

Advice to ESMA

SMSG advice to ESMA on its Consultation Paper on “Amendments to the RTS on Settlement Discipline”

General comments

The SMSG strongly supports ESMA’s continued efforts to improve settlement efficiency in EU securities markets. We also welcome the approach taken by ESMA in exploring additional measures and tools for enhancing settlement efficiency and the changes they have put forward to amend the RTS on Settlement Discipline. Most members of the SMSG notably recognise the broad range of input already reflected in ESMA’s proposals. This includes feedback from the EU T+1 industry task force (where there are multiple links between the ongoing exercise to shorten the settlement cycle and the need to ensure settlement efficiency), as well as consideration of the UK task force’s recommendations, the experience of the US and wider stakeholder feedback such as that shared with ESMA in the context of their call for advice on shortening the settlement cycle and various other inputs on how to improve settlement efficiency in Europe.

With expert market participants currently in the process of developing an implementation roadmap to drive the change towards a T+1 settlement cycle under the auspices of the EU T+1 industry committee, including via dedicated technical workstreams which are linked to a number of areas touched on in the present consultation, the SMSG did not want to pre-empt the outcome of this work.

We therefore considered focusing our advice on certain specific proposals in the RTS which, over time, could be the most helpful in tackling some of the root causes of settlement failure in the EU. These included the increased use of standardisation and technology to support enhanced settlement functionalities, such as partial settlement functionalities, via regulatory-mandated changes. Those in favour of this approach noted that this would also alleviate the need to introduce additional reporting (to supervisors) and (public) disclosure

obligations around settlement failures as these would be *de facto* reduced. Other members of the SMSG were not in favour of this approach and argued that requiring additional CSD functionality (for instance partial settlement functionality or real time settlement windows) would impose significant costs on CSDs, whereas the benefits of undertaking such change have not been demonstrated, particularly in markets where settlement failure rates are low.

While some of the SMSG members were not in favour in introducing new reporting requirements around settlement failures, particularly if settlement efficiency were to improve, others noted that, while CSDs certainly follow; through internal dashboards; the quality of settlement at a certain level of granularity, there is insufficient information available at present (for instance, indirect CSD participants do not have access to such dashboards) and consider there is a need for both the regulatory community and the market to have a reliable and sufficiently granular overview of how failure rates are evolving over time, by category of instrument and geography. It would probably be useful to examine whether the compilation at European level of the dashboards followed by the different CSDs would allow, without heavy development, to provide market participants and authorities with a complete, granular and dynamic vision of the quality of the settlements, which would be an important asset in the context of the transition to T+1.

The SMSG is therefore not able to provide any specific recommendations with respect to the draft RTS under consultation but concludes that the resolution of these matters needs to be given priority within the context of the T+1 Industry Committee and may require deliberation within the Coordination Committee as well. In this context, the SMSG notes the importance of ESMA, together with the NCAs, carrying out a mapping exercise of currently available CSD functionality at a sufficiently granular level (country, asset class) to understand the types of functionalities currently available across EU CSDs. The result of this exercise should then enable ESMA to make a more informed decision on how to approach many of the issues raised in the present consultation.

Finally, while noting that ESMA specifies that the present consultation is primarily directed at CSDs, CSD participants, investment firms, credit institutions and their professional clients, the SMSG would have welcomed ESMA specifying whether the settlement efficiency measures discussed in the paper are of relevance to individual investors directly

investing in markets, and why this may or may not be the case. Clarification with respect to any potential impacts for this category of investors in the final RTS would therefore be welcome.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 14 April 2025

[signed]

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[signed]

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