



28 October 2024

VIA ELECTRONIC TRANSMISSION

AcceleratedSettlementTaskforce@hmtreasury.gov.uk

RE: Accelerated Settlement Taskforce, Technical Group - Draft Recommendations report and Consultation

DTCC, in conjunction with its subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), and Institutional Trade Processing LLC (ITP), appreciates the opportunity to respond to the Consultation of the Technical Group of the Accelerated Settlement Taskforce ('TGT') that sets out draft recommendations for shortening the settlement cycle in the UK.

Introduction

DTC is the U.S. central securities depository, providing settlement services for virtually all equity, corporate and municipal debt trades and money market instruments in the United States (U.S.). NSCC is a central counterparty (CCP) providing clearing, settlement, risk management, and other CCP services for equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts in the U.S. ITP offers two services to facilitate the post-trade processing of institutional trades – (i) electronic trade confirmation, and (ii) central trade matching – as well as standing settlement instructions (SSI) enrichment capabilities.

In the UK specifically, DTCC ITP services include CTM, which is the platform for the central matching of domestic and cross-border transactions across multiple asset classes (including equity and fixed income), and ALERT, the industry's largest global database for the maintenance and communication of SSIs. Today, DTCC ITP services (including CTM and ALERT) are used by 199 brokers and 229 investment managers in the UK, plus over 1,500 global institutional buy-side investors trading cross-border into the UK. CTM clients annually process approximately 5.5 million allocations that settle in the UK. ALERT maintains over 16 million of SSIs across a global community of 3600 buy-side and sell-side participants, with 43% of these SSIs covering the UK and EU (across securities and cash markets).

In our experience, the transition of the U.S. securities settlement cycle to T+1 on 28 May 2024 required changes at all three DTCC subsidiaries. To the extent that this experience in the U.S. securities markets is helpful to the TGT's consideration of a similar transition in the UK, DTCC is providing responses for those questions where such experience may be most relevant or otherwise informative, as we offer a product set spanning the range of settlement through to post-trade settlement activities giving us a unique expertise and insight into T+1 related activities with supporting data and statistics.

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.

DTCC has no comments on this question.

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

DTCC fully supports the Principal recommendations related to the completion of post-trade pre-settlement activities on Trade Date (*SETT 01.00*; *SETT 02.00*; *SETT 06.00*).

Efficient post-trade processes and automation are vital to achieving accelerated settlement. In particular, trade-level matching is a critical part of the post-trade lifecycle, which helps mitigate



settlement fails. Matching allows the buyer and the seller to agree on all constituents to their transaction, thereby facilitating the settlement process. Most importantly, matching allows counterparties to identify any exceptions that may cause the transaction to fail. By completing the allocation, confirmation, and trade matching processes on Trade Date, firms can increase the time available to identify and address errors; processes which are critical to reduce settlement fails.

We believe that electronic platforms / mechanisms should be utilised for the trade allocation, confirmation, and matching process to reduce operational risk and ensure these post-trade processes are completed on Trade Date. In fact, DTCC's internal analysis demonstrates that most transactions that are matched on an electronic platform are matched and agreed on Trade Date. Specifically, DTCC ITP data analysis as of Q3 2024 for the UK shows the following current trade matching rate for securities transactions matched on ITP's CTM platform:

	Equity	Fixed Income	Aggregate
<i>Same-day trade matching rate</i>	95.0%	91.0%	93.0%
<i>Same-day trade matching rate completed before 9pm</i>	93.5%	89.3%	91.4%

These metrics demonstrate that T+1 settlement is already achievable and could be implemented further using existing electronic solutions available today.

We also fully support the Principal recommendation LEL 01.00 that successful implementation of these post-trade activities on Trade Date will require regulatory and supervisory support. A crucial part of the U.S. success was that, in the final T+1 rules, the Securities and Exchange Commission (SEC), included new requirements around same-day affirmation practices for broker-dealers to help ensure timely settlement. In fact, a regulatory mandate will provide the certainty that UK market participants require to commit budget and resources to the development and implementation of necessary solutions and automation, which are critical to the success of the transition; and will ensure compliance in a timely and consistent manner.

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?

Overall DTCC supports the categorisation of the recommendations as 'Principal' and 'Additional'. In particular, we fully support the categorisation as 'Principal' of the following recommendations, which we believe are essential pre-conditions for a successful transition to T+1 in the UK:

1. SETTLEMENT

- **Trade date activity and settlement measures (SETT 01.00, SETT 02.00, SETT 06.00):**

Please refer to our response to Question 2.

- **Place of settlement (PSET) (SETT 09.00):**

DTCC fully supports the Principal Recommendation *SETT 09.00 on Cross-border transactions/PSET*. The industry has identified PSET mismatches as a common cause of settlement fails. We therefore agree that the appropriate PSET should be part of the mandatory dataset communicated for all transactions, as increasing the use of PSET matching can mitigate settlement risk. There are already solutions available today that market participants can leverage to incorporate PSET into confirm/allocation instructions as well as to match on PSET.

- **Settlement performance benchmarks and monitoring (SETT 03.00, SETT 04.00):**

DTCC supports the Principal recommendations *SETT 03.00 and SETT 04.00 on settlement performance benchmarks and monitoring*. As noted in the Consultation, monitoring will provide statistical confirmation of the ability of market participants to comply with the new instruction deadlines, inform future decisions on deadlines, and demonstrate how market efficiency is changing over time,



highlighting where improvements are required.

To ensure a successful transition, we believe monitoring should be implemented ahead of the Transition Date with sufficient lead time to ensure market participants improve the efficiency of their post trade processes ahead of the transition.

2. STATIC DATA

- **Standard Settlement Instructions (SSIs) (STAT 02.00):**

DTCC fully supports the Principal Recommendation on Static Data, *STAT 02.00 SSI market practice*, and in particular the recommendation to implement the Core Principles and templates contained in the FMSB's Standard for Sharing of SSIs.

The prevalence of manual SSIs and the absence of storing and sharing SSI data in a standardised and automated way remains an important issue for wholesale markets today. Indeed, inaccurate or incomplete SSIs are one of the primary reasons for settlement fails¹.

With more jurisdictions moving towards a shorter settlement cycle, where there will be less time to resolve fails, it is critical the industry moves away from these manual processes to increase settlement efficiency and reduce operational risk. In addition, in times of stress, delays arising from inconsistent SSI data might also contribute to more general systemic risk and reduced confidence in the markets, so we believe this is particularly important to address.

Using electronic solutions that allow for standardisation and pre-authentication of settlement instructions, and which facilitate Straight-Through-Processing can provide transparency, increase automation, and significantly reduce trade failure. This is because all respective market participants can seed the SSI data, access the SSI data and enrich the data from a single source, in an automated fashion. In particular, automation of SSI enrichment from a golden source data set in the confirmation/allocation process ensures that SSIs are always up-to-date and accurate, which in turn facilitates timely and accurate settlement. Those SSI golden source databases are already available to be leveraged by market participants today.

In addition, we note that electronic SSIs should also bring standardisation to foreign exchange settlement, as well as securities financing transactions, alleviating some of the challenges, such as callbacks, faced by market participants with respect to foreign exchange trades and securities financing under a T+1 environment.

Accurate, automated SSIs are therefore key to the facilitation of accelerated settlement. As this has been a longstanding issue, we believe regulatory and supervisory support would be needed to catalyse change and ensure broader adoption of electronic SSIs.

3. SUCCESS CRITERIA

Overall, DTCC agrees with the *Success Criteria* as set out in the consultation.

Our experience in the U.S. has demonstrated that industry collaboration is crucial to a successful transition to T+1. In the U.S., DTCC worked with SIFMA, ICI and the T1 Industry Working Group to outline key steps required for the shift and communicated those changes to the industry via educational materials such as the T+1 Playbook, T+1 Test Approach and T+1 Documentation. These types of initiatives are critical to ensure a smooth transition to T+1, and should be supported by ongoing engagement with, and education for, the industry. We therefore welcome the Principal recommendations on *UK T+1 Industry playbook (LEL 05.00)*, *UK T+1 Transition command centre (LEL*

¹ See AFME report on "Improving the Settlement Efficiency Landscape in Europe" (October 2023).
https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_SettlementEfficiency2023_07%20final.pdf



06.00), UK T+1 Outreach programme – UK market participants (LEL 07.00), and AST Technical Group retention (LEL 09.00).

We also support the Principal recommendation on UK T+1 Outreach programme – Global market participants (LEL 08.00) that the TGT should continue engaging with other major global financial market participants to ensure timely awareness of UK market changes to implement T+1. With globally interconnected markets, the risk of misaligned settlement cycles could affect end investors. While there is now an increasing consensus on the need for close coordination and alignment between the EU, UK, and Switzerland, it will be important for this to extend to other jurisdictions including Asia.

- **UK regulatory and supervisory support (LEL 01.00) and UK T+1 Post-trade ‘Code of Conduct’ (LEL 02.00)**

DTCC welcomes the inclusion of the final recommendations in a *Post-trade ‘Code of Conduct’* to which all UK market participants will be expected to adhere to, in order to maximise the operational benefits to the UK market.

DTCC fully agrees that regulatory and supervisory support for, and commitment to, the implementation of T+1 is critical to the success of the transition. Transparent, unambiguous expectations from the regulators with clear realistic timelines will foster trust and commitment across the financial services sector in the UK and cross-border investment. Specifically, in terms of timing, we believe that regulatory certainty is needed to support the timelines that will be put forward in the final report, including for operational changes to facilitate the transition to T+1. In the absence of regulatory and supervisory requirements, it would be difficult to hold accountability for the needed operational and behavioural changes, and a non-homogenous adoption of the Post-trade Code of Conduct could disrupt the smooth functioning of UK markets.

A key lesson learnt from the U.S. experience was that regulatory and supervisory support for the implementation of T+1 was imperative to ensure all market participants were on board and ensure the commitment of resources and uniform compliance with various tasks. In particular, as noted under Question 2, a crucial part of the U.S. success was the inclusion of regulatory requirements around same-day affirmation for broker-dealers to help ensure timely settlement. We therefore agree that, in addition to the regulatory certainty of the mandated change and implementation date, regulatory and supervisory support should also encourage adoption of the relevant final recommendations in the Post-trade Code of Conduct, and in particular those related to settlement.

- **Process automation (LEL 08.00):**

We fully agree with the Principal recommendation UK T+1 Process automation (LEL 08.00) that process automation will be required to meet the reduction in processing time resulting from the migration to T+1 to ensure operational risk is mitigated and efficiency is upheld.

For market participants, a key element to a successful shift to shortened settlement is to eliminate manual processes and human intervention in the post-trade process by leveraging technology that achieves automated no-touch trade processing and standardization of communications for clearing and settlement. A no-touch workflow can help to accelerate the trade lifecycle, quickly identify issues and exceptions, lower risks associated with manual processes, and ensure an audit trail for operational benchmarking and compliance purposes.

Many U.S. organisations highlighted that post-trade automation was critical to a smooth implementation of T+1. As organisations prepared for the move to T+1 in the U.S., many of them adopted automated post-trade solutions, such as for real-time trade matching and to drive efficiencies in the allocation and affirmation process, helping to avoid settlement delays and issues. The benefits of automation are not limited to matching and confirmation, they also apply to SSIs, and there are existing solutions, such as automated matching platforms and electronic SSI database, that market participants can leverage to automate their post-trade processes in preparation for T+1.

Other jurisdictions, especially in APAC, already operate and benefit from fully automated post trade processes. For example, the Hong Kong Exchanges and Clearing Limited (HKEX) recently introduced a new authorization layer (*Synapse*) that operates on a T+0 settlement cycle. The Synapse platform mandates trade ingestion to come via an electronic central matching platform before trades can be authorized to be instructed to the CSD for settlement, enabling international investors and HKEX participants to leverage central matching of cross-border trades to create a “golden source” of trade data for simultaneous processing by clearing brokers and custodians.



Adoption of automation can also generate cost savings for the industry. For instance, for broker-dealers specifically, DTCC previously analysed operating costs to estimate potential efficiency and cost savings by leveraging the implementation of a no-touch processing workflow from trade agreement through to settlement finality. The survey² found that, for large global broker-dealers, certain institutional post-trade processing costs for cash securities could be reduced by 20-25% through leveraging post-trade automation, which would eliminate redundancies and manual processing and mitigate operational risks.

This level of automation can also be of benefit to settlement participants such as prime brokers. Our tri-party workflow allows automated real-time trade notifications to be sent to prime brokers to act as a golden trade source. This allows full SSI's enrichment to the trade notification, so the prime broker knows which executing broker it will settle against as well as how that executing broker wants to settle. We are also collaborating with the industry to deliver an enhanced, automated, clearing workflow that can help further increase settlement efficiencies as well as provide netting and clearing benefits to participants in OTC cash equity markets.

In addition, CTM also enables match agreed transactions to be automatically instructed downstream, via multiple message formats. The ability to effectively connect transactions downstream reduces friction and drives further automation, which can facilitate greater settlement efficiencies. There are multiple workflows market participants can adopt from the ITP service suite that support settlement instruction messaging. These include SWIFT messaging to market infrastructure (e.g. HKEX) as well as a fully automated solution for US markets where relevant pre-settlement confirmations and affirmations are automatically created in order to facilitate full downstream automation. ITP remain committed to working with market participants and global market infrastructure in order to bring optimised workflows to market to support as much settlement efficiencies as possible.

ADDITIONAL RECOMMENDATIONS – ENVIRONMENTAL

- ***LEI Adoption (ENV 06.00):***

DTCC welcomes the Additional recommendation *ENV 06.00 - LEI Adoption* that regulators should consider mandating the adoption of LEIs by all regulated legal entities and their subsidiaries as a condition for authorisation/registration. LEIs are a key data element needed to facilitate the organisation of reference data that firms hold about their counterparties and play a critical role across jurisdictions, while helping meet regulatory requirements.

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.

DTCC has no comments on this question.

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.

We believe that further standardisation would benefit the UK capital markets from an efficiency and transparency perspective. A good example would be by increasing the use of standards such as Unique

² See DTCC [White Paper](#) - Embracing Post-Trade Automation (November 2020)



Transaction Identifiers (UTI) in post-trade processes for cash securities markets. Market participants, which have been using these identifiers in OTC derivative markets, tend to be the same firms trading in cash securities. Central matching allows, inter alia, UTIs to be generated in post-trade messaging. UTIs can thus enable greater transparency of a transaction, promote settlement finality, reduce costs associated with trade status communication between counterparties, and ease exception management efforts. The ability to monitor settlement and actively manage exceptions would support greater settlement efficiency that will be very beneficial in a T+1 environment.

We would therefore encourage the TGT to consider an “Additional Recommendation” to implement an industry-wide UTI standard in cash securities workflows, replicating the successful implementation of UTI in the derivatives space.

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

Overall, DTCC supports the proposed draft recommendations in the Report, and in particular the ‘Principal’ recommendations on *Success Criteria*, *Settlement*, and *Static Data*, which we view as necessary pre-conditions for a successful transition to T+1 based on our experience in the U.S. market. Throughout this consultation, we have consistently stressed the importance of the following key considerations for a successful transition:

- i. Industry collaboration, engagement, and education is crucial to coordinate preparations for a successful transition to T+1.
- ii. Post-trade automation and standardization are critical to settlement efficiency. By leveraging greater levels of automation to complete critical post-trade processes (trade allocation, confirmation and matching) on Trade Date, firms will be best prepared for a shorter settlement cycle. Use of a fully-reconciled golden-source SSI repository can also increase transparency and automation, and significantly reduce trade failure.
- iii. Regulatory and supervisory support will provide the certainty that UK market participants require to commit budget and resources to the development and implementation of the necessary solutions and automation that is critical to the success of the transition and to ensure broad-based adoption of the UK T+1 Post Trade ‘Code of Conduct’.
- iv. Close coordination and alignment with other jurisdictions (notably EU and Switzerland) is also important as it will cement the UK’s international role.

The UK transition to a T+1 settlement cycle provides an opportunity to reduce risks and costs, and enhance operational efficiency, complementing other important reforms aiming to strengthen the international competitiveness and attractiveness of UK financial markets, such as the UK’s Listing Rules and the Digitisation Taskforce. DTCC will continue to actively participate in the UK T+1 Technical Group and leverage the lessons we have learned in the U.S. markets to help guide UK markets in their own journey to shortened settlement, and we look forward to continuing to engage fully with our stakeholders on this important initiative and to collaborate with the government and the industry to facilitate more efficient and competitive UK markets.

Conclusion

DTCC commends the TGT for its efforts to prepare these recommendations and appreciates the opportunity to provide comments on the Consultation and your consideration of the views expressed in this letter. DTCC welcomes the opportunity for further discussions and engagement on the topics we raised. If you have any questions or need further information, please contact me at bstele@dtcc.com.

Sincerely,

Brian Steele
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 President, Clearing & Securities Services
 The Depository Trust and Clearing Corporation