

IA Recommendation for Fund Settlement 2027

INVESTMENT FUND SETTLEMENT CYCLE

Context

There is a general trend towards quicker settlement within the global capital markets. The US, in May 2024, has been the largest market to switch from a T+2 settlement timing to T+1, and the UK and EU markets have separately announced their intentions to do the same on 11 October 2027.

The UK Accelerated Settlement Taskforce's (AST) recent report suggested that investment funds should - at or before that date - move to a T+2 settlement cycle. This was targeted at the funds industry, with the IA, PIMFA and AIMA (and the AST itself) named as the responsible parties to assess its feasibility given their roles across the sector.

Funds typically seek to apply a one-day settlement lag to provide some cash management flexibility in investing in an array of global securities and products, whilst minimising a potential funding gap and associated costs. There is currently no standard settlement timing for UK funds, with a range in place between T0 and T+4 with the most common timing at T+3.

The IA has been working with the AST, the FCA, the wider funds ecosystem and - for European domiciled funds, EFAMA - to assess the impact of the planned changes.

Having discussed the implications on fund settlement timings with members, the IA is making the following recommendation in order to provide a framework for co-ordinated action by firms who wish to mitigate challenges presented by the market change.

The IA made a similar recommendation in 2014/15 in relation to market changes in most of Europe to T+2.

Recommendation to members

The IA recommends that:

*All UK authorised funds, and those within the Overseas Funds Regime,
should ideally operate a maximum T+2 fund settlement cycle as at 11 October 2027*

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Notes

We recognise that it is for each member firm to decide how the market changes affects their fund range, clients and operational infrastructure and whether or not to align themselves with this recommendation.

Portfolio exposure

This recommendation is made in the context of an industry whose funds are wholly or majority invested in US, UK, European and other global market assets that will be settling on a T+1 basis, and serving investors predominantly in the UK who will expect similar settlement timings for the funds that provide them with exposure to those assets. There are scenarios in which it may not be practicable for a fund's settlement cycle to move to T+2. These may include the complexities of the underlying portfolio mix, the settlement cycles of assets in the portfolio, or the location of its investor base. It is for each firm to decide how the market change affects their fund range, clients and operational infrastructure.

FCA notification

As with the previous changes (2014/15 UK-European, and 2024 US), arrangements will be put in place by FCA so that firms do not need to seek advance regulatory approval for settlement timing changes where no other changes to the fund and Prospectus disclosures are taking place; they need not be treated as 'significant' changes and the firm just needs to notify unitholders in good time before the change comes into effect and to submit the revised prospectus for filing with the FCA when the update becomes effective.

Banking costs

There is a possibility that firms will experience an increase in transactional banking costs should their current payment mechanism to investors be unable to cater for an increased payment speed and other more costly options are needed. Operational expenses like these are in some cases attributed to the fund. Where that is the case, funds facing material cost increases due to significant volumes of trading may benefit from discussing this with their Depositary at an early stage, in the context of COLL 4.3.6R(2)(d) (Significant change requiring pre-event notification).

T+4 funds

The minority of funds currently operating at T+4 are increasingly becoming misaligned with markets. Changing to a T+2 fund settlement cycle could be made in one step in 2027 but firms should consider the relative merits of taking two steps by moving to T+3 in the interim period.