



## **Buyer Protection in the United Kingdom – The Case for Change**

### **Executive Summary**

The move to T+1 settlement will achieve greater efficiency and competitiveness for the UK, allowing market participants faster access to liquidity and reduced counterparty exposure.

The success of T+1 is therefore heavily dependent on market practitioners scrutinising current systems, assessing potential risks and implementing robust solutions. The AST has engaged across the industry to understand the post-trade landscape, and where necessary has defined the frameworks and requirements for T+1 readiness.

This paper assesses the impact of the UK's move to T+1 on the current buyer protection framework. It concludes that if the existing market agreed practice remain unchanged, buyer protection would not operate effectively in realising the benefits of T+1. If a market participant traded on the last day of a corporate action offer period, they would be unable to pass the buyer's election preference to the selling party should the trade fail to settle. The buyer would therefore miss out on the opportunity to participate in the deal, although they would have traded within the offer period.

To address this, the paper proposes three recommendations to standardise market practice, allow the benefits of T+1 to investors and manage operational risk in compressed timeframes. The paper concludes that this is a necessary and proportionate change to support an orderly transition to T+1 settlement in the UK market.

### **Problem Statement**

The UK's current buyer protection market practices were developed for a longer settlement cycle and are not adequate to fully realise the benefits of T+1. If left unchanged, they would limit the ability to protect on transactions traded for settlement on market deadline. This creates risk for both the investor and intermediary.

### **Scope**

The scope of this paper is as follows:

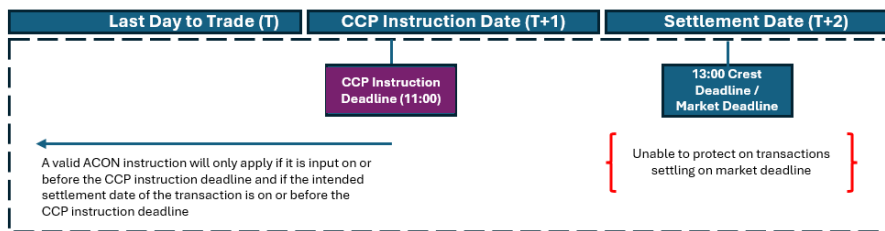
- All Voluntary and Mandatory with Options corporate actions.
- Events offered within the CREST system which are eligible for buyer protection.
- Transactions which are settleable in the CREST system.



## Current Buyer Protection Market Practice (T+2)

### *Voluntary Events*

For voluntary events such as Takeovers, the timeline currently is as per below:



Under T+2, the current market practice for voluntary events **does not** allow buyer protection for transactions executed on the last trading cycle. Open transactions which are eligible for protection need to have a settlement date equal to the CCP Instruction Deadline, which occurs on the day prior to market deadline.

A buyer who trades on the last trading cycle could only participate on the condition that the transaction settled in good time before market deadline to submit an election in the CREST system. If the seller were short to deliver to the buyer, there would be no facility to pass an election from the buyer to the seller, and the seller would be under no obligation to accept any liability.

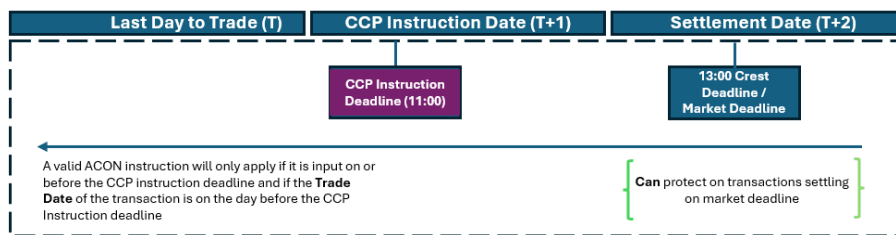
Under T+1, should there be no change to buyer protection market practice, there would still exist no ability to protect on transactions traded on the last trade cycle and settling on market deadline. The only difference is that CCP Instruction Deadline would now be equal to the last day to trade entitled.



## Mandatory with Options Events

### *Mandatory with Options*

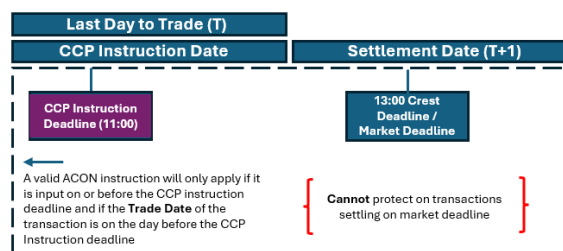
For mandatory with options events like scheme of arrangements, the current timeline is as per below:



Under T+2, the current model **does** allow buyer protection of transactions executed on the last trading cycle.

If a transaction is matched but unsettled and the trade date of the transaction is prior to the CCP deadline, then this can be protected. The buyer protection market practice for mandatory with options events state that a transaction must have a trade date prior to the CCP deadline, therefore in theory any transaction traded on a T+2 cycle can be protected providing the buyer inputs their election prior to the 11:00am on the CCP Instruction Date.

The ability to protect on the last settlement date will cease under T+1, as the last day to trade will equal the CCP Instruction date. As trades eligible for protection need to be executed prior to this, the buyer will lose this benefit if they execute a transaction on the last day to trade.





## Summary

If the current market practice is unchanged under T+1 settlement the impact is as follows:

- Participants still wouldn't have the facility to protect on trades settling on market deadline on voluntary corporate actions
- Participants wouldn't be able to protect for transactions settling on market deadline on mandatory with elections events, where previously they could.

Participants would be in a position where a client had traded entitled to participate in an offer, however in the event of non-delivery by the counterparty would have no obligation to accept any protection. The recommendations below provide the flexibility to allow counterparties the opportunity to match and settle their T+1 obligations on market deadline, a protection mechanism which allows protection on all trades entitled to an offer and adequate control to prevent the risk of receiving securities post the input of a protection instruction. This should provide greater guarantees to investors that their election can be processed and allows the CREST member control in managing their inventory and elections under increased time pressures.

## Recommendations

The following recommendations have been formulated by experienced UK corporate action practitioners in conjunction with the AST. The team considered the problem based on the following guiding principles:

- The changes considered the benefits of T+1 to the end investor
- The changes maintained settlement discipline
- The changes minimised operational risk

### **Recommendation 1 - Buyer Protection Deadline moves to Market Deadline**

We recommend that the Buyer Protection Deadline (CCP Instruction Deadline) moves forward 24 hours to 11:00am on Market Deadline. The buyer protection deadline on rights (which currently trade T+1) should however remain unchanged. However, it should be noted that this would also apply to Open Offers given both events are processed using the same event type of 'Call Payment' (CPP).

The advantages to market participants would be as follows:

- The first sight many participants would have of their pending transactions resulting from the last settlement cycle would be on market deadline, as many allocation and aggregation processes



take place in the evening of trade date. Moving the protection deadline will allow participants to protect on these transactions should they remain unsettled by 11:00am.

- For both in-scope Voluntary and Mandatory with Options events, all entitled trades can be protected on, providing they are in matched status.
- The 11:00am buyer protection deadline provides a five hour window for transactions to settle and match, based on the commencement of CREST settlement at 06:00am.

When considering Recommendation 1, we looked at several times during the morning to set the buyer protection deadline. The working group concluded that these were not optimal in allowing sufficient time to resolve any upstream issues and match transactions - considering the accelerated timeframes. The working group agreed that 11:00am GMT – as it exists today under T+2 allowed counterparties adequate time to resolve pre-settlement issues. It was agreed by all parties that the protection deadline did need to move to market deadline to align market practice to T+1 settlement.

#### **Recommendation 2 – Buyer Protection Instructions become unilateral for both bilateral and CCP trades**

We recommend that buyer protection instructions do not require matching by the selling party providing they are input in accordance with buyer protection market practice. Currently, for CCP transactions on both voluntary and mandatory with options events, only one party is required to input an ACON instruction for the transaction to transform.

However, for bilateral transactions:

- on voluntary events, both the buyer and seller are systemically required to input an ACON instruction for the same option for the transaction to transform into the agreed outturn.
- on mandatory with options, only one party is required to input an ACON instruction for the transaction to transform.

We recommend that for bilateral transactions, the current ACON process for mandatory with options is applied to voluntary events, i.e. that only one party is required to input an ACON instruction for the transaction to transform.

Additionally, we recommend that post the 11:00am deadline, for both mandatory with options and voluntary events, buyer protection instructions would require bilateral matching by both the buyer and seller, for the same option in order to be deemed valid, accepted by both parties, and to be recognised by the CREST system as eligible for transformation. As in the current state, the seller would be under no obligation to match the instruction on any protection submitted after the 11:00am CCP deadline.

The logic for bilateral transactions, for both voluntary and mandatory with option events should work as follows:



1. Unilateral buyer protection can be input up to 10:59:59
2. Bilateral input (matching an ACON) is required from 11:00:00.
3. Unilateral protection which is validly input by 10:59:59 will transform into the desired option.
4. Bilateral protection based on the same option, will transform regardless of when the ACON instruction was entered.
5. Unilateral protection input after 11:00:00 would not transform if unmatched.

In consideration of Recommendation 2, maintaining the current practice for bilateral trades (where the seller matches the buyer's protection instruction) was considered. The benefits of unilateral matching are:

1. If a protection is input according to market practice (prior to 11:00am) then there should be no reason for matching to be required, as entered in accordance with market standards.
2. This should eliminate the need for the buyer to contact the seller and arrange for them to match the buyer protection instruction. This should simplify the workflow of the buyer under condensed timeframes.
3. Unilateral matching is already long established for CCP transactions.

**Recommendation 3 – The transaction which is protected freezes post the 11:00am Protection Deadline.**

The transaction which is subject to a buyer protection is frozen once the buyer protection deadline passes.

The advantage to market participants would be as follows:

- This eliminates the risk of protected transactions settling after the buyer protection deadline and close to or after the market deadline. With only a two hour window between both deadlines, this should provide greater control of protected transactions.
- Settlement discipline is maintained as all market participants have until 11:00am to settle transactions. After this time protected transactions cannot settle and would need to be appropriately handled by the selling party.



For this to be effective, EUI should develop a CSD hold functionality which will prevent settlement of the transaction during the elective period of the event. Other considerations in relation to Recommendation 3 was for the transaction to be frozen at the time a protection was input, providing it was input in line with the market standards. This however may not allow the delivering counterparty the opportunity to settle the transaction on the morning of market deadline. Allowing this time allows transactions to settle and should minimize the number of protections and therefore transformations for members to manage once the corporate action pays.

It is understood that EUI does not currently have a standard, automated, hold and release functionality that can be applied to this scenario and that the initial feedback from EUI is that building such a capability would require a significant change to the current EUI infrastructure within the short timeframes for T+1. It is therefore requested that EUI explore the need for this capability further within its wider Transformation programme.

In the meantime, to mitigate the risk of receiving securities where an ACON has been instructed, members may wish to make use of the CREST settlement priority functionality, whereby counterparties may reduce the priority of a protected transaction to zero, in order to prevent and control its settlement during the CREST settlement windows.

## **Risks and Considerations**

- The AST still consider the current market deadline of 13:00 sub-optimal for dematerialised securities. The trade off with moving the buyer protection deadline is that it decreases the lead time to the market deadline, which may increase intensity and risk. The AST will continue to advocate for better deadlines for the UK market. We are currently in conversations with receiving agents, issuers and the FCA and will aim for a solution which supports market participants.
- It is highly recommended that once protection is input by the buyer there is no opportunity for the seller to make delivery of the shares post 11:00am – unless bilaterally agreed by both buyer and seller. This would prevent the scenario where securities are delivered to the buyer after 11:00am which would invalidate the protection and potentially be too late for the buyer to input an election into the CREST system.



## Stakeholder Impact

The proposals should benefit participants who have direct access to the CREST GUI. This would allow them access to view trade status, receive and input buyer protection in real-time and input corporate action instructions prior to the market deadline. Where this may be problematic is if there are several parties between the investor and the crest participant such as custodian / sub-custodian relationships. Such challenges exist under accelerated settlement anyway as there is less time between the end investor trading, submitting a preference and the custodian managing the election.

Crest prioritisation is also only effective versus bilateral counterparties. CCPs can still deliver post the ACON cut-off time. This however is a issue the UK market encounters under a T+2 settlement cycle today.

## Next Steps

- The changes should be considered by all CREST members and put to consultation across the industry.
- Euroclear UK and International should evaluate what is necessary to make the changes in the CREST GUI, and to provide appropriate timeframes for development.
- Once changes are implemented, they will need to be incorporated into the UK T+1 Testing Plan

## Conclusion

The UK's move to T+1 settlement requires the buyer protection framework to be updated so that it remains effective and fit for purpose. Without change, the current market practice would create gaps in protection and lead to less consistent outcomes across in-scope corporate action events. The recommendations set out in this document would preserve protection for entitled unsettled trades, appropriately manage risk within greater time constraints and simplify market practice by having one set of market practice which covers protection across all event types.

**We welcome your feedback on the recommendations outlined in this consultation paper and look forward to receiving responses. This consultation will close on **Friday, 20<sup>th</sup> of November 2026 at 17:00 London Time**. Responses should be sent by email to [richard.nicholls@morganstanley.com](mailto:richard.nicholls@morganstanley.com); [emma.miles@euroclear.com](mailto:emma.miles@euroclear.com) and [junayd.azam@euroclear.com](mailto:junayd.azam@euroclear.com) quoting *Buyer Protection in the United Kingdom – The Case for Change* in the subject line of your email.**



## Glossary of Terms

- **ACON** – CREST Buyer protection instruction. The buyer of matched but unsettled securities inputs an ACON instruction into the CREST system to instruct the seller to elect a corporate action preference on behalf of the buyer.
- **AST** – Accelerated Settlement Taskforce
- **Bilateral Transaction** – A trade which is not input versus a CCP (Central Counterparty) but directly versus another CREST market participant (e.g. Bank A vs Bank B)
- **CCP** – A central counterparty, such as The London Clearing House (LCH).
- **CCP Instruction Deadline** – The latest time to input an ACON / Buyer Protection Instruction in accordance with the buyer protection market practice (see page 2).
- **CCP Transaction** – A trade input versus a central counterparty
- **CREST** – The CSD (Central Securities Depository) and settlement system of the United Kingdom. The system holds electronic (dematerialised) securities and settles cash and securities transactions. CREST also handles other post-trade functions such as the processing of corporate actions
- **CREST GUI** – Software application which enables the user access to the CREST system
- **Dematerialised Securities** – Shares held electronically and not in certificated form.
- **Election** – Submitting a preference in response to a voluntary corporate event.
- **Entitled Trade** – In the context of voluntary corporate actions, a trade which has a settlement date which is equal to or before the end of the offer period on a voluntary corporate action.
- **Intended Settlement Date** – The date of settlement as per the contract of the trade. Under T+1 this would be the business day which
- **Last Day to Trade Entitled** – This is the last date a participant can buy securities in conjunction with the offer. The value date of the securities would be equal to the market deadline. Providing they settle in a timely manner; the buyer would be able to submit a preference prior to the market deadline.
- **Mandatory with Options** – An event which affects all its shareholders but provides them with a choice between different outcomes (e.g. the opportunity to take a cash alternative rather than receiving shares by default)



- **Market Deadline** – This is the latest time all market participants with direct access to the CSD can provide a preference in relation to a voluntary or mandatory with options corporate action.
- **Matched Status** – Where both the buyer and sellers trade instruction are identical or within a tolerance. A trade must be matched to submit a buyer protection instruction in the UK.
- **Payment Date** – The date in which the corporate action benefit is paid to investors.
- **Transformation** – In the context of buyer protection, transformation is an automated process which providing a buyer protection instruction is matched and transformation isn't skipped, will transform the protected transaction into the desired corporate action outturn.
- **T+1 Settlement** – Effective 11<sup>th</sup> of October 2027, the UK market will move to T+1 settlement. This is where settlement of a trade occurs one business day after it is traded.
- **T+2 Settlement** – The current settlement cycle in the UK, introduced on the 6<sup>th</sup> of October 2014. Trades settle two business days after they are traded.
- **Voluntary Corporate Action** – An offer where an investor needs to make an active choice as to whether they accept an offer.



## Current Buyer Protection Market Practice

The current buyer protection Market Practice published by Euroclear UK and International is as follows. There currently exists a distinction between voluntary corporate actions (such as takeovers) and mandatory with options events:

| <b>Voluntary Corporate Actions</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Mandatory Corporate Actions with Options</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Central Counterparty (CCP transactions)</b></p> <ul style="list-style-type: none"><li>- Only the buyer can input an ACON instruction</li><li>- A valid ACON instruction will only apply if it is input on or before the CCP instruction deadline and if the intended settlement date of the transaction is on or before the CCP instruction deadline. This date can be found in the Generic 2 tab of 'KCAP information' in the GUI.</li><li>- Transactions that have had an ACON instruction input will not transform until the intended settlement date has been reached.</li><li>- CCP Transitions cannot skip transformation</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                             | <p><b>CCP Transactions</b></p> <ul style="list-style-type: none"><li>- Only the buyer can input an ACON instruction</li><li>- A valid ACON instruction will only apply if it is input on or before the CCP instruction deadline and if the trade date of the transaction is on the day before the CCP instruction deadline.</li><li>- Transactions that have had an ACON instruction input will not transform until the transformation date for the corporate action has been reached.</li><li>- CCP Transactions cannot skip transformation</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>Bilateral transactions in CCP securities</b></p> <ul style="list-style-type: none"><li>- Both the buyer and the seller can input an ACON instruction. However, for the transaction to transform into the desired option, both the buyer and seller must input an ACON instruction for the same option.</li><li>- An ACON instruction will only apply if it is input on or before the CCP instruction deadline and if the intended settlement date of the transaction is on or before the CCP instruction deadline. Note that our system allows ACON instructions to be input after the CCP deadline has passed. However, these instructions are treated on a best-effort basis, and the seller is under no obligation to act on this instruction.</li><li>- Transactions that have had an ACON instruction input will not transform until the intended settlement date has been reached.</li><li>- Transactions with an unmatched ACON instruction will not transform.</li><li>- Both the buyer and seller can elect to skip transformation</li></ul> | <p><b>Bilateral transactions in CCP securities</b></p> <ul style="list-style-type: none"><li>- Both the buyer and seller can input an ACON instruction. However, for the transaction to transform into the desired option, only one of the parties, i.e. the buyer or the seller, needs to input an ACON.</li><li>- A valid ACON instruction will only apply if it is input on or before the CCP instruction deadline and if the trade date of the transaction is on the day before the CCP instruction deadline. Note that our system allows ACON instructions to be input after the CCP instruction deadline has passed. However, these instructions are treated on a best-efforts basis, and the seller is under no obligation to act on this instruction.</li><li>- Transactions that have had an ACON instruction input will not transform until the transformation date for the corporate action has been reached.</li><li>- Transactions with an unmatched ACON instruction will not transform.</li><li>- Both the buyer and seller can elect to skip transformation</li></ul> |

Source: Euroclear UK and International