T+2 Implementation in UK & Ireland

Q & A

1. How is the change being coordinated in the UK & Ireland?

A working group was formed in October 2013 consisting of a broad representation of market participants, market infrastructure providers and regulators to consider the issues associated with the move to T+2 and ensure that UK and Irish market participants and other key stakeholders are best prepared for the change.

A list of participating organization and the primary contact for their respective members is provided below:

Alternative Investment Management Association - Oliver Robinson (orobinson@aima.org)
Association for Financial Markets in Europe - Stephen Burton (Stephen.Burton@afme.eu)
BATS Chi-X Europe - Nathan Renyard (nrenyard@bats.com)
British Bankers’ Association - Andrew Rogan (andrew.rogan@bba.org.uk)
EuroCCP – Bradley Arrowsmith (bradley.arrowsmith@euroccp.com)
Euroclear UK & Ireland - Craig Clayton (craig.clayton@euroclear.com)
Investment Management Association - David Broadway (DBROADWAY@investmentuk.org)
International Capital Market Association - John Serocold (john.serocold@icmagroup.org)
Institute of Chartered Secretaries and Administrators Registrars Group – Michael Sansom (Michael.Sansom@computershare.co.uk)
Irish Stock Exchange - Mary Lyons (mary.lyons@ise.ie)
LCH.Clearnet – Greg Michaels (Greg.Michaels@lchlearnet.com)
London Stock Exchange and Turquoise - Tim Beckwith (tbeckwith@lseg.com)
SIX X-Clear – Chris La Conti (Christopher.LaConti@sisclear.com)
UK & Ireland Stock Events Working Party - Mike Collier (michael.collier@db.com)
UK Payments – Andre De Roy (andre.deroy@ukpayment.com)
Wealth Management Association - Andy Thompson (andyt@thewma.co.uk)

The Bank of England and FCA also participate as observers.

2. Why is this change being made in the UK and Irish markets?

The UK and Irish markets, as part of the European Union, are subject to the upcoming Central Securities Depositories Regulation (CSDR). The move to T+2 is consistent with the requirements in CSDR and with a move to shorten and harmonise the settlement cycle in Europe. Further information on the CSDR can be found on the European Commission’s website:


Effective 6th October 2014, UK & Ireland will migrate to T+2 settlement cycle for those impacted instruments and markets.

3. What is the scope of securities that are impacted by this change?

The scope of securities impacted, as defined by the regulation, relates to transactions in transferable securities which are executed on trading venues. Transferable securities are defined under point 18 of Article 4 of the Markets in Financial Instruments Directive (MiFID), as per the below:

18) ‘Transferable securities’ means those classes of securities which are negotiable on the capital market, with the exception of instruments of payment, such as:
(a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;

(b) bonds or other forms of securitised debt, including depositary receipts in respect of such securities;

(c) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures;

Therefore, the coordination being carried out on behalf of and in conjunction with the UK & Irish markets primarily relates to transferable securities traded on UK and Irish based RMs/RIEs/MTFs/OTFs (once OTFs come into force) and which are settled in the Euroclear UK & Ireland’s CREST System.

Trading venues will also identify down to a security level which instruments on their market are moving to a new T+2 standard settlement. For further information on specific asset classes please refer to the individual trading venues.


http://www.batstrading.co.uk/alerts/67937/release_notes/

http://www.ise.ie/Membership-and-Trading/Market-Infrastructure/Settlement/T2_Settlement/

4. Can I still bilaterally agree non-standard settlement even in impacted securities on impacted venues?

T+2 standard settlement is applicable by default to the securities identified on the trading venues as per the above links. There are certain instances when the T+2 requirement is not mandated by the regulation. Details of these can be found within Article 5(2) of the regulation, which stipulates the following instances:

- transactions which are negotiated privately but executed on a trading venue,
- to transactions which are executed bilaterally but reported to a trading venue,
- to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form.

For reference to the above exemptions, the relevant text can be found in the attached link within article 5(2):

http://register.consilium.europa.eu/doc/srv?l=EN&f=PE%2049%202014%20REV%201

Trading participants are not precluded by the CSDR from bilaterally agreeing at point of trade a different settlement period to T+2 including extended settlement for certificated trades.

5. Will trades executed on Friday 3rd October and those executed on Monday 6th October, be netted for settlement?

CCPs that clear instruments traded on UK & Irish markets will continue to adopt trade date netting over the transition period therefore participants will have two settlements in the same instrument for the settlement date of 8 October 2014.

It is recommended that confirmation of netting processes over the migration period be established with other CCPs across Europe as different approaches are potentially being undertaken.
6. The UK & Irish markets are due to implement a T+2 settlement cycle on the same day as many of the other major European markets. Do you foresee any risks associated to a ‘big bang’ approach and what mitigates are in place to address the risks associated with this implementation?

The decision of when to move to T+2 was made in October 2013 by an industry represented group, chaired by the UK & Irish CSD, Euroclear UK & Ireland. An industry represented working group was also established to coordinate the migration and this initiative has been overseen and supported by The Bank of England and the FCA. Firms trading and settling the UK & Ireland are encouraged to consider their own risk profile associated to the implementation of a T+2 settlement cycle.

Communication and coordination

It was considered that the biggest risk associated to the implementation of T+2 was a disorderly, uncoordinated move. A single implementation date addresses this risk and also mitigates against the risks associated with securities which are dual-listed in different European countries.

Liquidity / credit constraints

Given the primary settlement currency in EUI is GBP, the ‘big bang’ implementation process across Europe poses minimal additional liquidity risk to the smooth implementation of T+2 in the UK & Ireland. Furthermore, the Settlement Bank community has been made aware of the implementation of T+2 and is prepared for a more flexible approach to liquidity and credit constraints on Wednesday 8th October (the cross-over day between settlements instructed on a T+3 and T+2 settlement cycle).

Resourcing and Systems/Technology

The UK & Ireland T+2 Implementation Working Group recommends that firms consider their own resourcing and system/technology requirements over the T+2 implementation period.

7. What is the impact to the EUI matching and settlement discipline regimes over the transition period?

EUI has successfully consulted on proposed changes to its Matching Discipline regime (which closed on Friday, 6th June 2014).

The Matching Discipline Regime includes deliveries (DELs), residual deliveries (RESs) and stock loans (SLOs) relating to the following CREST security categories:

- FTSE 100;
- FTSE mid 250;
- Irish Equivalent 100;
- Irish Equivalent 250;
- Other UK and Irish settleable; and
- Residual UK and Irish,

From Monday, 1st September 2014, there will be a 100% matching target on T+1 for all qualifying transactions.

In order to allow Clients time to adjust to the new target, EUI is taking a phased approach to implementation:

- September & October 2014 (Period 97) - 50% discount on matching fine total charge
- November & December 2014 (Period 98) - 25% discount on matching fine total charge
- January & February 2015 (Period 99) and after - Full matching fines - No Discount

There are no foreseen changes to the Settlement Discipline regimes operated by EUI or the CCPs, but any holidays / discounts will be communicated separately by the relevant operator, directly to its clients.
8. **What is the impact where securities are dual listed across different markets?**

Where a security is dual listed across two markets which are both implementing T+2 on the same date, we do not currently envisage any new issues. Firms trading the same ISIN on different settlement cycles should make the necessary arrangements to support this.

9. **What is the impact to “when issued” trading?**

The settlement of “when issued” trading will continue to be deferred until the listing or admission to trading has taken place.

Once securities have been admitted to trading, then trades will be subject to T+2 settlement.

10. **How should I approach affirmation and CSD matching in light of the forthcoming T+2 settlement cycle?**

As per EUI’s Matching Discipline Regime, firms will be required to match trades in the CSD no later than T+1. It is therefore recommended that affirmation takes place on Trade Date, or as soon after as is realistically possible.

11. **Are the UK and Irish markets ready for the implementation of T+2 on 6th October 2014?**

Market Infrastructures within the UK & Ireland T+2 Working Group have confirmed that required changes to systems, rulebooks and procedures (if any) have been assessed and foresee no issues for the migration to T+2 settlement cycle on 6th October 2014. Any late issues will be communicated by the relevant market infrastructure and will be escalated to the Working Group accordingly.

The UK & Ireland T+2 Working Group consulted the UK & Irish markets to establish their readiness. A summary of the consultation response can be found here:


12. **Will there be a period of T+2 testing for the UK & Irish markets?**

EUI will be facilitating a period of CSD testing from Monday, 18th August 2014 to Friday, 26th September 2014; the first two weeks will be connectivity testing followed by a full, EUI supported window for the following four weeks. More information is available on the EUI website; a link to the relevant EUI Operational Bulletin can be found below:


The Trade Venues and CCPs associated to this group have confirmed their participation in testing; you should contact the appropriate Trade Venue(s) / CCP(s) to confirm testing arrangements.

13. **Does the implementation of a T+2 settlement cycle alter the dividend timetable?**

The dividend timetable in the UK & Ireland will be altered to reflect the shortened settlement cycle. From Monday, 6th October, the ex date on dividends will be scheduled one business day prior to record date.
Miscellaneous

1. **Are other European markets also making this change to T+2?**

Yes other European markets and Central Securities Depositaries will be making this change. For further information please refer to the specific local market. To provide market participants with guidance the European Central Bank (ECB) T2S HSG task force has produced a best practices paper on the T+2 migration which can be viewed here: