ISDA response to the Bank of England's consultation paper: Extending RTGS and CHAPS settlement hours – next steps towards near 24x7 settlement

Executive Summary

ISDA supports the Bank of England's plan to extend RTGS and CHAPS settlement hours. In this response, we focus on the relevance of the shift towards longer settlement hours for market participants relying on RTGS for settlement of cash variation margin and initial margin in the context of derivatives clearing. In that regard, extending settlement hours is a welcome development. If a clearing member receives an intraday cash margin call outside of RTGS hours, the only solution is to meet the margin call through shifting to USD, given that waiting until the next day when the sterling settlement window re-opens would not be compliant with the CCP's rulebook. With regards to weekend settlement, ISDA notes that this could be required at some point in the future, if 24x7 trading, or generally extended trading hours become more widely used. We also highlight implications from extended settlement windows for firms' risk management, business day considerations, and CCP's default management procedures.

Question 1: The Bank has identified the below principal drivers to extend settlement hours:

- **Enabling innovation: Can better support 'always-on' payment solutions such as stablecoins, synchronisation as well as future innovation.**
- **Enhancing cross-border payments: Greater overlap with other RTGS systems can make cross-border payments faster, cheaper and more secure.**
- **Liquidity and risk management: introduction of additional net settlement cycles can help discharge of obligations, thereby reducing risk and/or liquidity cost.**

Which of these drivers are the most important ones or would bring the greatest benefits for the industry and for your organisation and why? For example, could the extension of settlement hours help you to interoperate with or offer new forms of digital money and payments such as stablecoins or enable new cross-border payments services?

We agree with all the drivers identified by the Bank with regards to the extension of settlement hours. From an ISDA perspective, the drivers in terms of liquidity and risk management and enabling innovation are the most critical.

Liquidity management

Extending settlement hours in RTGS would therefore enable market participants to meet margin calls in GBP, even on margin calls issued later during the day. This in turn reduces the need for market participants to build excess margin at the CCP as a precautionary measure in the event of a late margin call, or the need to source liquidity in another currency, providing more flexibility in intraday liquidity management. As observed by the Bank, longer operating hours would lower prefunding and liquidity costs, through a reduction in the liquidity impact of margin calls. Currently, market participants need to build up some precautionary liquidity tied up at CCPs for late-in-the-day margin calls, or to pay in USD. But if market participants could rely on longer settlement windows, instead of tying up liquidity at the CCP, they would be able to readily settle a margin call regardless of when it is issued. We also welcome the planned extension into early morning hours, which will provide overlap with APAC timezones.

Innovation

Given that tokenized assets can be moved at any time, it is critical that the infrastructure to settle central bank money keeps pace. Otherwise, market participants will face structural mismatches between tokenized assets and central bank money settlement, or might settle any cash leg outside of central bank money. ISDA also agrees with the BoE that extension of settlement hours would allow market participants to benefit from initiatives such as synchronisation. For example, synchronisation could allow the cash and securities legs of a repo to settle at the same time. This depends on RTGS being open when the repo needs to settle, which could become increasingly important with the rise of intraday repos.

While we appreciate that the Bank is inviting feedback on the drivers for longer settlement windows here, ISDA notes that market participants' readiness to support such longer windows also has significant implications, in terms of developing the ability to manage liquidity, funding and operational support over a longer timeframe. We develop this point further in response to Question 5.

Question 2: Are there any other drivers that we need to consider?

T+1 settlement

In a T+1 settlement cycle environment (UK securities are scheduled to move to T+1 in October 2027), and looking at potentially T+0 in the future, the ability to settle until later in the day should assist institutions in meeting their settlement deadlines.

International alignment

The benefits of extended hours depend on broader ecosystem alignment, including across major currencies (particularly USD and EUR), key FMIs (CLS, CCPs, CSDs), funding markets and service providers. Without that alignment, the benefits are unlikely to be fully realised and could instead introduce additional complexity or fragmentation.

Business day/ value date:

Question 3:
How long should the period between end-of-day and start-of-day be and why?

Question 4:
If the Bank extends RTGS/CHAPS to a 22-hour settlement day – do you agree with the Bank's preferred approach to change the cut-over of the value date in the evening ie CHAPS settlement would start at 20:00 on the previous calendar day? If not, what is your preferred cut-over time and why?

In response to questions 3 and 4:

We note that in Section 5, the Bank mentions that the cut-over approach “will also likely have knock-on implications for reporting standards and benchmarks across the financial services sector. These implications apply to the production of the SONIA (Sterling Overnight Index Average) benchmark”. In that regard, ISDA would welcome further indication from the Bank as to whether SONIA is expected to change index methodology. In addition, separate from the cut-over question, and in light of potential extension of settlement windows to weekends, ISDA would welcome considerations from the Bank on whether SONIA is expected to be calculated and published during the weekend if such day is a day on which RTGS/CHAPS is open.

The question of when the business day ends is critical for its potential implication on CCP risk. CCPs’ processes are underpinned by a clear definition of end-of-day for the purposes of defining the point at which margin calls are calculated and issued, as well as on how interest on collateral is accrued.

For the purposes of allowing for a longer window to meet margin calls later in the day, as well as other settlement types (for example, transaction settlement purposes), it would be preferable for the value date of the evening payments to remain T+0. If the value of the evening payment is T+1, it creates issues with the finality of the payment. The preferred approach would be to align the value date and the finality of evening payments with the actual date of the payment. Given how central CCP processes are to this issue, it would be helpful to understand whether the BoE has engaged directly with CCPs and whether they would support a calendar-based approach. We also note that whilst there are clear benefits to the calendar-based approach with a 22-hour settlement day, it could require a significant amount of technology and operational change across an industry that is still largely built around end-of-day processing cycles and batch-based controls. There might also be value in considering broader ecosystem dependencies.

Business day considerations – weekend settlement

In Section 5, the Bank discusses business day/value date considerations, including in the context of weekend settlement. In that regard, the ISDA Definitions concept of “Business Day” generally means a day on which commercial banks are open for business, including in FX dealings. There might be an implication that a 6d/7d settlement window means that commercial banks would also be open during those extended days during the weekend, which may in turn extend the ISDA Definitions concept of a Business Day to such weekend days (provided that FX markets would also be open). The result is that institutions may need to change their operating models if they needed to effect payments and perform other relevant duties on weekends, if such days became valid “Business Days”.

Liquidity:

Question 5:
Would your organisation’s need for intraday liquidity change if RTGS/ CHAPS settlement hours were extended in line with the Bank’s proposals (extension to the weekend; 22x6; or near 24x7? If so, what do you think the effect would be?

Extending settlement hours in RTGS would enable market participants to meet margin calls in GBP, even on margin calls issued later during the day. This in turn reduces the need for market participants to build excess margin at the CCP as a precautionary measure in the event of a late margin call, or reduces the need for market participants to source liquidity in another currency, providing more flexibility in intraday liquidity management. As observed by the Bank, longer operating hours would lower prefunding and liquidity costs, through a reduction in the liquidity impact of margin calls. Currently, market participants need to build up some precautionary liquidity tied up at CCPs for late-in-the-day margin calls. But if market participants could rely on longer settlement windows, instead of tying up liquidity at the CCP, they would be able to readily settle a margin call regardless of when it is issued. Whether considering extension to the weekend, 22x6 or near 24x7, market participants would need to ensure readiness to operate during those same hours.

Firms may need to manage liquidity, funding and operational support over a longer timeframe. While this may reduce the need for CCP-related pre-funding, firms could still incur additional costs from maintaining liquidity resources, treasury coverage and funding capacity across extended hours, particularly where other parts of the market are not operating on fully aligned schedules.

While longer settlement windows would provide more flexibility in intraday liquidity management, there would still be some balance sheet and cost implications arising from the broader challenge of supporting liquidity management in a more continuous settlement environment. The extent to which the benefits are realised will depend on funding markets, treasury processes and other FMIs evolving in parallel.

Question 6:
How does your organisation anticipate managing liquidity needs under the Bank's proposals for extending settlement hours (weekend extension; 22x6 and the long-term extension of near 24x7)?

- **Accessing central bank liquidity**
- **Setting up liquidity buffers to cover settlement during non-standard hours**
- **Other**

Question 7:
What are the reasons for your likely approach? If 'other' please provide details.

ISDA does not have further comments on questions 6 and 7 beyond the liquidity management considerations set out above.

Change management:

Question 8:
What is your organisation's tolerance for RTGS scheduled downtime at the weekend? There would be no service during scheduled downtimes.

- **Up to 2 hours;**
- **Up to 4 hours;**

- **Up to 6 hours; or**
- **Longer than 6 hours**

In the context of derivatives clearing, the length of the downtime will affect plans for extended trading, albeit some of this break could be covered with pre-margining. However, the longer the break is, the more tokenised collateral will replace central bank money.

Question 9:
How would your organisation aim to accommodate change management in the context of the Bank's proposals to extend settlement hours (weekend extension, 22x6 or near 24x7)? Would you also use scheduled downtime or another approach?

ISDA does not have comments on this question.

Question 10:
Would the approach of occasional extended downtimes limit the realisation of any use cases that would otherwise be enabled by near 24x7 settlement?

As noted in response to Question 8, in the context of derivatives clearing, the length of the downtime will affect plans for extended trading, albeit some of this break could be covered with pre-margining. However, the longer the break is, the more tokenised collateral will replace central bank money.

Participation optionality:

Question 11:
How much flexibility should be provided to participants to choose when they are required to send payments at weekends?

- **No optionality**
- **Full optionality outside core settlement hours from 06:00 – 18:00 Monday - Friday**
- **Optionality based on the organisation's CHAPS category**
- **Don't know**

Question 12:
What are the reasons behind your preference on the level of flexibility that should be given to participants?

Question 13:
If sending payments is optional during the weekend, would that limit the realisation of use cases for the extension of settlement hours during the weekend?

In response to questions 11, 12 and 13:

If CCPs ultimately move towards more continuous trading, clearing and margining models, there may be limited scope for optional participation by key payment and settlement providers without creating additional risk for clearing members and the wider ecosystem. It is not evident how optionality outside core settlement hours from 06:00-18:00 Monday – Friday could be implemented. It is unlikely that a clearing service could be designed for a market that trades 24/7 and give members the option not to participate in weekend trading/clearing. Potentially, the only optionality would be that these members could deposit enough collateral at the beginning of the weekend to ensure they are not called during the weekend. Full optionality would create ambiguities around events happening outside of core settlement hours. Both in a cleared and non-cleared context, any form of optional participation – which we still question whether it can be implemented in practice anyway -- would need to be accompanied by clearly defined binding settlement windows and explicit rules on the treatment of off-hours activity to ensure that default triggers remain operationally and legally robust, and to avoid settlement breaks and potential claims disputes for non-cleared settlements.

No optionality would remove any ambiguity as to the interpretation of a failure to pay outside core settlement hours: it would be interpreted as a default. It would also allow for full-time alignment on margin calls across the system, settlement and exposure calculation. However, it might result in crystallising a default faster, because margin payments would be expected to occur continuously. It can only work if risk management across the whole clearing chain is ready 24x7.

Staffing and support model:

Question 14:
Do you agree with the assessment that the alert-and-respond model could be applied to certain periods (such as evening/ early hours of the day) of the extension of settlement hours?

Question 15:
Are there any specific times on weekdays or the weekend when your organisation would need a support presence from the Bank?

ISDA does not have any comments in response to questions 14 and 15.

Risks:

Question 16:
Do you agree that we have identified the most material risks arising from extended hours?

Question 17:
Have we appropriately identified areas where extended hours could mitigate or reduce existing risks? Are there other areas we should be aware of?

Question 18:
Do you consider that extending settlement hours, particularly weekend settlement, could impact the actions available to stabilise firms in crisis? If so, how?

In response to questions 16, 17 and 18:

Weekend settlement

In the CP, the Bank notes that "longer settlement availability will make it possible for sterling outflows from banks to continue during weekends at materially greater values" and that it "would reduce the available time for management and authorities to take action to stabilise a firm during system closure and, in the worst-case scenario, for authorities to step in and execute resolution of a financial institution." We agree with this consideration, and note that in the context of a CCP, this might also have an impact on default management procedures. It would require CCPs to address situations where a firm fails to meet a margin call during the weekend. It might also lead to more events of technical default, where a firm fails to meet a weekend margin call that it would have met with no issue during weekdays. The ability to issue margin calls on weekends would therefore have a significant impact on the whole clearing ecosystem, and can only function if operations and risk management also move from 5 to 7 days across the clearing chain.

General:

Question 19:
Are there any other key topic areas or considerations that the Bank needs to consider in connection to the extension of settlement hours?

We do not see any other key topic areas or considerations.

Weekend and bank holiday settlement:

Question 20:
Do you expect your organisation to make use of the extension if the Bank of England extends RTGS/CHAPS settlement hours:

- **to the weekend (most likely Sundays)?**
- **on the weekday (22x5 extension)?**

ISDA members would prefer to extend weekday settlement as the next step of extension. We note that the Bank is explicitly seeking views on the appropriate next step to extend RTGS/CHAPS settlement hours, beyond the early morning extension. For the purposes of late margin call settlement, extension later in the day, beyond today's operating window (06:00 – 18:00), should be prioritised. It is the ability to settle margin calls after 18:00 in sterling that will unlock liquidity management benefits and reduce reliance on USD to meet margin calls.

As a second step, weekend settlement will be required if 24/7 trading, or generally extended trading hours become more widely used.

Question 21:
Which of the options would bring the greatest opportunities for your organisation?

Question 22:
If your organisation would not use these extensions, please explain why and what would have to happen for your organisation to consider using the extended hours in the future?

ISDA does not have any comments in response to questions 21 and 22.

Time of implementation steps:

Question 23:
Do you agree with the Bank's assessment and proposal to introduce weekend settlement

(most likely on Sundays) together with bank holiday settlement as the next step to extend settlement hours not before 2029?

Question 24:
Or would your organisation prefer to extend weekday settlement to 22x5 as the next step of extension on the same timeframe? Please explain your response.

ISDA members would prefer to extend weekday settlement as the next step of extension. We note that the Bank is explicitly seeking views on the appropriate next step to extend RTGS/CHAPS settlement hours, beyond the early morning extension. For the purposes of late margin call settlement, extension later in the day, beyond today's operating window (06:00 – 18:00), should be prioritised. It is the ability to settle margin calls after 18:00 in sterling that will unlock liquidity management benefits and reduce reliance on USD to meet margin calls. However, we also welcome the planned extension into early morning hours, which is helpful in providing overlap with APAC timezones.

As a second step, weekend settlement will be required if 24/7 trading, or generally extended trading hours become more widely used.

22x6 (extended hours every weekday with one full day of weekend settlement):

Question 25:
Do you agree with the Bank's proposal to broaden the scope of bank holiday settlement and to introduce settlement on Easter Monday, the two May bank holidays, August bank holiday, Good Friday, Boxing Day as well as on ad hoc bank holidays? If not, please explain?

Clearing is a global activity. For UK firms, it would be helpful to be able to pay margin calls in GBP on bank holidays where the CCP is open (e.g. days where the UK is closed, but the US is open).

Question 26:
Is it achievable for your organisation to prepare for the introduction of weekend settlement (most likely on a Sunday) and bank holiday settlement as early as 2029? If not, please explain?

Question 27:
Is it achievable for your organisation to prepare for the 22x6 operation (extended hours every weekday with one full day of weekend settlement) as early as 2031? If not, please explain?

Question 28:
Would a long-term extension of 22x6 achieve the main opportunities/ use cases you have highlighted, or would we need to extend to 22x7 or 23.5x7 to achieve all the benefits of the use cases identified?

In response to questions 26, 27 and 28:

ISDA does not have comments on the practical implementation of extended hours every weekday with one full day of weekend settlement.

Question 29:
Would you prefer the target end-state to be 22x7 operation (extended hours every day, with longer daily closures) or 23.5x7 operation (near-continuous settlement with minimal daily closure window)? Please provide an explanation.

ISDA does not have comments on what the preferred end-state is. A 23.5x7 model would provide the closest alignment with continuous trading, clearing and settlement, but it would also require the greatest degree of operational, liquidity and risk management preparedness across CCPs, clearing members, settlement banks and service providers. A 22x7 model may therefore be a more achievable in the medium term.

Question 30:
Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.

We do not have any comments.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.