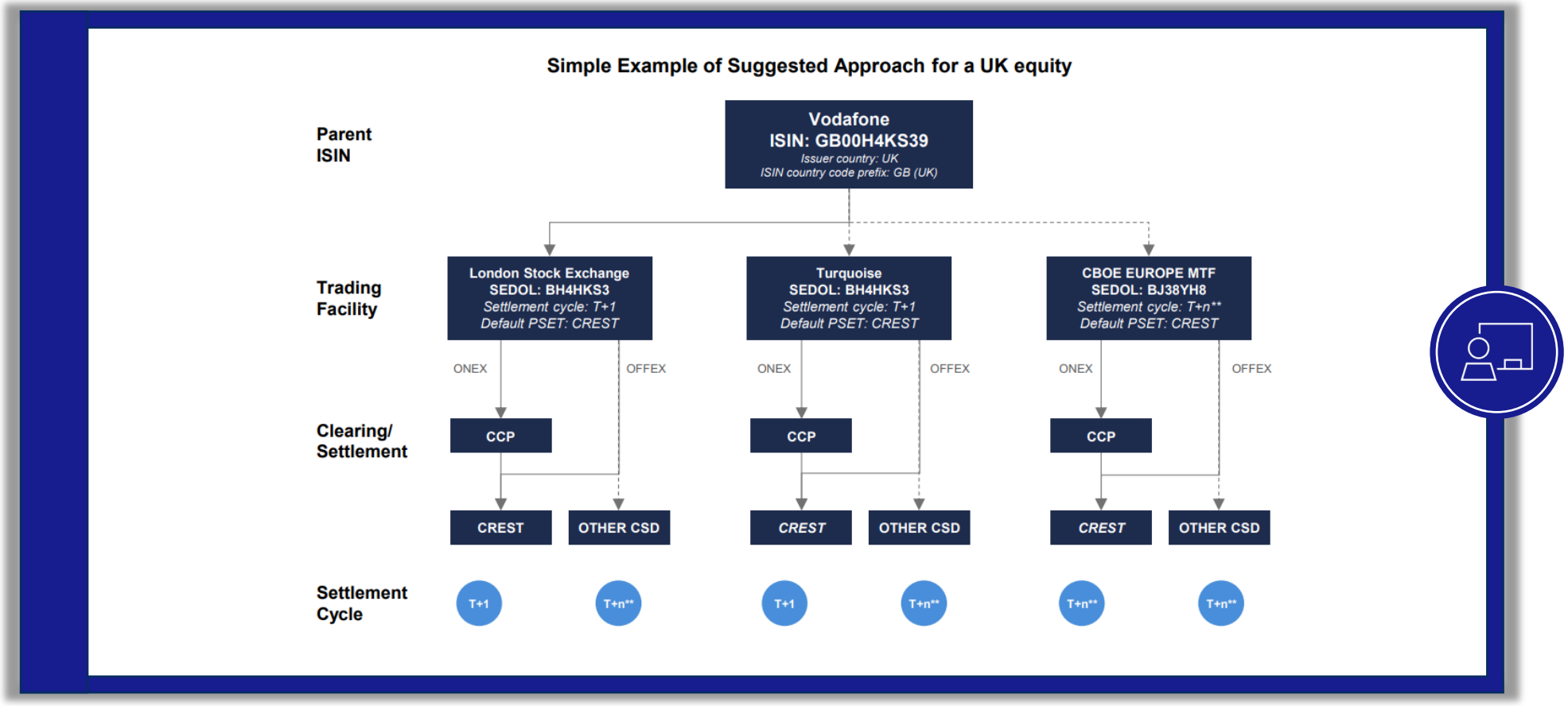
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T+1 Recommendations - Scope
Introduction

- "**Recommendation Zero**" – defining the scope for UK T+1 as early as possible.
- High-level approach:
  - Traded on UK venue AND settled on a UK CSD: Regulatory requirement under UK CSDR Article 5 (MTF and OTF trades included).
  - Not traded on UK venue AND settled on a UK CSD: Market convention (i.e. for OTC and SI trades).
- No change to the current method of determining the settlement cycle in the UK, only changing the parameter from T+2 to T+1.
- Multi-listed and multi-settling securities factored into the recommendation.
- Some additional clarity being considered in relation to exemption of SFTs.



T+1 Recommendations - Scope
Introduction



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T+1 Recommendations - Scope
Headlines

- **Scope 1**: In the event that the UK implementation is independent of other jurisdictions there are two specific instrument exemptions:
  - ETPs remain on T+2 settlement until the EU moves to T+1 .
  - Eurobonds remain on T+2 settlement until the EU moves to T+1.
- **Scope 2**: The UK's preferred option, where the EU and Switzerland align with the UK, will require the scope matrix to be revised to remove the exemptions related to ETPs and Eurobonds.

  These asset classes will transition to T+1 settlement alongside the other asset classes specified (provided these are in scope for an EU move to T+1).



T+1 Recommendations – Scope

Next Steps

- On-going dialogue with the Legal & Regulatory workstream to identify most suitable approach for regulatory mandates.
- Request market participants to share any feedback on the scope recommendations via the consultation.



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T+1 Recommendations

Legal & Regulatory



John Siena
Associate General Counsel
Brown Brothers Harriman



Ashley Rowlands
Senior Associate, Capital Markets
Linklaters



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T+1 Recommendations – Legal & Regulatory
Introduction

Working Group's role:

- **Scope**: Assist the Scope and Alignment WG in defining the scope of the T+1 rule, including applicable exemptions.

  The Legal & Regulatory working group is comprised of 36 legal specialists representing a range of stakeholders (including professional services, sell side, buy side, FMIs, settlement intermediaries and trade associations).
- **Other recommendations**: The L&R WG advised all other working groups on the legal and regulatory implications of implementing their recommendations, determining how these should be implemented taking into account the full range of legal, regulatory and market-based tools.
- Worked with:
  - Other WG leads.
  - The L&R WG acted as point for the Technical Group in its discussions with the Public Authorities



T+1 Recommendations – Legal & Regulatory
Headlines

“Recommendation Zero”

- **Scope 1**: Assumes UK implementation is independent of other jurisdictions.
  - Exclusion for Eurobonds and ETPs.
- **Scope 2**: Assumes EU and Switzerland align with the UK.
  - Currently-existing exclusions would continue post-T+1.

Implementation of other recommendations

- Central legal and regulatory recommendation: LEL 01.00 (UK regulatory and supervisory support).
- What is the Post-trade Code of Conduct and how will compliance be supported?
- Supervisory role of the public authorities.
  - Compliance with statutory T+1 obligation
  - Compliance with existing obligations to support the integrity of the UK financial system.
  - Alignment with Post-trade Code of Conduct.



T+1 Recommendations – Legal & Regulatory

Next Steps

- Continue discussions with public authorities on implementation and supervisory support
- Assist with developing Final Report recommendations in light of consultation feedback



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T+1 Recommendations

Trade Date Deadlines



Ben Johnson
Director
Forvis Mazars



Mimi Yan
Post-Trade Lead
FMSB



Simon Daniel
Capital Markets Lead
Swift



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T+1 Recommendations – Trade Date Deadlines

Introduction

Working Group Approach

- 100 member working group composed of 50 firms encompassing the UK securities value chain.
- Over 8 months have been invested by the participants of the working group.
- Close & consistent collaboration with other working groups and SteerCo.
- A comprehensive approach by examining trade flows under both normal and exception scenarios to pinpoint the nuances and critical pinch points within a T+1 trade life cycle. Their analysis included a detailed review of the current CREST opening hours and deadlines, which informed their recommendations.



T+1 Recommendations – Trade Date Deadlines
Headlines

Key Principles

- Deadlines should be workable at scale – not just what is marginally possible based on infrastructure.
- Firms are best placed to know their processing capabilities, and those of their counterparties.
- Remaining open to investors in different time zones.

Headlines

- The “When”:
  - Firms MUST have policies and procedures in place for:
    - Where facing UK domiciled counterparty or their agent, confirmed instruction receipt by 21.00 on T (new CREST instruction input closing).
    - Non-UK domiciled counterparty or their agent, either the above, OR between 04:30 and 05.59 on T+1 (CREST processing window opening).
  - Market guidelines to be developed on timings for allocations and confirmations, but firms to update their SLAs with counterparties.
- The “How”:
  - MUST communicate electronically using standard data dictionary.
  - Post-trade code of conduct of protocols (including wider adoption of some existing).



T+1 Recommendations – Trade Date Deadlines

Recommendations

Principal recommendations

Post trade activities and timelines – *SETT 01/02/06*

- Trade Matching / Allocation / Confirmation & Instruction to CSD
- UK domiciled : On Trade Date - Before CSD Input Deadline
- Non-UK domiciled : Overnight - Before CSD Settlement starts on T+1

Settlement performance – *SETT 03/04*

- Settlement efficiency / fails & CSD instruction receipt

Settlement contractual arrangements – *SETT 05*

- Bilateral counterparty agreements

Additional items - *SETT 07/08/09/10/11*

- Auto partial; shaping; PSET; hold & release; debt new issue process alignment



T+1 Recommendations

Financial Market Infrastructures



John Worden

Executive Director (ED) - Custody and Post-Trade
Product Strategy
UBS



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T+1 Recommendations – Financial Market Infrastructures

Introduction

Objective

Ensure that FMIs can withstand the move to T+1 (both transition & BAU);

- within an acceptable risk tolerance and;
- recover, post-outage, with minimal impact to the wider market.

WG Setup

54 members - Venues, CCPs, Custodians, EUI, Industry associations, Buy & Sell side

Monthly calls & workshops

DTCC learnings

X-Workstream collaboration

Approach



Scope

FMIs: platforms or networks that allow financial transactions to take place, including:

- Regulated FMIs: UK FMIs regulated as FMIs by the Bank of England;
- Incoming FMIs: non-UK FMIs deemed to be adequately regulated and authorised as FMIs by the Bank of England;
- Other FMIs: providers of critical functions, with high concentration, and the disruption to which has potential to cause market disruption, but which are not Regulated or Incoming FMIs.

T+1 Recommendations – Financial Market Infrastructures

Headlines

FMIs are highly regulated and required to perform regular testing to satisfy regulators of their resilience.

There is no more likelihood of a “trigger event” occurring under T+1 than under existing settlement cycle conditions that could lead to an outage, with the exception of:

- Market volatility over the transition;
- Potential for increased cyber-attacks given the profile of the transition.

The current recovery processes and regulatory frameworks for FMIs are deemed adequate and robust.

However, under T+1, time to resolve outages and correct settlement exceptions will be reduced.

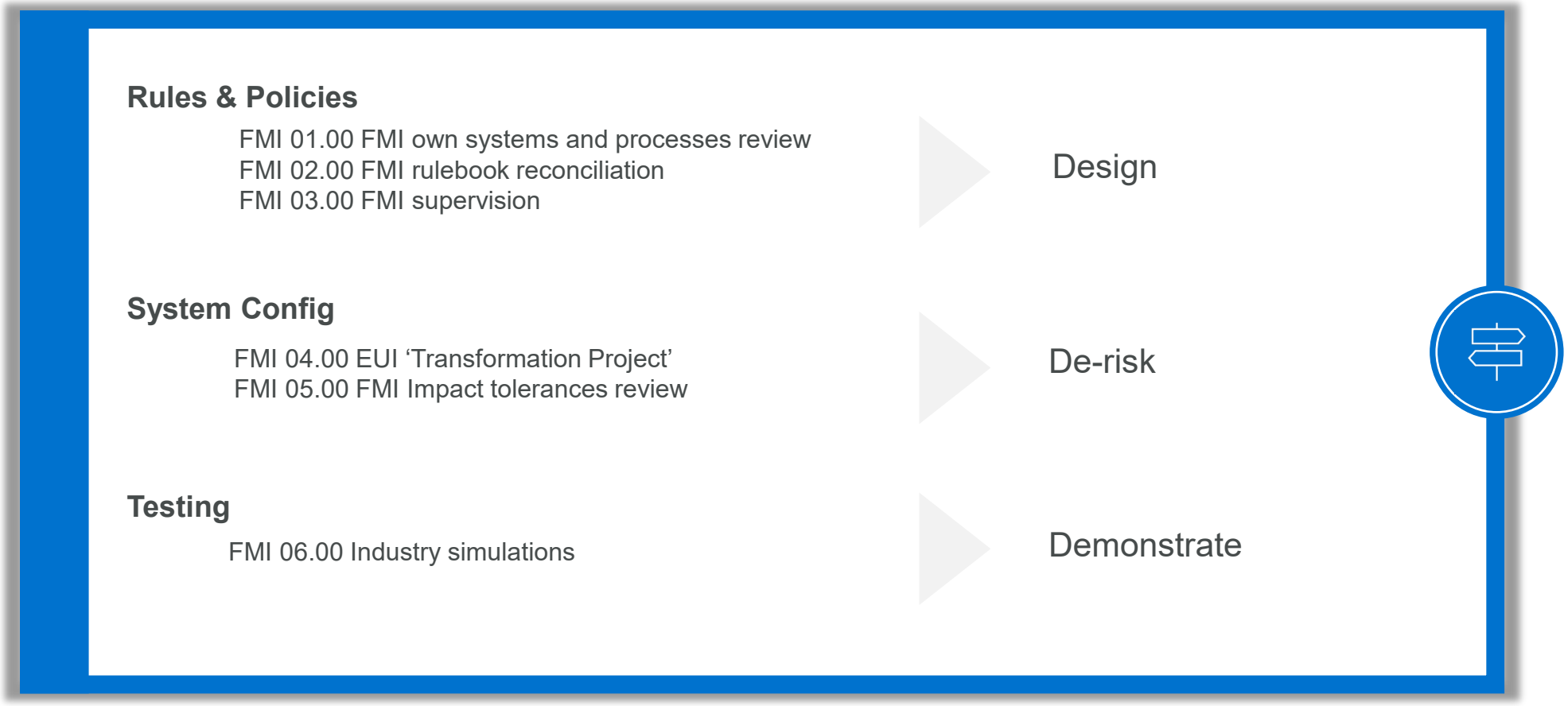
Stress testing, RTO & RPO conditions should be reviewed to ensure recovery through critical process points.

Infrastructure resilience not just about individual FMIs, but their interaction and hand-offs - amplified in a T+1 environment.

- **Recovery Time Objectives (RTOs) -** the time within which recovery and restoration of operations must take place following a disruption.
- **Recovery Point Objectives (RPOs) -** the point in time to which data must be recovered.

T+1 Recommendations – Financial Market Infrastructures

Recommendations



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T+1 Recommendations

Q&A Headline Session 1



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T+1 Recommendations

Static Data



Mimi Yan

Post-Trade Lead
FMSB



Edward Notton

Executive Director
Global Equities Operations
J.P. Morgan



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T+1 Recommendations – Static Data
Introduction

Working Group Approach

- 82 member working group composed of 43 firms encompassing the UK securities value chain.
- Over 8 months have been invested by the participants of the working group.
- Three-step approach:
  - What static data is required to efficiently settle a trade?
  - Which items are currently not received or often incorrect until after trade?
  - How can these gaps be addressed?



T+1 Recommendations – Static Data
Headlines

Key Principles

- Implementation should focus on the critical recommendations – however firms should consider the additional recommendations noted in the Environmental section of the report as part of their review.
- Static data should ideally be shared at the earliest possible opportunity, before or at the point of trade.
- Where this is not possible, standardisation and automation are critical in the shorter trade processing window under T+1.
- Flexibility required depending on firms' nature and scale of business – Post Trade Code of Conduct.

Headlines

- Own house in order - now is the time to review your current exceptions and remediate the collection, storage, and dissemination of static data.
- Incorrect and missing SSIs a key source of settlement fails:
    - Existing Draft Standard from FMSB contains Core Principles as best practice and fall-back manual templates will be implemented by FMSB members representing a sizeable portion of the market, and currently still in consultation.
- Members of UK regulated venues should share their own and onboard the accounts of fellow members in advance.



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T+1 Recommendations – Static Data

Recommendations

Principal recommendations

STAT 01.00 Static data policies, processes & systems

- Instrument – Default PSET, Tax Eligibility, Holiday Calendars
- Counterparty – SSIs, Tax Exemptions / Relief

STAT 02.00 SSI market practice

- FMSB standard draft publication:
- https://fmsb.com/wp-content/uploads/2024/08/20240712_FMSB-Standard-SSI_Final.pdf



STAT 03.00 SSI & KYC market practice for UK regulated venues

- Underlining LSE rulebook adherence of a member firm's obligation to settle [G 5000]
- Member firms should proactively be "ready to settle" with all other member firms

Environmental recommendations:

- For authorities: Digital Identity (ENV 05.00), LEI Adoption and LEI Issuance (ENV 06.00/07.00)
- For firms: Onboarding Process (ENV 08.00), Digital KYC (ENV 09.00)

T+1 Recommendations

Corporate Actions



Richard Nicholls
Vice President
Location Head
London Asset Services
Morgan Stanley



Peter Tomlinson
Director
Post Trade and Prime Services
AFME



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T+1 Recommendations – Corporate Actions
Introduction

Objectives

- To identify market solutions
- To determine that there are no “showstoppers”

Approach

- Define the scope
- Understand and map current state
- Could T+1 be applied in the current environment? ‘Stress test’ each stage of the current process
- Articulate challenges, considerations and recommendations

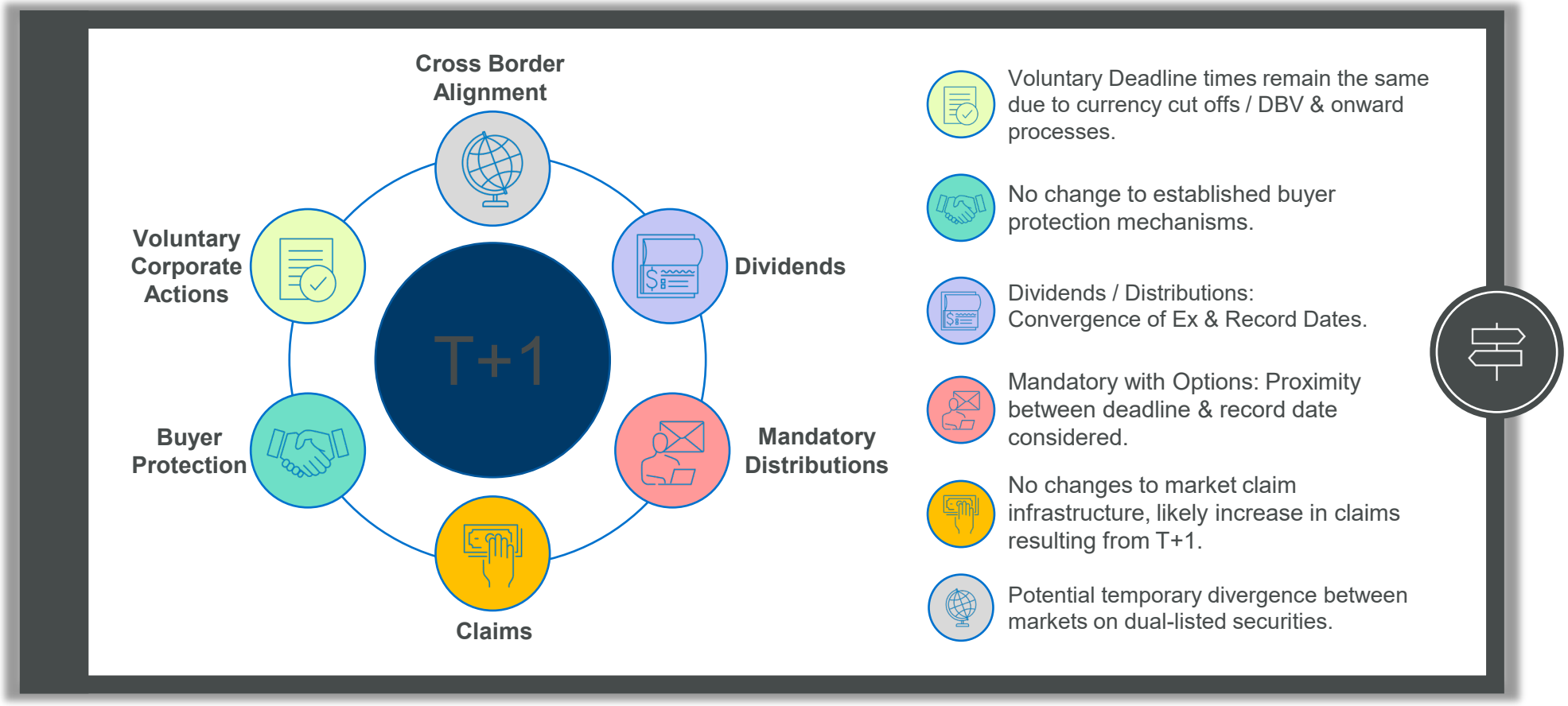


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T+1 Recommendations – Corporate Actions

Headlines



- Voluntary Deadline times remain the same due to currency cut offs / DBV & onward processes.
- No change to established buyer protection mechanisms.
- Dividends / Distributions: Convergence of Ex & Record Dates.
- Mandatory with Options: Proximity between deadline & record date considered.
- No changes to market claim infrastructure, likely increase in claims resulting from T+1.
- Potential temporary divergence between markets on dual-listed securities.

T+1 Recommendations – Corporate Actions

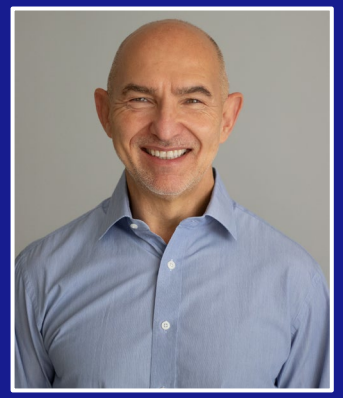
Recommendations

- All regulated equity venues should introduce adequate compliance mechanisms for the use of the standardised dividend procedures, defined by the LSE.
- UK regulated equity venues mandate the use of Electronic Election Entitlement as per the LSE or similar solutions, for all issuers who perform corporate actions.
- All market participants should review internal policies, processes and systems that capture corporate action entitlement and claims to ensure they are prepared for transition to T+1.
- Automation either using internally developed solutions or via 3rd party vendor solutions for processes that are currently frequently carried out manually.



T+1 Recommendations

Securities Lending Recalls



Roy Zimmerhansl

Principal
Pierpoint Financial



Adrian Dale

Head of Regulation & Markets
ISLA



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T+1 Recommendations – Securities Lending Recalls
Introduction

- Securities lending currently operates in a flexible T+"X" environment
  - Settlement is determined by the needs of the specific transaction and determined by the relevant market: e.g. gilts are already same day
- Recalling stocks on loan is the time critical element in a T+1 environment
  - When investor sells/wishes to vote, stocks may need to be recalled from loan, triggering a waterfall:
    - Can lending intermediary substitute with other eligible client assets?
    - If not, borrower is recalled and attempts to borrow elsewhere
    - If no other borrowing can occur, borrow must purchase in market – market must be open
- Timely recalls are therefore essential for efficient settlement of market trades



T+1 Recommendations – Securities Lending Recalls
Headlines

Challenge

- Trade executions aren't communicated to lenders on a timely basis resulting in late recalls, delayed open market purchases, ultimately higher failed trades
- Late instructions are less problematic in T+2 environment, but will be exacerbated under T+1
- This issue is more pronounced for securities loans involving smaller-capitalisation stocks
- Pre-sale notifications are price-sensitive data
- A large proportion of transactions are traded close to, or at market close
- Late instructions have always been a feature of the market and have never been addressed



T+1 Recommendations – Securities Lending Recalls

Recommendations

Solutions:

- Confidentiality Policy in place at lending intermediaries (SFT 02.00)
  - Protection of pre-execution order information (Lending intermediaries)
- Earlier instructions (Pre-Trade) from investment managers to lending intermediaries (SFT 03.00)
  - Requires change in business practice (Investment managers)
- End to end automation of recall process (SFT 04.00)
  - Requires implementation of existing/new technology and change of business practice (Securities finance market)
- Market cut-off for Stock Lending recalls (SFT 05.00)
  - Requires agreement of cut-off from market participants (facilitated by ISLA)



T+1 Recommendations

Q&A Headline Session 2



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T+1 Recommendations

Closing Remarks



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