

## ISLA Response to the UK Accelerated Settlement Taskforce, Technical Group

### Draft Recommendations

ISLA is a non-profit industry association representing the common interests of securities lending and financing market participants across Europe, the Middle East and Africa. Its geographically diverse membership of over 200 firms includes a broad range of institutional investors, asset managers, custodial banks, prime brokers, and service providers. Working closely with the industry, as well as national, regional, and global regulators and policy makers, ISLA advocates for, amongst other things, the importance of securities lending to the broader financial services industry. It supports both the [Global Master Securities Lending Agreement \(GMSLA\)](#) legal framework, as well as the periodical enforceability and security enforcement across global jurisdictions.

- 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?**

**If not, please outline which areas you think need further clarification.**

ISLA members broadly agree with the scope of the recommendations including the proposed exemptions for Exchange Traded Products (ETPs) and Eurobonds as outlined on pages 3, 12 and 14 and detailed on pages 18 and 19. The primary concern for ISLA members is to avoid creating a market liquidity split that could impact pricing, and this recommendation appears to offer a temporary solution to that challenge.

- 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?**

**If not, please outline which areas you disagree with or think need further clarity.**

ISLA members note that it is unclear within the totality of the report, the difference in definition between a UK domicile and a non-UK domiciled country in terms of how they are treated by CREST with regards to input cut-off times. It has been noted that there is uncertainty for some firms that have multiple entities for example, it is unclear if a UK firm, with a trading desk in Japan, would need to adhere to local cut-off times that are 21:00 on T or 06:00 on T+1.

This recommendation therefore requires further clarity regarding scope, the different domiciles, and how this will work in practice. (I.e., UK firms, non-UK branches of UK firms and UK branches of third country firms). The recommendation from ISLA members would be to have one input cut-off time for all countries transacting within CREST.

If there are to be two input cut off times that are functional, then they should be available to all firms globally and not split by jurisdiction, for example if you are in the UK, you should also have the optionality of the 06:00 on T+1 input cut off time available to you.

**3. Do you agree with the categorisation of the recommendations as Principal and Additional to the transition to T+1 settlement in the UK?**

**If not, which recommendations do you believe are incorrectly categorised?**

ISLA members broadly agree with the 43 principal recommendations. However, under the 14 additional recommendations ENV 06:00 LEI Adoption, members suggest these are recategorised to become a principal recommendation.

ISLA members believe that this is one of circa 110 critical data elements utilised for regulatory reporting requirements that are also endorsed by CPMI-IOSCO. The global introduction of the LEI is a critical step to be undertaken for global aggregation. The CPMI and IOSCO consider the consistent use of LEI codes in transactions reported to trade repositories to be crucial to achieve global consistency and meaningful aggregation of reported transactions. Therefore, the CPMI and IOSCO strongly encourage authorities to require the use of LEI codes as published by the Global LEI Foundation (GLEIF), for the identification of legal entities in the data reported to Trade Repositories.

**4. Are there any recommendations that you think are incorrect, unnecessary or need to be further clarified?**

**If yes, please identify the recommendations and why you think they're incorrect, unnecessary or need greater clarity**

- **Statutory Instrument: Page 10 Legislation:**

ISLA members agree that the T+1 rule is best achieved through an amendment to the existing T+2 rule in the UK CSDR, Article 5, by way of a statutory instrument. Setting out this change in legislation would provide certainty to market participants and initiate the necessary development of systems and behavioural changes required to transition to T+1. We agree that Article 5(2) is the cleanest way to do this.

- **SFT Exemption: Page 13 SFT's exempted from the UK T+1 requirement.**

ISLA members did not raise specific concerns regarding this concept to be exempt from T+1 per se ; however, they did note that it could lead to an assumption that SFTs are not impacted at all. However, SFTs are of course impacted by changes to the settlement cycle as they deliver into and support the T+1 cash equity market generally on a T+1 basis. Once the cash equity market moves to T+1, SFTs will effectively need to move to a shorter settlement cycle to support the market.

Some members noted that firms not familiar with the exemption concept may find aspects confusing, if not set out concisely. To address this point, our members requested clear wording, highlighting specific product examples and the potential impacts, specifically where an incorrect expectation sends the wrong signal to the SFT market. For example, where a firm undertaking SFT activities may believe they have more time for settlement, when they are in fact not exempt.

- **SFT 01:00 – Continued engagement with the stock lending community**

ISLA welcome the fact that the HMT T+1 technical group will be funded until the end of 2027 go-live. We believe this recommendation is a sensible and reasonable approach, providing the required clarity and efficiently capturing the voice of the securities lending market.

- **SFT 02:00 – Stock Lending Confidentiality Policy**

Our members do not believe a new confidentiality policy should be introduced that could supersede the Market Abuse Rules (MAR) and Directive, that is already in place. The scope and spirit of these regulations and codes should be sufficient to support timely notification(s).

Regarding the text 'Market practice needs to be formulated at each individual firm in the same way that Best Execution policies are in place', we agree that Market Practice should be drafted in a more prescriptive and detailed manner, however members note that this would require considerable effort and time to align firms legal and compliance policies to association Best Practices. We also note that there are a considerable number of overlapping Best Practices and market standards, where each would need to be aligned, synchronised, and maintained to create the uniformity required by this proposal.

ISLA members also noted the possibility that, should new or adjusted wording be required to address confidentiality, the additional request of assets owners could potentially lead to a negative view of Securities Lending e.g., cost and friction to entry, although the outcome of such a view cannot be quantified.

Our members also suggested that a more pragmatic approach might be to incorporate proposal 02:00 and 03:00 into a single proposal.

Regarding the Code of Conduct, ISLA members recommendation is to acknowledge the Market Abuse Regulation (MAR) and enshrine that into any Post Trade Code of Conduct (PTCOC) to create a stronger and more formally recognised incentive to follow it. ISLA members further noted that they are currently following many internal controls and processes and therefore, if they were not to comply with a code of conduct, it would create a breach with supervisory consequence. This approach was deemed to be more than sufficient.

- **SFT 03:00 – Stock Lending Pre Sale Order Instructions:**

ISLA Best Practice recommends that pre-sale notifications are given where possible. As the available time to accomplish good settlement reduces, functions such as these are imperative to ensure timely notification. We further note that the application of such functionality sometimes creates a disproportionate burden on smaller firms, though equally note that many securities lending agents provide this functionality as part of their ordinary course services.

#### - SFT 04:00 – Automation of Stock Lending Recalls

ISLA members agree with this recommendation and approach, not just regarding adoption but also the enhancement that leads to automation being one of the main themes from the report.

In terms of wider adoption, many firms track which of their counterparts have better automation and notification practices. This creates a natural incentive for adoption of this good practice.

In discussing this aspect of our market, we note that use of automation tools that facilitate post-trade processing remains limited. To illustrate this further, we would like to share some statistics obtained through market service providers:

- Less than 50% of the securities borrowing and lending (SBL) community use vendor provided returns functionality. Adoption of automated return functionalities is mostly related to equity SBL with significantly less utilisation in relation to fixed income assets.
- Less than 55% of the SBL community use the mark-to-markets functionality, this being the tracking of the market value of the loan versus collateral and the automation of associated payments/receipts. Similar to the return functionality noted above, the mark-to-markets functionality also has a greater adoption in relation to equities.
- Less than 30% of the SBL community use recall functionality. It is key to note that the recall functionality has high adoption rates for US domestic securities and low adoption rates for international securities. We note from feedback that the adoption of recall functionality has been driven by the US move to T+1, as such it is reasonable to conclude that uptake may increase as the EU considers this topic.

In relation to SFT 04:00 Automation of stock lending recalls and with a view to understanding the **HOW** commentary, ISLA members discussed and shared observations from the US and Canada around their approaches to using a central hub, which aids and promotes good interoperability with regards to recall processing. Not only does the hub approach support automation, but it also helps firms avoid duplicative costs by not having to sign up to more than one vendor to execute the same task, for instance where their counterparty uses a different vendor. Use of a hub for securities lending recalls also supports the underlying desire for interoperability between vendors/service providers which addresses the clear “automation” message noted in the consultation. For the benefit of CREST and HMT, please see the included visual representation regarding potential flow and benefits, though note that integration and connectivity considerations need to be clarified: [CRESTH 1.pdf](#)

#### - SFT 05:00 – Market Cut off for Stock Lending Recalls:

**Option 1:** the optimum solution to create settlement efficiencies in relation to recalled securities, is to re-align the CREST Delivery Versus Payment (DvP) 3:45pm UK deadline with the CREST Free of Payment (FoP) 6:00pm deadline. Folding the Delivery versus Payment (DvP) deadline into the FoP deadline allows a longer period in the day to settle DvP transactions and also makes better use of securities when they are received back as FoP securities, to satisfy onward DvP deliveries. It is appreciated that the current RTGS payment deadline runs at 5:30pm UK time, hence if 3:45pm DvP time cannot be moved to 6pm FoP time, then could we not move 3:45pm to 5:15pm time, as this gives the market another 1.5hrs to settle DvP transactions. We believe that this not only aids securities lending flows but also the market as a whole.

**Option 2:** ISLA members spent considerable time discussing this topic and suggested that, if option 1 cannot be achieved in the short term, then perhaps an alternative might be considered to aid “establishing a UK Recall Due Date Best Practice”. I.e., introducing a T+0 Recall deadline at 4pm UK time and T+1 Return Settlement deadline at 3:15pm UK time. See attached details of these various scenarios covering both times: [ISLA-UK-Recall-Due-Date-Best-Practice.pdf](#)

- **SFT 06:00 – Stock Lending Buffers:**

ISLA members did not raise any concerns around this recommendation and agreed that firms will likely continue operating their respective buffer mechanisms as they do today. Further to that, there is no desire to increase those lending buffers prior to the HMT T+1 go live date. It was also noted that with no formal or quantifiable evidence, any unnecessary changes have a potential to trigger unintended and undesirable liquidity challenges.

- **SFT 07:00 – Update ISLA Market Practice Guidelines:**

This recommendation was not challenged by ISLA members as it represents the totality of the above SFT recommendations. However, there is a strong view that any delivery dates put forward should recognise and consider the interaction and dependencies of each proposal. To ensure there are no missteps in this chain of events, appropriate feedback should be sought from both the HMT T+1 workstream and the ISLA Market Practice Steering Group, which will map out staggered implementation dates through 2025, 2026 and 2027.

- **LEL 01:00 & LEL 02:00– UK Regulatory and Supervisory Support - Post Trade Code of Conduct**

We note that the technical HMT task force have proposed an FAQ being produced to better explain the role of the “Post Trade Code of Conduct”.

ISLA members were undecided on the benefits of introducing an additional code of conduct that potentially dilutes existing codes. A preferred solution would be to incorporate new post trade code of conduct content into the existing BoE Money Markets Code of conduct.

For your consideration, we include below the raw and unedited list of questions raised:

- Does PTCOC conflict / overlap with the BoE MMC?
- Will PTCOC feed into the Senior Managers Certificate Regime (SMCR)?
- How will PTCOC be adopted and enforced outside the UK?
- Financial markets need less papering and attestations, not more.
- Considering the quantity of existing standards, is it sensible to introduce more?
- Would the PTCOC act as an “endorsement” of trade association’s (TA) best practices or do TA best practices follow the PTCOC?
- How will the PTCOC be enforced?
- How will the governance of the PTCOC work?
- Does the label “code of conduct” imply a rule or recommendation?
- Are they Rules or Guidelines?
- Who writes it, maintains it, owns it?
- Are there any sanctions, penalties for noncompliance and how are they going to be enforced?
- If the PTCOC does not work as designed, then will these recommendations be enforced by regulators/supervisors?

- Will smaller firms adhere to the PTCOC – as if not a regulation, would they even be aware?
- Does the PTCOC have any teeth if not legally binding?
- Could settlement cash penalties be introduced into the UK from regulators if the PTCOC fails?
- Where does the FCA stand on this?
- Will the PTCOC prevent competitiveness in the UK?

- **LEL 03:00 – UK T+1 Process Automation**

ISLA members agreed with this recommendation but note the proportionality of such a recommendation when considering new market participants, retail aggregators and other smaller volume participants.

- **STAT 01:00 – Static Data Policies, Processes & Systems**

ISLA members recognised this proposal as appropriate.

- **STAT 02:00 – SSI Market Practice**

ISLA members agreed that Standard Settlement Instructions (SSI) have been a challenge in the Securities Lending market, magnified by the complexity of such transaction activity. The Inclusion of wording related to SSIs in a Post Trade Code of Conduct, encouraging adoption of FMSB Standard (where not already compulsory, as will be the case for FMSB members) is both welcomed and appropriate. Furthermore, it was agreed by members that all market practices should refer to the same.

- **COAC 01:00 – Dividend Processing**

ISLA members agreed and had no further comments.

- **COAC 02:00 – Claims**

ISLA members agreed and had no further comments.

- **COAC 03:00 – Electronic Election Entitlement**

As a solution and in addition to the electronic election entitlement recommendation, ISLA members suggest that from a securities lending perspective the current market practice for SLA's (service level agreements) around election deadlines are to be adhered to, which is "market deadline minus 2 days". Each event has a date and time that an instruction has to be elected by. ISLA members are hopeful that the post trade code of conduct will endorse the current market practice, as trying to turn elections around in less than the 2-day window carries unintended risks which will only be exacerbated in a truncated T+1 settlement cycle.

- **COAC 04:00 – Corporate Actions Automation**

ISLA members agreed and had no further comments.

- **SETT 07:00 – Systemic use of auto partialling/splitting:**

Regarding the SETT 07:00 recommendation, borrowers of securities prefer to return part of a recalled position where possible and do so to reduce potential liabilities. ISLA members therefore believe it is important that any introduced “Mandatory Auto Partialling of Sales” should be applied across all activities. For example, if a borrower returns part of a recalled on-loan securities position to the lender, if the cash trade does not mirror the partially available position, the benefits of the partial lending return are unrealised. See below example:

- Cash sale of 10,000 shares of ABC stock.
- Lender recalls 10,000 shares of ABC stock from the borrower.
- Borrower can only return 7,000 shares of ABC stock.
- Cash market sale fails because the instruction was to sell 10,000 shares, not 7,000.

- **SETT 08:00 – Systemic use of auto shaping:**

ISLA members agreed and had no further comments, recognising the benefits of shaping not only in US Treasury markets but awareness that this is also prevalent in both Japanese and Canadian markets.

- **SETT 10:00 – Use of Hold & Release Functionality:**

ISLA members agreed with the proposal, noting that lenders only release securities for a loan upon being fully collateralised.

- **ENV 11:00 – Mutual Fund settlement Cycle:**

This issue was brought to the attention of ISLA members, who acknowledged the recommendation. They agreed that the misalignment between the settlement cycle and the fund cycle creates a problematic gap.

**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?**

**If yes, please clarify what you think they are**

- ISLA members requested clarification on how markets will manage corporate action events over the period of double settlement envisaged for T+1 go-live. E.g., if Friday is last trade date for T+2, settlement of Friday’s trade will be the following Tuesday. Trades negotiated on the Monday would also settle on Tuesday. Tuesday is therefore a ‘double settlement’ day.
- ISLA members suggest a removal of the DBV window to allow continuous settlement throughout the day from CREST open, to CREST close (currently there is approximately a 1.5hrs block to intraday settlement). This suggestion would provide a larger window of settlement opportunity throughout the

day. Alternatively, that the DBV run not be stopped so it runs concurrently with the main settlement window. If neither is possible, could the window of 'stoppage' be reduced.

- Regarding contingency planning (i.e., CREST outages that are typically later in the working day), what would happen to CREST cut-off times in the event that the CREST system is offline for a period of time? Although CREST usually extend the working day, the market will need to consider the impact on Security Lending recalls in relation to trades settling at what was the 3:45pm DvP cut-off and the 6pm FoP cut off? Can clarity be provided on this point?

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

No comments from ISLA members on this question.