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Introductory remarks

Public Hearing on shortening the settlement cycle, 10 July 2024

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Chair

Ladies and Gentlemen, good morning and thank you for joining us today for this public hearing on shortening the settlement cycle,

Shorter settlement cycles, or T+1 as we all commonly refer to it, is a topic that has kept growing in importance over the months. This is certainly the case since ESMA published the results of the call for evidence back in March this year, and even more so now that the US and other countries have moved to T+1 at the end of May.

I am very glad to see that more than 500 online participants have registered for this public hearing. I think this is a strong sign of how relevant this topic is for all of us and of the momentum it has gained in the last months.

I believe that some people less familiar with the functioning of financial markets and post-trade processes would certainly be surprised about the fact that, in a world of "*instantaneous everything*", investors only get the securities they purchase in financial markets two days after the transaction has been concluded. In this same "*instantaneous everything*" world, people less familiar with the matter at stake might even be surprised that the focus of the current discussion is not about making settlement instantaneous but about reducing the waiting time to receive securities or funds from two days to one day.

However, shortening the settlement cycle to one day, overcoming the complexities inherent to the EU financial markets without compromising the market confidence would be a significant achievement that will require the involvement of all the industry and regulators.

The feedback we received to the Call for evidence helped us in gaining a better understanding of all those challenges. Since then, we have continued our work with the aim of producing a cost-benefit analysis and defining a detailed outline of how such a change to the settlement cycle could be achieved in the EU.

I do not want to pre-empt anything that will be presented today by ESMA staff and discussed with the panellists, but here are some messages I would like to highlight:

- Shortening the settlement cycle represents a significant change to the way in which markets operate today and this applies at all levels of the value chain: from CSDs, to investors going through CCPs, trading venues and intermediaries. All actors along the trading and post-trading chain will have to adapt in order to meet tighter deadlines not only in relation to trading but also for other more complex activities, such as securities lending, repos and FX trading.

- Indeed, shorter settlement cycles mean less time available to carry out all the necessary post-trade processes. But time is risk and time is money. The compression of the settlement cycle will imply a reduction of the risk in the system, which should translate into lower margin requirements. These benefits together with the efficiency gains are not negligible.

- Also, some jurisdictions have already moved to T+1 and our strong interconnections with some of them, in particular the US, means that many EU stakeholders now have to deal with misaligned settlement cycles. This brings complexity, costs, and risks. We have seen some of these consequences for the asset management industry, in particular for ETFs invested in securities in jurisdictions with a different settlement cycle and also for issuers who look for funding in the EU and in the US and face the complexities of misaligned settlement cycles for their corporate events.

- Increased efficiency in the way we operate, with lower risks, lower margin requirements as well as international realignment should overall contribute to the competitiveness of EU markets.

- However, the process to get to T+1 in the EU will be complex. It will likely require changes in CSDR, in existing Level 2 regulations and potentially further regulatory guidance. It will also require the industry to work together to find solutions to some of the identified challenges and put them into practice through market standards. Such a project, in an environment such as the EU financial markets, with multiple market infrastructures, currencies, and a broad range of market participants, calls for a robust governance allowing us to make progress together towards the common goal of more efficient markets.

- As from when we move towards shorter settlement cycles we will have to look at our neighbours in continental Europe. Our markets are strongly interlinked and a misalignment in the settlement cycle between the UK, the EU and Switzerland could be damaging.

- North America has completed what seems to be a rather smooth transition to faster and more efficient settlement cycles. The benefits in terms of margin reductions appears to match expectations announced before the transition while settlement efficiency seems to remain at or similar to pre-T+1 levels. As we look at successful international experiences in shifting to T+1, we need to understand what has worked, what could have been done differently and what we can learn from these in order to leverage that experience and ensure that an EU shift will be successful. The European Union has very specific characteristics and the experience from other jurisdictions is not always automatically transferable. Yet, I trust there are things we can learn from other jurisdictions and benefit from.

As we start getting the firsts results of our assessment and we observe a global trend towards shorter settlement cycle, with positive experiences from those who are already operating on T+1, this public hearing is an excellent opportunity to present ESMA's preliminary views and discuss them with you.

I would like to recall that with the adoption of CSDR back in 2014, the European Union achieved a significant milestone in the path towards more standardised and less fragmented markets by harmonising settlement cycles on T+2. This was ten years ago. I think it is safe to say that T+2 was a good objective in 2014, when different Member States had different settlement cycles. However, I do not believe T+2 can be or should be the end of that journey. While we will diligently perform our cost-benefit-analysis, I do believe that now is the right time to look further ahead into the future and set a new objective. We in the EU need to continue our journey towards more efficient post-trade processes in this "*instantaneous everything*" world I was referring to at the beginning, and in this way contribute to more efficient and more attractive EU capital markets.

We will submit our report on T+1 to the European Parliament and the Council at the latest by mid-January 2025, as required by CSDR Refit. While we finalise it, we will continue our engagement with all stakeholders to ensure we are all on our marks and getting set for the moment when a decision is taken and the "go" is given.

Let me finish by thanking again all the panellists for being here today with us.

I wish you all a very fruitful discussion.