



Accelerated Settlement Taskforce: UKEMA response

The UK Equity Markets Association (UKEMA) welcomes the opportunity to contribute to the work of the Accelerated Settlement Taskforce. UKEMA represents those investment banks and equity brokerage firms that focus on raising capital for SMEs and small and mid-cap quoted companies.

Its members trade in the shares of over 2,000 quoted companies, accounting for 57% of London Stock Exchange turnover by volume, and produce research on over 1,700 companies, representing 87% of listed issuers. UKEMA member firms facilitated investment of more than raised £6.7bn in funds for companies in 2021, supporting growth in the real economy, employment, innovation, entrepreneurship and wealth creation.

Key points

The UKEMA recognises the ambition to move to T+1, but notes the significant challenges that will be involved for financial markets, whether in the UK, Europe or North America, in doing so, with the current T+2 environment often already proving challenging for getting trades matched ready for settlement.

The core reason for this is technology; we are sceptical that existing platforms used in UK settlements will be able to cope with this significant change without substantial investment. Even today, firms' legacy systems are often not technologically advanced enough to cope with today's trading volumes, markets and products. The complications usually come where there are multiple parties involved in the settlement process (i.e. a fund manager with multiple funds using multiple prime brokers). The investment in settlement technology in the US & Canada is a key reason for the market's ability to change to T+1 there.

The move in the US & Canada has been driven by the market coming together, not the government or regulators. Moving the market in its entirety to T+1 is challenging and requires all participants, like in the US & Canada, to consider their processes and the financial investment that will be required. We note the increased focus on settlement discipline, which we agree requires attention, such as the need for prime brokers to be affirming trades on T+0, not T+1.

Given the market already copes with gilts on a T+0 (pre-1300 daily) and T+1 basis as a matter of course (and market counterparties today settle on a T+1 basis in ad hoc situations), it should be feasible to achieve T+1 in due course with right preparation. To achieve this, firms will need to work with their custodians and counterparties to ensure that both their systems are able to manage. This will give a good insight into the impact of T+1.



We recognise that part of the drive towards T+1 settlement in the US is to push trades through into the CCP clearing process as opposed to the bi-lateral process that most UK counterparties follow today. Running settlement through NSCC (the US CCP) is cheaper but only available to broker dealers in the US. The push to CCPs has been an ambition of regulators since the GFC. If the UK market were to follow that approach, then it would make such a transition easier, but firms outside of US top tier banks are likely to suffer with increased margin requirements.

It is worth noting that some markets such as Hong Kong operate on a pre-funding basis and so could achieve T+1 more easily than the UK. Therefore, the global competitiveness of the UK must be a part of any consideration of T+1 settlement and we should ensure that the UK is not disadvantaged by either moving too late or moving too early without being properly prepared. Given the HM Government's focus on the Edinburgh reforms on driving the global competitiveness of the UK, the market's focus will naturally be on these in the short term as opposed to any drive to T+1 in UK.

In summary, UKEMA believes that it will be challenging to move to all products to a T+1 settlement basis on a similar timeframe under which the US & Canada have achieved. There should, in our view, be a market wide focus, similar to that in the US & Canada, on improving general settlement discipline and associated processes (e.g. matching / affirming / etc. trades on T+0 / T+1) and systems that enable these processes. This will ensure that the market is best placed to move to T+1 in the coming years.