AFME, The IA and UK Finance response to EUI's consultation on changes to CREST Settlement Discipline Regime

28 August 2026

The Association for Financial Markets in Europe, The Investment Association, and UK Finance (collectively, "the associations") welcome the opportunity to comment on **Euroclear UK & International's consultation on changes to CREST Settlement Discipline Regime.**

The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME's legal and regulatory initiatives.

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £11.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 53% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, it seeks to enhance competitiveness, support customers and facilitate innovation. Our primary role is to help our members ensure that the UK retains its position as a global leader in financial services. To do this, we facilitate industry-wide collaboration, provide data and evidence-backed representation with policy makers and regulators, and promote the actions necessary to protect the financial system. UK Finance's operational activity enhances members' own services in situations where collective industry action adds value. Our members include both large and small firms, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. More information is available on our website. This response only represents the views of a subsection of UK Finance's membership and excludes the views of Euroclear.

General considerations

The associations welcome the opportunity to respond to Euroclear UK & International's consultation on proposed changes to the CREST Settlement Discipline Regime. We recognise the importance of a settlement discipline framework that supports settlement efficiency and encourages timely settlement in the UK market.

The associations recognise that the existing CREST Settlement Discipline Regime would benefit from review and modernisation. Our position should therefore not be interpreted as support for maintaining the current framework indefinitely.

However, the associations' members have significant concerns with the proposed approach. These concerns are not fully captured by the individual consultation questions, which are relatively narrow in scope. We therefore set out these general considerations at the outset of our response.

1. Implementation timeline and interaction with T+1

A key concern is the proposed timeline of implementation. The consultation indicates that changes to the CREST Settlement Discipline Regime would be introduced ahead of the UK's transition to T+1 (i.e. by October 2027). We do not consider that the consultation provides a sufficiently clear rationale for why these changes need to be implemented before T+1 go-live.

Firms are already dedicating significant resources to T+1 implementation. Introducing material changes to the settlement discipline framework in parallel would create further operational complexity and would compete for the same budgets, technology resources and subject-matter expertise. Diversion of resources to adopt a rushed new settlement discipline regime would put firms' ability to produce a successful transition to T+1 at risk. Rather than achieving the objective of improving settlement efficiency, it therefore risks having the opposite impact – undermining industry readiness for T+1 implementation and thus creating more settlement fails. Further, we note that EUI intend to implement a 100% increase in late matching fines as of October 2027, which participants are already preparing for and is already expected to contribute towards improved settlement efficiency.

Settlement Discipline reform is also a significant implementation project in its own right. Participants would need to understand the final methodology, assess its impact, secure budgets, develop processes to calculate and allocate penalties, implement any necessary client pass-on arrangements, and undertake appropriate testing. The consultation and subsequent decision-making process may not provide firms with sufficient certainty or implementation time to complete these activities before T+1.

We are also concerned that the design of the proposed regime may be constrained by what can be delivered within a compressed pre-T+1 implementation window and under the current CREST infrastructure. The objective should be to replace the existing framework with a well-designed and effective regime, rather than introducing an interim model primarily because it can be delivered within a particular timetable.

The consultation also appears to indicate that some potentially more appropriate features, including a compensatory credit mechanism, cannot currently be supported by the existing CREST infrastructure. If the current technology materially limits the range of available options, this reinforces the case for deferring reform until CREST modernisation allows a more complete and proportionate model to be considered.

For these reasons, we do not support the implementation of material changes to the CREST Settlement Discipline Regime before T+1 go-live. A more detailed review after T+1, potentially considered alongside the wider modernisation of CREST, would allow a broader range of design options to be properly assessed.

2. Rationale, evidence and impact assessment

The consultation does not provide sufficient evidence or analysis to demonstrate the need for the proposed changes. While it sets out two possible models, it does not clearly identify the specific problem that the proposals are intended to solve or the principal causes of settlement fails.

This is particularly important given that current UK settlement efficiency is already reported to be approximately 96%, which we believe is broadly comparable with other similar jurisdictions. The consultation should explain why an immediate material change to the regime is necessary and provide evidence that the proposed penalty models would improve settlement efficiency more effectively than existing industry initiatives focused directly on addressing operational causes of settlement fails.

The consultation also does not provide sufficient detail on key elements such as:

- the expected level of fines;
- the practical implementation methodology;
- the operational and technology impact on participants;
- the treatment of settlement fails and omnibus accounts;
- the ability to allocate and pass penalties to underlying clients;
- the expected behavioural response from market participants; and
- the overall costs and benefits for the UK market.

Without this information, it is difficult for members to assess whether the proposals would be proportionate, effective or operationally feasible.

Any future reform should therefore be supported by a comprehensive impact assessment covering the causes of settlement fails, the expected behavioural impact of penalties, implementation and ongoing costs, the interaction with T+1, and the potential consequences for market liquidity and competitiveness.

3. Impact on market functioning and competitiveness

The proposed models could, in practice, move the UK towards a “no-fails” market. Depending on the level and structure of the fines, firms may need to manage UK settlement activity on the basis that any settlement fail is commercially unacceptable.

This could result in greater pre-funding, increased securities borrowing, reduced willingness to provide liquidity and wider bid-offer spreads. These effects could be particularly significant for market makers and for less-liquid securities.

We note that although the current CREST regime is limited to FTSE 100 and FTSE 250 securities, not all securities within that scope are highly liquid. The fact that an instrument is included in a major index should not in itself be taken as evidence that market participants can readily source the relevant securities or eliminate all settlement risk.

The proposed approach could therefore:

- discourage market-making activity;
- increase the cost of trading and settlement;
- reduce liquidity in certain securities;
- create particular challenges for dual-listed securities;
- increase costs ultimately borne by end investors; and
- adversely affect the competitiveness and attractiveness of the UK market.

4. Penalty allocation in the settlement chain

We consider that the absence of a corresponding credit-distribution mechanism to be a significant weakness in both proposed models.

In a settlement chain a single underlying failure may cause several linked transactions to fail. Under the proposed approach, a number of intermediaries could therefore be fined in relation to the same originating fail, including participants that may have not caused it, while the counterparties affected by the fail would receive no corresponding credit.

This will result in disproportionate outcomes and does not create the appropriate incentives to improve settlement efficiency. Any future reform should therefore take proper account of settlement chains and consider how penalties can be directed towards the party directly responsible for the underlying fail while compensating the counterparty affected by it.

For penalties to influence behaviour, firms must also be able to attribute and, where appropriate, pass the relevant charge to the underlying client or business area responsible. The proposed models make this particularly challenging for omnibus accounts or broker-dealer accounts containing multiple clients or trading desks. Where a penalty is calculated at participant-account level, it may be difficult to identify which underlying activity caused the relevant settlement-efficiency threshold to be breached.

Without a workable attribution and pass-on mechanism, the proposed regime may primarily impose costs on custodians and other intermediaries without necessarily changing the behaviour of the party responsible for the fail. The operational implications of developing such processes should therefore be assessed as part of any future impact analysis.

In this context, we recommend that any longer-term reform should assess whether closer alignment with the EU CSDR cash penalties framework would provide a more proportionate and equitable approach, particularly in relation to its compensatory debit-and-credit structure. Such an approach would help ensure that the counterparty affected by a settlement fail receives a corresponding credit, rather than penalties being applied without compensation.

Closer alignment could also foster efficiencies for firms operating across the UK and EU markets, particularly given that firms have already made significant investments in systems and processes to support the EU regime. However, this should not be interpreted as support for automatically replicating every element of the EU CSDR framework. The appropriate scope, methodology and calibration for the UK market would need to be considered through a detailed impact assessment and further industry consultation.

5. Treatment of penalty proceeds

We also request greater clarity on the proposed treatment of the amounts collected. As we understand the proposals, CREST would retain the fines rather than distribute corresponding credits to counterparties affected by settlement fails.

This raises questions as to whether the proposed framework would operate primarily as an incentive to improve settlement behaviour or as an additional source of revenue for CREST. In this regard, we note that Article 7(2) of UK CSDR provides that cash penalties should not constitute a source of revenue for CSDs. The consultation should therefore provide greater transparency on the expected amounts collected, the basis on which CREST would retain them and how the proceeds would be used.

In light of these concerns, we do not consider that either of the proposed models can be supported in their current form. We therefore recommend maintaining the current framework through the T+1 transition and undertaking a more detailed post-T+1 review of the CREST Settlement Discipline Regime. We reiterate that any future changes should be based on clear evidence, appropriate cost-benefit analysis and further market consultation. They should also be proportionate, operationally feasible, and designed in a way that supports settlement efficiency without creating unintended negative consequences for the UK market.

Responses to the questions of the Consultation

Question 1: Do respondents agree with Proposals 1-6?

We do not consider that Proposals 1-6 can be assessed separately from the wider review of the CREST Settlement Discipline Regime. Whether these individual elements remain appropriate will depend on the objectives, structure and operational design of any future settlement discipline framework.

As previously noted, we believe that there are areas of the current regime that may benefit from review. Any reform should, however, deliver a well-designed long-term framework rather than incremental changes driven by current implementation constraints. In our view, the current consultation does not provide a sufficiently developed basis on which to determine which individual features should be retained or amended. In particular, it does not present a comprehensive future model or provide sufficient evidence to assess how those features would interact with the wider framework or address the underlying causes of settlement fails.

A later review would also allow the regime to take account of wider developments in UK market infrastructure and operating models. For example, the London Stock Exchange has recently announced plans to launch LSE 24, a new trading venue intended to support extended trading hours, with the potential to expand into equities over time. Such developments may have implications for the definition of the operational day, settlement cut-offs and the operation of any future settlement discipline regime. This further reinforces the benefit of undertaking a holistic review after T+1, when the future market operating environment is clearer and a broader range of design options can be properly considered.

Accordingly, we recommend that Proposals 1–6 be reconsidered as part of a broader post-T+1 review of the CREST Settlement Discipline Regime. Such a review would allow the overall framework to be assessed coherently, supported by appropriate evidence and impact analysis, and taking account of a wider range of design options. Our response should therefore not be interpreted as support for retaining, or opposing, any individual feature of the current regime in isolation.

Question 2: With regards to Proposal 7 – Settlement efficiency – Which proposal (7 a. or 7 b.) do you prefer?

We do not support either Option 7.a or Option 7.b in their current form.

Under Option 7.a, every transaction failing to settle on its ISD would generate a fine, without any corresponding credit being distributed to the counterparty affected by the fail. This is particularly problematic in the context of settlement chains, where a single originating fail may result in several linked transactions failing. Multiple intermediaries could therefore be fined in relation to the same underlying fail, including participants that may not have caused it, while the affected counterparty would receive no corresponding compensation. In our view, this significantly limits the ability of the proposed model to create appropriate incentives or improve settlement behaviour.

Option 7.a could also move the UK towards a “no-fails” market, depending on the level and structure of the fines. If the financial consequences of any settlement fail become commercially

unacceptable, firms may need to manage transactions on the assumption that settlement must be guaranteed in all circumstances. This could require greater pre-funding and more extensive securities borrowing, including borrowing additional securities to cover the risk that expected receipts do not arrive on time. The resulting costs and risks would likely be reflected in transaction pricing through wider bid-offer spreads and a reduced willingness market makers to provide liquidity, particularly in less-liquid securities or where stock is difficult to source. Rather than eliminating settlement risk, the proposal could therefore transfer that risk into higher trading and funding costs, with potential consequences for the liquidity and competitiveness of the UK market.

Option 7.b would retain the existing threshold-based approach but materially increase the applicable settlement-efficiency thresholds. Under the current framework, the ISD threshold is 85%, with progressively higher thresholds applying as a fail ages. We note that the current ISD threshold generally operates as a backstop, with participants only rarely falling below it.

By contrast, setting the ISD threshold at or around 96% would materially expand the number and type of participant accounts exposed to fines. This would be particularly challenging for omnibus and broker-dealer accounts containing multiple underlying clients or trading desks, where it may be difficult to identify which underlying activity caused the participant-level threshold to be breached and to allocate any resulting fine appropriately.

Neither proposal addresses the absence of a compensatory credit-distribution mechanism or provides a sufficiently developed and workable basis for reform. We therefore recommend maintaining the current framework through the UK's transition to T+1 and considering any material changes through a more comprehensive post-T+1 review.

Question 3: With regards to 7 a.

Question 3.a: Should fines be levied as a flat fee or ad valorem?

We do not support Option 7.a; we do not consider that either a flat-fee or ad valorem methodology would make the proposed model workable. Should a future compensatory regime be considered, an ad valorem approach may provide a closer relationship between the value of the failed transaction and the resulting economic impact.

Question 3.b: Whichever the fining process, do you agree that there should be a reduction for Market Makers given the important role they have in maintaining an orderly and liquid market in the relevant securities?

We recognise the important role of market makers in supporting orderly and liquid markets. However, a fixed percentage reduction would not address the underlying weaknesses of Option 7.a. The regime should instead be designed so that market-making activity is not disproportionately penalised, taking account of the liquidity characteristics of the securities in scope and the reasons for the underlying fail.

Question 3.c: Do you agree that flat fee fines should be increased after ISD+5?

We do not support increasing fines according to the age of the fail. Escalating rates would add unnecessary complexity to the calculation, reconciliation, allocation and pass-on of penalties and could create inconsistent outcomes within settlement chains.

Question 3.d: Do you believe that ad valorem fines should be increased after a similar period?

Please see our response to Question 3.c.

Question 3.e: Regardless of the type of fine levied (flat fee or ad valorem) do you believe that the fines levied for smaller size transactions should be different from those levied for larger size transactions?

We do not consider that different methodologies should apply solely on the basis of transaction size. Should a future compensatory regime be developed, an ad valorem methodology would already ensure that the amount of the penalty is proportionate to the value of the failed transaction, without introducing additional complexity through different treatment of smaller and larger transactions.

Any future framework should also seek to ensure that corresponding debits and credits remain aligned throughout the settlement chain. Introducing different methodologies according to transaction size could undermine this objective and add further complexity to the calculation, allocation and pass-on of penalties.

Question 4: With regards to 7 b.

Question 4.a: Do you agree that the settlement efficiency rate for days past ISD continues to be steadily raised as the length of fail increases?

We do not agree that settlement efficiency thresholds should be raised as the length of the fail increases. This would add operational complexity without addressing the underlying causes of settlement fails or the difficulties associated with attribution and pass-on.

Question 4.b: Do you agree that the settlement efficiency rate for ISD (and subsequent days) should be steadily increased over time?

We do not support progressively increasing the ISD or subsequent day thresholds without clear evidence and detailed modelling. In particular, aligning the participant-level fining threshold with the current market-wide settlement-efficiency average would materially expand the number and type of accounts exposed to penalties and create significant attribution challenges for omnibus and multi-desk account structures.