

31 October 2024

## UK Accelerated Settlement Taskforce Technical Group

Submitted via email to: [acceleratedsettlementtaskforce@hmtreasury.gov.uk](mailto:acceleratedsettlementtaskforce@hmtreasury.gov.uk)

### RE: Technical Group Draft Recommendations Report & Consultation

BlackRock<sup>1</sup> is pleased to have the opportunity to respond to the UK Accelerated Settlement Taskforce (UK AST) Technical Group's Draft Recommendations Report & Consultation.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

This consultation raises important issues, and we will continue to contribute to the thinking of the Technical Group on any matters that may assist in the development of its final report.

Yours faithfully,

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<sup>1</sup> BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

## **Executive summary**

BlackRock welcomes the UK Accelerated Settlement Taskforce (UK AST) Technical Group's work to progress the UK's transition to trading day plus one business day (T+1). We believe that the shift to T+1 offers the opportunity to modernise the UK's post-trade market infrastructure, improving its efficiency and resiliency in doing so. There is the potential to reduce operational process risks, increase efficiency in brokers' ability to manage capital requirements, and improve liquidity in markets.

For the end investor, increased alignment between traded positions and settled positions can deliver benefits through increased certainty, safety and security, resulting from lower levels of avoidable risks. For issuers, there is also the prospect that a greater proportion of the holders of shares in a firm will have an economic interest in the firm. This could conceivably improve the quality of shareholder identification and voting processes.

With this perspective in mind, we are broadly supportive of the interim report and intent behind the draft recommendations. However, given their breadth we suggest that the Technical Group reconsider the criticality of individual recommendations to a successful UK transition to T+1 and if possible, reduce them in number. The volume of recommendations may otherwise complicate the introduction of regulatory and legislative initiatives required to support the transition as resources are stretched to assess them all. This effort should also involve clarifying the role of the regulator and the legal standing of the 'Code of Conduct'.

We also welcome the Technical Group's recommendation of the UK's alignment with the European Union (EU) and Switzerland. BlackRock is strongly supportive of alignment and would encourage greater cooperation, regulatory certainty and clarity between all three jurisdictions on their respective moves. The North American markets' move to T+1 settlement in May 2024 continues to afford the UK, EU and Switzerland the opportunity to cooperate in their assessment of the impact of the transition on operations, liquidity and distribution, and factor this into regulators' plans for changing settlement cycles.

Alignment of critical market rules is a key component of a robust international financial ecosystem, enhancing cross-border efficiency, and reducing friction and costs for market participants and end investors. To that end, we suggest that the Technical Group considers recommending in its final report a singular definitive transition date to HM Treasury (HMT). This will serve to focus industry and regulator efforts on the technical work required for the UK's transition while also maximising the prospect of constructive dialogue and alignment with the EU and Switzerland.

We welcomed the European Securities and Markets Authority (ESMA), the European Central Bank (ECB) and the European Commission (EC) joint [statement](#) expressing their support to move forward with a shortening of the EU settlement cycle from the current T+2 to T+1. This statement along with the work of the European T+1 Industry Taskforce including its [recent report](#) – of which we are also broadly supportive – suggests that there is a shared appetite for progressing the EU's transition at a similar pace to the UK.

We recognise however that, although alignment remains our preference, the UK may transition to T+1 before the EU and Switzerland. Given this potential scenario, we are strongly supportive of Recommendation Zero and the introduction of "safe harbour" exemption mechanisms for Exchange Traded Products (ETPs) and Eurobonds to

mitigate the challenges of any potential misalignment between the UK, Switzerland and the EU's potential moves.

Speaking more broadly, we are also supportive of the report's recommendation that the timing of the transition should avoid periods of high volatility or volume in order to allow firms to allocate sufficient resource to the transition.

Please note that we have also contributed to the Investment Association (IA) and International Securities Lending Association (ISLA) responses to the consultation paper and are broadly supportive of their positions.

## **Responses to questions**

This response is intended to highlight those recommendations where we believe that particular attention by the Technical Group is warranted. We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to work with the Technical Group on the development of its final report.

### **1. 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.**

#### Recommendation Zero

We are strongly supportive of the background intent underlying Recommendation Zero's "safe harbour" exemptions (Scope 1) mechanisms for ETPs and Eurobonds. However, to accurately reflect the spirit and intent of these exemptions as laid out in the interim report, we recommend the following amendments:

#### *Cash Equities – UK Issued and UK Settled*

- Adding a separate bullet to state that "ETPs settling in CREST would not be captured by the T+1 rule until the EU moves to T+1."

#### *All ETPs (GB and non-GB ISINs)*

- For all ETPs (GB and non-GB ISINs) traded on a UK trading venue and settled on a UK CSD, replacing the wording for "requirements to "no change" and for "safe harbour" to "yes".

We keenly await further details on how these exemptions will be legislated for in the event that the UK transitions to T+1 first, both to ensure that they expire once Switzerland the EU complete their own transition programmes and to clarify the role of the regulators.

We would also note on the case for alignment that the UK transitioning first may prompt a shift in Eurobond settlement to International Central Securities Depositories (ICSDs) and in turn lead to a shift away from UK settlement venues.

### **2. 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**

SETT 01.00 Trade date activity – settlement instruction deadlines

SETT 02.00 Trade date activity – pre-settlement deadlines

We suggest that the Technical Group reconsider the staggered deadlines for UK domiciled counterparties (or their agents) and non-UK domiciled counterparties to confirm instruction receipts. To reduce confusion and complexity, we believe that a single deadline for all entities transacting within CREST would be more effective. Asia-Pacific (APAC) investors could affirm the trades on a best endeavours basis, a flexible approach that would maintain the UK's connectivity to a key market.

**3. 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?**

We understand the categorisation of the recommendations as Principal and Additional but would encourage the Technical Group to reconsider the criticality and breadth of the entire slate of recommendations to ensure that there is a focus on those that are essential to a successful UK transition. Promoting a narrower set of core recommendations will help to provide organisational and operational clarity for market participants and regulators alike.

This is a lesson learned from the largely successful US transition to T+1 where the industry playbook contained the bulk of the draft Principal recommendations outlined in the interim report. The playbook was also distinct from the Securities and Exchange Commission's (SEC) definitive [final rules](#) guiding firms approach to the transition.

**4. 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**

LEL 01.00 UK regulatory and supervisory support

LEL 02.00 UK T+1 Post-trade 'Code of Conduct'

We are supportive of the overall T+1 rule being delivered through an amendment to the existing T+2 rule in the UK Central Securities Depository Regulation (CSDR), Article 5 with a statutory instrument at HMT's behest. Codifying this change in legislation can again help to provide certainty to market participants and regulators while spurring the technical and operational changes required to transition to T+1.

However, it is unclear how the mandatory Post-Trade 'Code of Conduct' will be introduced and adhered to. We would strongly encourage the Technical Group to work with the regulators to clarify their role in ensuring adherence to the Code and to confirm the Code's legal standing. We recognise that adopting the entirety of the Code in the FCA Handbook would be duplicative and disproportionate. To that avoid that outcome, we would welcome clarity from the FCA on whether it will accept the Technical Group's recommendations and plans to endorse or adopt the Code.

Similarly, we would welcome the regulator's view on which supervisory mechanisms it envisages using to ensure compliance and deliver a successful transition. A narrower set of core recommendations would undoubtedly help the FCA in this endeavour. Drawing from the US experience, the remainder could form an industry playbook

affording firms both the regulatory certainty and flexibility to undertake process improvements and infrastructure upgrades by the transition date.

## LEL 07.00 UK T+1 Outreach Programme – UK market participants

## LEL 08.00 UK T+1 Outreach Programme – Global market participants

We recommend a clear suggestion must be made that Over-The-Counter (OTC) and Systematic Internaliser (SI) trades, irrespective of their exemption from the UK CSDR mandate, must be adopted to settle on the ‘default’ T+1 basis along with broader UK capital markets.

We recommend the following wording be added to the respective outreach recommendation: “changes to UK CSDR should be accompanied by a joint industry statement recommending that OTC and SI transactions, although exempt from UK CSDR mandate, must also adopt a T+1 as a default settlement cycle.”

## COAC 01.00 Dividend processing

## COAC 02.00 Claims

We are supportive of the recommendation for voluntary dividends structured on UK regulated venues to have ten business days gap between record date and deadline date, in turn driving the compliance standard. We similarly agree with the recommendation for entities to review policies, processes and systems to capture corporate action claims in T+1, and associated resiliency checks. This was a key precondition for the successful North American transition to T+1.

## COAC 03.00 Electronic Election Entitlement (EEE)

We disagree with the recommendation to adopt EEE, which we recognise remains subject to industry debate. While there can be benefits for operational work undertaken by depositories and nominees and tracking of claims, the interim security is not recognised by indexes. The use of the interim security operationally also leads to tracking, performance and risk for the investment book of records and poses challenges to the fund accounting book of records. As a result, this recommendation complicates rather than simplifies processing and is unlikely to reduce risk and inefficiencies in the election process. Dividend processing is substantially more impactful in this regard and more straightforward to implement.

## STAT 02.00 Standard Settlement Instructions (SSI) market practice

We would also recommend that third parties set up new accounts as and when they are added to the ALERT platform instead of waiting for an initial trade to set them up. Completing full portfolio onboarding from the outset will speed up confirmations and ultimately settlement within the confines of T+1.

## COAC 04.00 Corporate Action automation

While we agree that the automation of corporate action processes is desirable for all entities, we would question its inclusion in the Code of Conduct. Undoubtedly, entitlement calculation, corporate action claims and tax reporting would benefit from automation, but T+1 does not materially render inefficiencies in these processes more acute. Recent industry enhancements to automate entitlement calculations are also helping to address the visibility, tracking and messaging around claims arising at effective date of the corporate action.

# BlackRock

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## SFT 02.00 Stock Lending confidentiality policy

### SFT 03.00 Stock Lending pre-sale order instructions

We recognise the significant debate around stock lending pre-sale order instructions and the recommendation that asset managers should provide notification to lending intermediaries of any sales concurrent with sending orders to the executing broker.

In relation to the sharing of pre-order instructions and the confidentiality of related information, we agree with the sentiment that where reasonable, efforts should be made to share order information as soon as is practical. We would also highlight the benefit of asset owners discussing risk management and information sharing with their agent lender.

However, we do not believe that it would be practical to outlay a generic structure for information sharing given the variety of structures – for example, affiliated versus unaffiliated – through which asset managers and Agent Lenders interact. We would lastly highlight potential unintended market liquidity impacts if some lenders were to cease or reduce lending activity due to asset managers being unable to accommodate pre-sale order instruction with the associated Agent Lender under the prescribed format. This impact could be elevated in UK and European markets due to the range of specialty asset classes compared to the US and other markets already operating within the T+1 cycle.

### SFT 04.00 Automation of Stock Lending recalls

We agree with the recommendation to seek wider adoption of automated recall solutions, including the issuance and tracking. Automation of recall issuance through vendor services is already available and though currently in its infancy for international markets is expected to become the standard by the end of 2025. The associated technology changes required may not be as complex for the UK market given the current market convention to satisfy a recall through a unilateral borrower return, typically processed directly in CREST rather than through a vendor. The stock loan tracking methodology in CREST (Stock Loan Returns/ SLRs linked to Stock Loans/ SLOs) should continue to provide settlement efficiencies when viewed relative to, for example, European TARGET2-SECURITIES (T2S) matching markets where SSIs are still a common reason for fails. We would note that the adoption of automated recall tools should in no way disadvantage the associated Borrowers due to Lending Agents electing to overweight recalls towards those able to adopt automated recall solutions compared to those counterparties still requiring manual communication from the Agent Lender.

### SFT 05.00 Market cut-off for Stock Lending recalls

We would broadly agree with the points raised by ISLA in respect of this not simply being a case of determining a time by which recalls are issued by Agent Lenders for T+1 settlement, but that the CREST settlement cycles be reviewed to ensure the longest possible window to support cash market settlements with dependencies upon Securities Lending returns, which can today be settled via the free of payment window until 6pm.

Notwithstanding any proposed cutoff for T+1 recall liability, the recommendation should strongly advocate for Agent Lenders and Borrowers to work together to satisfy recalls at the earliest possible point post-recall issuance regardless of the timing of the recall, to ensure the continued healthy functioning of the cash markets. Any attempt to

agree upon a cutoff for recall issuance should also take into account global market participants (asset owners, asset managers and Borrowers).

## SFT 06.00 Stock Lending buffers

Stock lending buffers are one of many tools Agent Lenders can utilise to manage risk in agreement with their clients. The risks that can be managed via buffers are also varied and go far beyond those related to accelerated settlement. As such, we do not believe buffers need to be covered by these recommendations.

### **5. 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**

No response.

### **6. Do you have any other comments to make with regards to the UK transition to T+1 settlement?**

## ENV 03.00 Consolidated Tape, Equity

A consolidated tape will improve operational efficiency of end of day (EoD) post-trade processes. EoD positions need to be valued accurately and reconciled before settlement can take effect. Incorrect prices, often resulting from different pricing sources, can cause errors in valuations, thereby creating operational inefficiencies in the settlement chain. Inaccurate or incomplete view of instruments' liquidity can also result in incorrect liquidation prices and impose restrictions on securities financing market (use of instrument for lending and collateral purposes). These post-trade workflows are built on the accuracy and completeness of instruments' pricing, a consolidated tape (set to achieve the same goals) will have direct and tangible benefits for the UK post-trade industry dealing with a time-constrained T+1 settlement cycle.

We therefore support the prioritisation of a consolidated tape for equities (and ETFs) before the UK's transition to T+1. Currently, securities trading data is scattered across multiple stock exchanges, platforms and investment firms, making it difficult for investors to access basic information such as price, volume and time of transactions and critical information on market events. Consolidated tapes help both institutional investors and retail investors who trade via brokers to improve their trading process and best execution by giving them immediate insight into trading activity, liquidity, and prices. For equities (and ETFs), the visibility of pre- and post-trade information in real time would have the most impact on market liquidity and efficiency. A tape would enable better supervision and regulatory oversight of UK capital markets by providing real-time, up-to-date information on the state of financial market flows.

We would also note the value of tape for the bond market, where a post-trade tape would ensure the use of transparency data in this fragmented market, improving investment decisions and best execution processes. This information is a fundamental building block of a modern financial market and key to maximising the opportunities to upgrade the UK's post-trade market infrastructure.

## ENV 11.00 Mutual fund settlement cycle

We are broadly supportive of the recommendation for UK mutual funds to move to a T+2 settlement cycle to reflect the capital markets settlement transition to T+1, except



that there will be exposures in certain funds to underlying markets with extended settlement as is often the case for emerging markets who settle on T+3 and T+4 basis.

Given these circumstances, we strongly support the proposal that the mutual fund transition remain a recommendation instead of a regulatory requirement. This will afford market participants the flexibility to accommodate the operating models of emerging markets. Therefore, any future proposal for more prescriptive requirements should be proportionate to the settlement cycle of the underlying market and more gradual in nature. This flexible approach is particularly important for the UK's connectivity to APAC and Latin American markets, given the liquidity challenges and potential risk in settlement mismatch in the subscription and redemption process arising from extended trading hours and proposal for after-market trading.

## **Conclusion**

BlackRock welcomes the UK AST Technical Group's work to progress the UK's transition to T+1. The transition offers the UK the opportunity to modernise its post-trade market infrastructure and deliver improvements to market efficiency and resiliency. To help realise these benefits, we encourage the Technical Group to reconsider the criticality of its recommendations and its approach to codifying them. This effort should also involve clarifying the role of the regulators and the legal standing of the 'Code of Conduct'.

We are strongly supportive of the UK's alignment with the European Union (EU) and Switzerland. In recognition of the possibility that the UK may transition first, we are also strongly supportive of Recommendation Zero and the introduction of "safe harbour" exemption mechanisms for ETPs and Eurobonds to mitigate the challenges of any potential misalignment.

We welcome the opportunity to comment on the topics raised by the consultation and will continue to contribute to the thinking of the Technical Group, industry and regulators.