

ICMA response to the UK Accelerated Settlement Taskforce, Technical Group

T+1 Draft Recommendations Report & Consultation

31 October 2024

Introduction:

ICMA welcomes the opportunity to respond to the UK Accelerated Settlement Taskforce, Technical Group Draft Recommendations Report & Consultation published on 27 September.

ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels and Hong Kong, serving over 620 member firms in nearly 70 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation.

ICMA has been a member of the UK's Accelerated Settlement Taskforce (AST) since its inception and has actively contributed to the work of the AST, as well as its Technical Group (TG). This response provides some additional reflections on the draft recommendations issued by the TG on 27 September, based mainly on discussions with members of ICMA's T+1 Taskforce, which brings together representatives from ICMA's secondary market and repo and collateral committees, but the response also incorporates feedback from ICMA's primary market community.

Q1: 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.

ICMA response:

- ICMA members fully support the proposal of a change to UK CSDR to provide a solid legal basis for the UK's move to T+1.
- We particularly welcome the detailed proposals regarding scope as per "Recommendation Zero" and the clear delineation of the UK T+1 requirement in this sense, based on a thorough and helpful assessment undertaken by the TG. From a fixed income perspective, limiting the scope to GB ISINs is critically important to avoid any impacts on liquidity and market functioning in case the UK and the EU do not migrate to T+1 at the same time. Given the additional complexities and challenges on the EU side, such divergence is not unrealistic, provided the UK sticks to the proposed timeline (i.e. a move by the end of 2027), so it is important that the UK approach caters for this scenario.

Q2: 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

ICMA response:

- Some questions have been raised in relation to the proposed deadlines for sending settlement instructions (as per SETT 01). First, it could be made more explicit that instructions that are sent after the deadline specified in the CoC are still accepted by CREST, ie that this does not result in additional fails.
- In addition, it would be helpful to get more clarity around the term "non-UK domiciled". In particular, EU-based members would welcome clarification that the extended deadline to send instructions to CREST by 6am on T+1 is not only applicable to APAC firms, but to all non-UK domiciled firms (including EU-domiciled).
- Some further clarity would be helpful with respect to the Code of Conduct (CoC) concept. For example, it is not fully clear who is responsible for maintaining and updating the CoC, which will be necessary also post-go-live. In addition, it needs to be clear that there is an important difference between the CoC approach and a legally binding regulatory requirement. From the perspective of other jurisdictions, it is important to note that the CoC should not be understood as a blueprint that can be replicated one-to-one in a regulatory (or legally) binding framework, such as for example adaption into ESMA Level 2 in the case of the EU.

Q3: 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?

ICMA response:

- Yes
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Q4: 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

ICMA response:

From a **secondary bond market** perspective:

- With respect to the general scope of the recommendations, it should be clear that this follows the proposed scope of the UK's move to T+1. In this context, we would also point out that there is a distinction to be made between trades that are formally in scope of the regulatory T+1 requirement (i.e. those traded on a UK TV and settled in CREST) and, for example, OTC trades which are subject to a T+1 standard settlement cycle as per best practice. In the case of the latter, there should also be more flexibility in terms of applying the recommendations. In other words, where firms have some flexibility to agree a settlement cycle other than T+1 on a trade-by-trade basis, it needs to be clear that (some of) the recommendations are not necessarily appropriate, e.g. there is no need to strictly follow the timelines set out in SETT 01, SETT 03 or SETT 04 for trades that continue to settle on a T+2 basis.
- Members would also like to seek greater clarity on some recommendations which refer to "UK regulated venues" but which have a clear focus on equity markets and therefore should say "UK regulated venues for equity markets". This comment applies entirely or partly to the following recommendations: STAT 03.00, SETT 08.00, COAC 01.00, COAC 03.00, ENV 01.00 and ENV 04.00. On this point we support the feedback submitted separately by EDMA which explains the issue in more detail.

From a **primary bond market perspective**, we would like to add the following comments related to three of the recommendations in the report:

- Regarding **Principal recommendation SETT 11.00** (concerning CSDs linking to the UK market to implement an effective identifier creation process):
 - (a) that T+1 scope does not include primary markets is welcome (bearing in mind (b) below) and consistent with the effective position in the US (where it was expected that there would be extended settlement under SEC Rule 15c6-1(d) as per prior market practice);
 - (b) the acknowledgement that there are constraints/risks in shortening the primary market settlement period is also welcome;
 - (c) some voluntary shortening of the primary market settlement period (following secondary market moves to T+1) may be conceivable in some cases (bearing in mind (b) above), though it is currently difficult to predict what these might be;

- (d) the existing Euroclear Bank process, set up in anticipation of voluntary shortening of the primary market settlement period following the US move to shorter settlement in April, does not seem to have been much used so far; and
 - (e) any need for a similar process regarding potential voluntary shortening of the primary market settlement period in the UK is unclear given the above.
 - Regarding **Additional recommendation ENV 04.00** (concerning legislation changes that would assist UK market function though not essential to T+1 implementation), the appropriateness and proportionality of mandating availability of a specific commercial identifier (the FIGI) upon the “launch” of any debt issue is unclear, bearing in mind also that back-office systems generally remain set up for ISINs only. (Incidentally “launch” in a bond issuance context is generally understood to mean announcement of the final size and spread towards the end of the execution process, with ISINs always available by that point.)
 - Regarding **Recommendation Zero’s Scope 1** (concerning Eurobonds remaining on T+2 settlement until the EU moves to T+1), this may render academic for now some the above comments on Principal recommendation SETT 11.00 and Additional recommendation ENV 04.00.
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Q5: 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

ICMA response:

- No
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Q6: Do you have any other comments to make with regards to the UK transition to T+1 settlement?

ICMA response:

- Members noted that the consultation does not yet include any concrete proposals related to the timeline for implementing the different recommendations and would welcome the opportunity to review the related proposals at a later stage.
 - We welcome the inclusion of the recommendations related to the use of certain settlement efficiency tools, including SETT 07 (auto-partialling) and SETT 08 (auto shaping), which will be important drivers for a successful move to T+1 and which ICMA has been promoting for a number of years.
 - With respect to the timing of a UK move to T+1, ICMA members would like to re-iterate that alignment between the UK, EU and Switzerland is of key interest. As such, members would urge the UK to retain some flexibility in this regard, in case an extended timeline is necessary to ensure a successful joint move with the EU. Members welcome the consideration under LEL 04.00 with respect to a co-ordinated approach between the UK, EU and Switzerland.
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