THE BANKER

REGULATIONS   SEPTEMBER 27

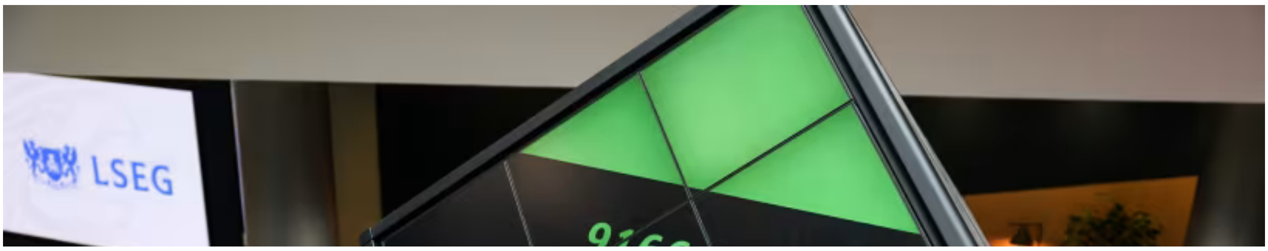
UK T+1 group says its planned post-trade code of conduct ‘should not be optional’

Recommendations on T+1 set to be finalised by January

by **Aliya Shibli**

At a glance

- UK market participants will be required to comply with a post-trade code of conduct for the transition to T+1 settlement
- Automation will be critical for firms to meet the new standards efficiently, avoiding the challenges faced by some US firms who failed to automate in their T+1 transition
- Final recommendations, following industry consultation, will be published in January 2025, with the UK aiming for full T+1 compliance by the end of 2027



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UK market participants will be expected to comply with a “post-trade code of conduct” for T+1 settlement, the chair of the UK’s T+1 Technical Group said on Friday, in an effort to “strike the balance between having too much regulation and too little regulation”.

In an interim report published on Friday, the T+1 Technical Group of the UK Accelerated Settlement Task Force outlined its proposed recommendations for implementing the UK’s transition from T+2 to T+1 securities settlement.

While compliance with the transition to T+1 is mandatory, Andrew Douglas, chair of the T+1 Technical Group, told The Banker that the group had a choice about the level of firms’ compliance with its recommendations, between market practice or mandatory regulation.

An incoming code of conduct — based on the finalised recommendations — will “balance between those two”, Douglas said. “We’ve reached […] a nice middle ground between having that overly structured, regulated approach versus a more flexible market practice approach.”

“[The code of conduct] is something in the middle which says: here’s a set of recommendations with which you should comply, and to which the regulators will refer when they go about their supervisory activity,” Douglas added.

The T+1 Technical Group said compliance with the final recommendations — to be published in January — “should not be optional” and should instead constitute a post-trade code of conduct to which all UK market participants would be expected to adhere.

Jurisdictions are increasingly moving to shorten the settlement cycle from two days after the execution date, to just one, referred to as T+1. The shorter cycle is designed to create more efficient settlements and is expected to become the global standard within the next five years.

The US moved to a shorter settlement cycle for equities, corporate bonds and municipal funds in May. Shortly after, the US Securities and Exchange Commission’s chair, Gary Gensler, called on the UK and EU to set firm dates and align with the US.

EU officials confirmed in July that introducing T+1 towards the end of 2027 was “feasible” and there were no “roadblocks” to implementing new trading settlement rules.

The draft recommendations for the UK published today are open for consultation with all participants in the UK equity market until the end of October. The final recommendations will be published in January 2025, and the “ultimate deadline” to go live in the UK is the last quarter of 2027.

In its report, the T+1 Technical Group acknowledged the “collective experience” of its members which suggests that compliance with market practice can in some cases be considered “optional”, but recommended that this should not be the case in the UK.

Its draft recommendations focus on key areas for market participants, such as the importance of automation and adherence to market practices, and request feedback through consultation.

Lessons from the US

Douglas stressed the importance of automation in particular. “I don’t want people to feel that using manual resources to deal with this is anything but expediency. Firms will need to focus on automation.”

If not, firms may find themselves in 2028 “asking the same questions that I understand are being asked among some participants in the North American market”, he added.

Research on the US experience of moving to T+1 “seems to suggest there are a bunch of folks out there who didn’t automate and are now saying, ‘why is it so expensive for me to operate in this environment?’”

“The purpose of this whole project is to bring the UK market up to modern standards without disincentivising the international community. We've worked very hard to bear them in mind when we've created these recommendations," Douglas said.

The UK government has committed to transition to T+1 by December 31 2027, as laid out in 10 recommendations from the original Accelerated Settlement Taskforce in a report published in March, all of which were accepted by the government.

"We're really pleased to see the UK keeping up its momentum on the transition to T+1, which will be key to modernising the UK's markets and driving efficiency," Will Clamp-Gray, principal for capital markets and wholesale policy at UK Finance, told The Banker.

"We've previously called for a full industry consultation so it's very positive to see that the report will be consulted on throughout October. We look forward to working through the detail of the recommendations and sharing our feedback with HM Treasury and the Technical Group ahead of the consultation closing," Clamp-Gray said.

Akber Jaffer, chief executive of SmartStream, pointed out that one of the key principle recommendations is to engage early in changes and drive towards automation and the use of technology. According to Jaffer, this will ensure compliance and, if implemented correctly, avoid short-term, manual solutions.

"Conversations need to be had sooner rather than later — implementing new technologies is key, and firms need to be looking ahead, they need to realise that not automating will lead to increased costs with manual processing and exception management," he said.

The final report incorporating stakeholder feedback is set to be published early next year and will include finalised recommendations, such as the transition timing and sequencing of recommendation implementation.

"That [final report] becomes [...] the code of conduct. They are the minimum expectations of all firms who participate in the UK market, whether they are domiciled in the UK or not," Douglas said.

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