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Thursday 31 October 2024

Dear Treasury colleagues,

Accelerated Settlement Taskforce, Technical Group draft recommendations and report: Consultation

We welcome the opportunity to respond to the Accelerated Settlement Taskforce's consultation on its draft recommendations.

The Quoted Companies Alliance *Secondary Markets Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Instead of answering each consultation question, we provide our overarching comments on the report's recommendations below.

While we recognise the potential gains from the UK's move to T+1 through improved efficiency in share trades and alignment with international competitors including the US and eventually the EU, we are concerned about the immediate impact the transition could have for smaller companies. Consideration needs to be given to this segment of the market, as these changes could, at least in the short to medium term, harm liquidity for smaller company stocks and increase costs for asset managers and their clients (particularly those investing in smaller stocks, and funds in different time zones to London), who may reduce their investments in smaller companies due to the increased costs of trading.

Learning from the US move to T+1

UK based asset managers investing in the USA have faced challenges since the US's move to T+1. For example, to affirm US trades on T for UK based investors has required either UK asset management staff to work evening shifts or led to the introduction of additional costly technology or the recruitment of additional US based staff to handle trade settlement on T. This has often meant the need for a trader and a settlements employee working after UK normal working hours with cover in place for each. These costs are material for the asset manager and their clients.

As the UK moves to T+1, it is important that the Accelerated Settlement Taskforce consider the additional staffing and systems cost on international investors operating in different time zones to London, including certain areas of Europe and all of Asia.

Smaller investors from such time zones that invest in UK smaller companies may not be adequately resourced and may not find it economically viable to continue to invest in the UK stock market if it is peripheral to their investment mandates. To align with European times, the London Stock Exchange opens 8am-4.30pm. Requiring settlement activities to be completed mainly on T extends the UK working day further on T and may require longer UK working hours which could potentially increase costs.

The impact of T+1 on the liquidity of smaller stocks

With already lower levels of liquidity for smaller cap companies[1], it is important that the settlement flexibility that market makers currently enjoy is preserved. For example, when buying shares on RSPs, T+20 is allowed which enables market makers to cover any settlement dislocations. Market makers play a vital role in facilitating the participation of retail investors and buttressing liquidity and it is important that their function in supporting liquidity is not compromised.

Indeed, if the move to T+1 negatively impacts liquidity for smaller stocks, it could have broader implications for investors in these stocks. Small cap fund managers that invest in sub-£100m market cap companies are required to set out their ability to service any potential redemptions on shares in their portfolio in order to comply with liquidity requirements. Any further drop in liquidity of smaller company stocks will likely make investing in these businesses more difficult for small cap fund managers and will further damage the investment prospects of these companies.

As a minor point, smaller companies often have a higher proportion of their share register owned by founders and staff who may have certificated shares. The selling of certificated shares is slower and more complex and could be an impediment for the share settlement of smaller companies.

Placings and T+1

We would caution against the immediate inclusion of placings as part of the UK's move to T+1. Including placings under T+1 would likely lead to increases in instances of settlement failure. Currently, there is an exodus of UK small cap funds investing in placings. This results in the number of counterparties in a placing increasing. Placings with a high number of investors involved can be difficult to coordinate and ensuring that each organisation correctly inputs information on the trade in their internal system in a timely manner before settlement date can be challenging. Not allowing firms time to adapt their systems in time to facilitate the move to T+1 could risk more mistakes being made and lead to further disruption for placings, particularly for small and mid-caps.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

[1] For example, half of AIM stocks have less than 10 trades a day and just 5% of AIM companies traded more than £1m a day in 2023. Source: New Financial: *The Future of Smaller Company Capital Markets in the UK.* (2024) p.23.

James Ashton

James Ashton
Chief Executive

Appendix A

The Quoted Companies Alliance *Secondary Markets Expert Group*

Amber Wood (Chair)	**Panmure Liberum**
Jasper Berry	Cavendish
Andrew Collins	Charles Russell Speechlys LLP
Richard Crowley	KPMG LLP
Fraser Elms	Herald Investment Management Ltd
Richard Fenner	Euroclear UK & International
William Garner	Charles Russell Speechlys LLP
Jon Gerty	Peel Hunt LLP
Alex Giacopazzi	Winterflood Securities Ltd
Mitchell Gibb	Stifel
Keith Hiscock	Hardman & Co
Niall Pearson	Hybridan LLP
Jeremy Phillips	CMS Cameron McKenna Nabarro Olswang LLP
Katie Potts	Herald Investment Management Ltd
Chris Robinson	Panmure Liberum
Stephen Streater	Blackbird Plc
Peter Swabey	C/o The Chartered Governance Institute