



BANK OF ENGLAND

**CHAPS Co**



# Extending the CHAPS and CREST Settlement Day

May 2015

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## Executive summary

- 1 In November 2014, the Bank of England issued a policy proposal to extend the operating hours of the Real Time Gross Settlement (RTGS) infrastructure in order to facilitate a longer settlement day for CHAPS and CREST. The Bank asked the two system operators, CHAPS Co and Euroclear UK & Ireland, to engage with users of their systems on this proposal and provide recommendations to the Bank on how and when these changes to the settlement day could be implemented.
- 2 This engagement has now concluded, and the system operators have made their recommendations, which the Bank has accepted.
- 3 As a result, **the CHAPS and CREST settlement day will be extended from summer 2016**. This will deliver the policy benefits that the Bank identified in its review, including:
  - a. **enhanced risk management for financial market infrastructures** (FMIs) – market participants will be able to make CHAPS payments later in the day to fulfil sterling cash obligations;
  - b. **increased flexibility in balance sheet management** – financial market participants and end-users will be able to undertake some funding and investment decisions later in the typical business day of end-users; and
  - c. **greater flexibility for end-users** – the settlement day will be aligned more closely with the typical business day, allowing end-users to make high-value transactions later in their business day.
- 4 **A series of significant deadlines within the CHAPS and CREST systems will change:**
  - a. the CREST deadline for both equity and gilt Delivery-versus-Payment (DvP) transactions for settlement will be aligned to **14:55**;
  - b. to improve the flexibility of corporate fund-raisers for same-day debt issuance, the market issuance deadline will be extended (in consultation with users) to around **15:00**;
  - c. within CREST, settlement of secured money market repo transactions via Delivery-by-Value (DBV) will end at **17:30**;
  - d. customer CHAPS payments will end at **17:40** (although customer deadlines set by direct members of CHAPS and CREST will be earlier);
  - e. interbank CHAPS payments will end at **18:00**; and
  - f. the contingency deadline for extensions to CHAPS and CREST within the RTGS infrastructure will remain unchanged at **20:00**.
- 5 The purpose of this paper, issued jointly by the Bank of England, CHAPS Co and Euroclear UK & Ireland, is to set out key information for institutions that provide services that settle in CHAPS and CREST, to enable them to prepare for the change and provide a basis for their client communications.
- 6 The Bank, CHAPS Co and Euroclear UK & Ireland intend to implement a longer settlement day in summer 2016. Institutions that provide services that settle transactions in CHAPS and/or CREST, such as banks, building societies and other financial market participants, and providers of supplementary back office services, need to start their own preparations for implementation, including any consequential changes to their customer services, to ensure readiness for summer 2016. A precise implementation date will be set by end-August 2015, in discussion with participants.

## A. Background

- 7 The RTGS infrastructure is the system through which the Bank fulfils its role as settlement agent for the main sterling payment systems.<sup>1</sup> It does this by enabling direct participants in these systems – the CHAPS and CREST settlement banks – to settle their interbank obligations in central bank money.
- 8 In 2014, the Bank undertook a policy review of the operating hours of the RTGS infrastructure to assess whether making it available for longer each day – and therefore enabling CHAPS and CREST systems to extend their settlement hours – would mitigate risk or provide other benefits for end-users.
- 9 The Bank’s policy review was informed by input from payment system operators, together with a cross-section of their direct participants, potential future direct participants, wholesale market participants, other end-users, other FMIs and the UK financial authorities.
- 10 The policy review concluded that there were a number of benefits to extending the settlement day in order to broadly align it with the typical business day of many end-users.
- 11 In November 2014, the Bank issued a policy proposal to extend the operating hours of the RTGS infrastructure to enable an extension of the CHAPS and CREST settlement day. The Bank asked the operators of the two systems, CHAPS Co and Euroclear UK & Ireland, to engage with their users on how and when this proposal should be implemented. While the Bank operates the RTGS infrastructure and determines its operating hours, it is ultimately for CHAPS Co and Euroclear UK & Ireland to determine their settlement timetables.
- 12 CHAPS Co and Euroclear UK & Ireland engaged with their direct members and organisations that provide supplementary services, such as registrars, through questionnaires and discussion at market fora. Around 45 institutions submitted responses to CHAPS Co and Euroclear UK & Ireland. Both system operators have now concluded this engagement and have made a number of recommendations to the Bank on the design of their daily settlement timetables, and the appropriate implementation timeline for the change to take place. The Bank has accepted these recommendations, which are summarised in this paper.

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<sup>1</sup> The retail payment systems which settle their net interbank obligations across RTGS will not be affected by this change. Unlike in CHAPS and CREST, where payments are settled across RTGS in real-time, the retail schemes do not require RTGS to be open to process customer payments.

## B. Policy benefits

- 13 The Bank's review in 2014 identified a range of benefits from extending the CHAPS and CREST settlement day.
- 14 First, **it will enhance risk management for FMIs by enabling market participants to make CHAPS payments later in the day to fulfil sterling cash obligations.** For example, clearing houses will be able to extend their deadline for calling intraday margin in sterling, enabling them to conduct more of their cash settlement in central bank money. This will provide the clearing houses with the additional flexibility to make CHAPS payments later in the afternoon, and help to mitigate risk.
- 15 Second, **it will provide increased flexibility in balance sheet management by enabling end-users (e.g. corporates and investment managers) to undertake some funding and investment decisions later in their typical business day.** This could contribute towards the reduction of balance sheet risks. For example, more time will be available for corporates to make decisions on accessing secured money markets or accessing same-day funding in sterling markets. There will also be an increased overlap between the sterling high-value payment system and financial markets operating in currencies in timezones to the west of the United Kingdom.
- 16 Third, by aligning the settlement day more closely with their typical business day, **end-users will have greater flexibility by being able to make high-value transactions later in their typical business day.** Some end-users, especially in the corporate sector, are constrained by the transaction deadlines set by their banks. A later end to the settlement day will enable banks and building societies to set later transaction deadlines for their customers: for example, later deadlines in the afternoon for conveyancers to complete house purchases using CHAPS or for corporates to instruct and receive CHAPS payments.
- 17 The benefits to end-users will be realised through service providers – institutions that facilitate settlement in CHAPS and CREST – setting later deadlines for their customers that match the extension to the settlement day. The Bank, CHAPS Co and Euroclear UK & Ireland expect service providers to deliver these benefits to end-users.

## C. Feedback received

18 The feedback provided to CHAPS Co and Euroclear UK & Ireland indicated that:

- a. **There is broad agreement on benefits for end-users from an extended CHAPS and CREST settlement day:**
  - i. it enables access to the sterling money market later in the afternoon;
  - ii. it enables the United Kingdom's international competitiveness, including as an international financial centre, to be enhanced; and
  - iii. it enables a greater alignment of the UK's high-value payment and securities settlement day with the typical business hours of many end-users.<sup>2</sup>
- b. **A minority of CHAPS and CREST service providers and organisations that provide supplementary services were concerned that the benefits of an extended settlement day may be outweighed by increased costs of providing the service.** Specific points raised were:
  - i. market participants will need to participate in an extended sterling money market trading day, but may not gain significant business benefits themselves from trading later in the day;
  - ii. most securities transactions, notably purchases and sales of equities, are not for same-day settlement, so there is limited direct benefit from the flexibility of an extended settlement day; and
  - iii. registrars and other providers of back office services must conduct certain processes at the end of the settlement day and will therefore have their working day extended, potentially increasing the costs of providing their services.
- c. **There is broad agreement that moving both the end of the CHAPS settlement day from 16:20, and the end of the CREST settlement day from 16:40, to the later time of 18:00** would deliver the intended benefits to end-users, without the costs incurred by service providers increasing disproportionately.
- d. **An implementation date in mid-2016 would be achievable.** The Bank's November 2014 paper asked CHAPS Co and Euroclear UK & Ireland to consider autumn 2015 as a planning assumption for implementation. However, feedback from service providers via CHAPS Co and Euroclear UK & Ireland indicated that it would be difficult to make the necessary changes on that timescale without introducing unacceptable operational risk.

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<sup>2</sup> Respondents also understood the need to maintain the existing alignment between the CHAPS and CREST settlement days.

## D. Design of revised CHAPS and CREST timetable and implementation timeline

- 19 The Bank has accepted the recommendations from CHAPS Co and Euroclear UK & Ireland for implementing an extended CHAPS and CREST settlement day, enabled by an extended RTGS operating day that concludes at **18:00**.
- 20 The key changes to the CHAPS and CREST settlement day timetable are set out in Table 1 and also visually in the Annex. CHAPS Co and Euroclear UK & Ireland will be issuing more detailed information to their participants in due course.

**Table 1: Current and future summary CHAPS and CREST timetables**

CHAPS Event	Current Time	New Time	CREST Event	Current Time	New Time
Start of MT103/MT202 settlement	06:00	<b>06:00</b>	Start of DvP/FOP settlement <sup>3</sup>	06:00	<b>06:00</b>
			End of equity DvP settlement	14:00	<b>14:55</b>
			End of gilt DvP settlement	14:55	<b>14:55</b>
			Start of DBV settlement <sup>4</sup>	15:00	<b>15:00</b>
			End of DBV settlement	16:10	<b>17:30<sup>5</sup></b>
End of MT103 settlement	16:00	<b>17:40<sup>6</sup></b>			
End of MT202 settlement	16:20	<b>18:00</b>			
			End of FOP settlement <sup>7</sup>	16:40	<b>18:00</b>
Latest end of contingency extension	20:00	<b>20:00</b>	Latest end of contingency extension	19:30	<b>19:30</b>

- 21 CHAPS Co and Euroclear UK & Ireland also recommended an implementation date in **mid-2016**. The Bank's November 2014 paper asked both system operators to consider autumn 2015 as a planning assumption for implementation. However, credible feedback was provided that a later implementation date will allow service providers sufficient time to prepare for the change in a safe, controlled manner and to make the necessary amendments to their staffing, budgets, IT systems, legal documentation and customer services.

<sup>3</sup> DVP refers to Delivery-versus-Payment, where the simultaneous delivery of securities occurs against the payment of funds within a securities settlement system.

<sup>4</sup> DBV refers to Delivery-by-Value, whereby a member may borrow or lend cash overnight against collateral. The system selects and delivers collateral securities meeting pre-determined criteria to the value of the cash from the account of the cash borrower to the account of the cash lender and reverses the transaction the following morning.

<sup>5</sup> The precise timing of the end of DBV will be informed by detailed discussion with participants.

<sup>6</sup> The precise timing of the end of MT103 will be informed by detailed discussion with participants.

<sup>7</sup> FOP refers to free of payment, a delivery of securities which is not linked to a corresponding transfer of funds.

## E. Next steps

- 22 The extended CHAPS and CREST settlement day will be implemented in **summer 2016**.
- 23 This paper sets out the key information on the change for service providers to begin their detailed preparation for implementation.
- 24 In the near future, the changes will be publicly announced so that key information will be available for end-users. This is likely to be via a press release in **July 2015**. Advance notice is being given to service providers so they can prepare their own communications with key stakeholders and clients. The Bank, CHAPS Co and Euroclear UK & Ireland recommend that service providers cascade information on the changes to their clients, and are welcome to forward on this paper with their own material.
- 25 In addition, the Bank will be extending the availability of certain Sterling Monetary Framework (SMF) facilities in line with longer CHAPS and CREST settlement hours to enable settlement banks to manage their liquidity in the event of unexpected disruptions. Reserves accounts will be available for the movement of funds throughout the extended CHAPS and CREST settlement day. Operational Standing Facilities will continue to be available for transfers to/from reserves accounts for a short period after the new, later CHAPS end-of-day.
- 26 A precise implementation date in summer 2016 will be set by the Bank, CHAPS Co and Euroclear UK & Ireland in discussion with participants. This will be announced by **end-August 2015**.
- 27 CHAPS Co and Euroclear UK & Ireland, as system operators, will be responsible for change programme management for the CHAPS and CREST systems. Each service provider will be responsible for planning its own delivery of changes needed to provide an extended settlement day.
- 28 There are likely to be a number of cross-market areas that would benefit from wider discussion and coordination across a broad range of parties, including both service providers and end-users. The Bank, CHAPS Co and Euroclear UK & Ireland will establish a representative forum for such areas to be discussed. Further details will be communicated to participants in due course.
- 29 In preparing to deliver the benefits of the extended settlement day to the end-user, service providers will need to consider how they amend the deadlines set for their customers. The Bank, working with other UK financial authorities, will monitor the delivery of benefits to end-users by their service providers.

Annex – Current and future CHAPS and CREST settlement timetables

