Reply form

**on the** **call for evidence on shortening of the settlement cycle**

Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all comments received by **15 December 2023.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

• Insert your responses to the questions in the Consultation Paper in this reply form.

• Please do not remove tags of the type < ESMA\_QUESTION\_SETT\_0>. Your response to each question has to be framed by the two tags corresponding to the question.

• If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.

• When you have drafted your responses, save the reply form according to the following convention: ESMA\_CP1\_SETT \_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_CP1\_SETT \_ABCD.

• Upload the Word reply form containing your responses to ESMA’s website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at *www.esma.europa.eu* under the heading *‘Your input - Consultations’.*

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘[Data protection](https://www.esma.europa.eu/about-esma/data-protection)’.

**Who should read this paper?**

All interested stakeholders are invited to respond to this consultation paper. In particular, ESMA invites market infrastructures (CSDs, CCPs, trading venues), their members and participants, other investment firms, issuers, fund managers, retail and wholesale investors, and their representatives to provide their views to the questions asked in this paper.

# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | Swedish Securities Markets Association |
| Activity | Associations, professional bodies, industry representatives |
| Are you representing an association? |  |
| Country / Region | Sweden |

# Questions

1. : Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please:
2. provide as much detail as possible on what issues would emerge in both cases and how they could be addressed with special attention to critical processes (matching, allocation, affirmation and confirmation) and interdependencies. Where relevant please explain if these are general or asset class/instrument/ trade specific.
3. Identify processes, operations or types of transaction or financial instrument class that would be severely impacted or no longer doable in a T+1 and in a T+0 environment.

**Please, suggest if there are legislative or regulatory actions that would help address the problems. Where relevant please explain if these are general or asset class/instrument/ trade specific.**

<ESMA\_QUESTION\_SETT\_1>

(I)

It is at this stage difficult to take into consideration a potential shortening of the settlement cycle to T+0. It would be extremely challenging to go directly to T+0 without first going to T+1. Also, we do not, at the current stage, see a move to T+0 as feasible with the current infrastructure. Therefore, we will only consider a move to T+1 when responding to this consultation.

First, we would like to underline that the impact in terms of efforts required to prepare for a compression of the settlement cycle to T+1 will, for our members, be larger than it was when preparing for a shift from T+3 to T+2 as the time available for completing all post trade services will be substantially reduced. That said, it is not a reason for not compressing the settlement cycle to T+1 as the harm for the local market in terms of loss in attractiveness and competitiveness, if remaining on T+2 while other similar markets go to T+1 could be large. Nonetheless, before taking a firm decision to compress the settlement cycle Europe should evaluate the go live in US and Canada.

It is important to consider the fact that a shortening of the settlement cycle to T+1 will be much more challenging for the European market compared to many other markets as for example the US market due to the fragmentation on different levels with the existence of multiple CSDs, trading venues and CCPs. Furthermore, the fact that there are several currencies in Europe also needs to be taken into consideration and is of large importance for SSMA members that have a major part of their securities business in Sweden and other Nordic countries and therefore operate in several non-Euro currencies. As such, it is deemed necessary that the settlement cycle on the FX market should also be compressed to T+1 to ensure that markets with smaller currencies do not lose in attractiveness. If the FX market remains on T+2 we are afraid that investors could avoid investing in markets with small currencies as those investments will likely need to be prefunded. It is also important that all other financial instruments are on the same settlement cycle, such as for example derivatives and ETFs.

More specifically and from a post-trade perspective, the biggest changes from a compression of the settlement cycle to T+1 is that inventory management as for example the allocation of assets to enable settlement and the creation of confirmations will need to be done immediately after the trade is done and not on T+1 which is often the case today. Also, the creation of settlement instructions and the transfer of funds in different currencies will need to take place on the trade date or possibly in the morning on T+1. In case a related FX transaction needs to be done it has to be executed already on the trade date. Also, trades done by non-domestic investors will likely have to be pre-funded if the FX market remains on T+2. The time available to take care of unmatched trades and other possible problems will be short implying a need for efficient communication within the institute as well as externally with other market participants, infrastructure providers and customers. As a matter of fact, it will not be possible for the buy-side to work at the same tempo and keep the same routines as today. Hence, there are risks that the buy-side would have more difficulties in handling a shortened timeframe due to less automation, system support, staffing and longer custody chains, which would have a direct knock-on effect on the sell-side.

This also puts pressure on moving away from bilateral settlements to CCP services instead to remove the spread of counterparties and related issues in settlement.

With less time between trade date and the ISD we expect that the settlement success rate would decrease to some extent and that CSDR penalties would increase. There could, for example, be delays due to the setup of the counterparty’s static data (including their SSIs) or the setup of the financial instrument in the internal systems when there is inconsistency in different sources (e.g., Bloomberg details mismatching those with the term sheet). Also, in case of mismatches there is a strong reliance on having email/phone conversations with the counterparty and the front-office to be able to resolve and align. There might also, from a custodial perspective, be fail increases in trade matched/confirmed in Central Trade Manager systems. If one party is late the other cannot release allocations to the CSD, thus increasing both late match and late settlement risk. The probable increase in settlement fails will also be more difficult to remedy by securities loans. See answer below for more information.

From the trading perspective the standard activity with buying and selling long inventory would not be impacted significantly. However, trades connected to securities lending or special trades with for example an FX transaction included will be at higher risk of delayed settlement.

We also see challenges as regards contingency plans as the window of opportunity to resolve such issues would be dramatically reduced. Hence there will be a need to set up very strict contingency plans for all market participants to be able to handle situations where a market participant encounters, for example, IT or cyber security related problems.

(II)

There are no processes that we deem would be impossible to perform in the case of a shortening of the settlement cycle to T+1.

However, the process of security lending will be severely impacted since securities lending transaction trades often are booked on T+1 as the need of borrows are calculated late on the trade date and for some participants after exchange closure. A shortening of the settlement cycle to T+1 would consequently mean that the cycle for securities lending trades is shortened to T+0. Also, to guarantee sourced shares from borrowers the request would possibly need to be sent before the close on trading on T+0.

Cross-border trade settlement would also potentially become more at risk due to being non-automated and more complex. However, additional system support is possible, and we therefore believe it would still be doable.

Creations of ETF’s which involves delivery of underlying baskets, are already today on a tight schedule and may become challenging in a T+1 environment. Instruments such as ADR’s may also become difficult to settle on T+1. This is because those trading and execution strategies (ordinaries vs ADRs) are done in different time zones (EU and US) and usually involves an FX component.

It is important that different financial instruments and asset classes are on the same settlement cycle. This is especially important for derivatives where the underlying instrument must settle on the same day as the corresponding derivative since these are often traded together at the same time in different trading/hedging strategies. If there is a settlement mismatch it will lead to higher collateral costs for the client and/or the clearing member. Another problem linked to equity derivatives is expiration days and early exercise. Option exercises can usually be called upon later in the evening, usually 1 – 2 hours after the official close on the exchange. Normally market participants trade according to the expiry and buy/sell the linked stocks during the normal trading hours. If the expiry trade is not done with the same settlement day, there will be a settlement fail. Early exercise around corporate actions such as for example dividends are very common. These early exercises can also be called upon later in the evening and it is equally important that they also settle T+1 for the same reason as above, but also to prevent problems in allocating the dividend or the included corporate action.

If a repository for SSIs could be enforced, it would provide a highly efficient mechanism in which to obtain standard settlement instructions and not delaying the trade un-necessarily.

<ESMA\_QUESTION\_SETT\_1>

1. : What would be the consequences of a move to a shorter settlement cycle for (a) hedging practices (i.e. would it lead to increase pre-hedging practices?), (b) transactions with an FX component?

<ESMA\_QUESTION\_SETT\_2>

Some of the processes must be done earlier during the day to identify cash or quantity mismatches. To complement a more efficient workflow our counterparties must respond and make decisions in time. This could lead to a different client behavior on how, when and where they execute their order to better cope with T+1 settlement.

A transaction with an FX component will be challenging as the FX transactions need to be executed on the trade date, although still doable. We would like to underline the fact that the FX market settlement cycle cannot remain on T+2 if the other markets’ settlement cycle is shortened to T+1. If the FX market remains on T+2 we are afraid that investors could avoid investing in markets with small currencies as those investments will likely need to be prefunded.

<ESMA\_QUESTION\_SETT\_2>

1. : Which is your current rate of straight-through processing (STP ), in percentage of the number and of the volume of transactions broken down per type of transaction or per instrument as relevant? In case STP is used only for certain processes/operations, please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP?

<ESMA\_QUESTION\_SETT\_3>

There are different rates of STP depending on the instrument and type of market participant. Based on the input received from our members it seems as the STP rate for equities is rather close to 100% although around only half of the transactions are matched T+0. Some members have a very high level of STP for money market instruments while some do not have any STP at all for rate bearing instruments. There also seems to be a lack of STP for transfers (FoP transactions) and for reconciliation work. No cross-border transactions are handled STP. Even though cross border volumes in comparison to total volumes are not large manual hand holding is required. The main challenges in improving current STP is technical development. Enhancements to technology require lengthy lead times including securing budget, project planning, development and comprehensive system testing which may require testing with third parties.

<ESMA\_QUESTION\_SETT\_3>

1. : Please describe the impacts that, in your views, the shortening of the securities settlement cycle could have beyond post-trade processes, in particular on the functioning of markets (trading) and on the access of retail investors to financial markets. If you identify any negative impact, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation…) and elaborate on possible avenues to address it.

<ESMA\_QUESTION\_SETT\_4>

On the trading front, we believe that a T+1 settlement cycle would potentially increase the demand and volume of repo trades (same-day repos) and securities lending trades that would be used to deliver securities when our members encounter situations where they lack holdings due to other parties not being able to deliver in time.

Moving to T+1 will be more challenging in Europe than in the US and the UK because of a locally later closing of equity markets – 5.30 CET in EU, 4.30 GMT in UK and 4.00 ET in US The close also has the highest trading activity during the whole day because of the large volume done in and around the closing auction. From a T+1 perspective it would therefore be an advantage if there was an earlier official closing time on EU exchanges. There are also Exchange Trade Products (ETPs) that trade until 22.00 CET. These are mostly derivatives such as warrants, and different certificates linked to corresponding underlying securities. It will be very demanding to also have these instruments on a T+1 settlement.

Our view is that the shortening of the securities settlement cycle would put pressure on the buy-side which to a varying degree have less automated processes, system support and as a result this could put a strain on the staff that handle the securities settlement.

<ESMA\_QUESTION\_SETT\_4>

1. : What would be the costs you would have to incur in order to implement the technology and operational changes required to work in a T+1 environment? And in a T+0 environment? Please differentiate between one-off costs and on-going costs, comparing the on-going costs of T+1 and T+0 to those in the current T+2 environment. Where relevant please explain if these are general or asset class/instrument/ trade specific.

<ESMA\_QUESTION\_SETT\_5>

As a trade association, we have several types of members with different types of activities and operations processes. We will therefore not be able to provide a detailed answer. Also, it is, at the current stage, too early to get the full picture of the costs as our members have not yet had the time to do the analysis. All we can say at the time being is that there will be one-off costs and that on-going costs will increase.

As an example, there will be costs related to an inevitable update of communication processes in the settlement chain and for the sourcing process related to securities lending activities. And among the on-going costs personnel costs in the operations departments will increase. There will for example be a need for more personnel ready to instantly solve any potential technical and systems related problems as well as to correct unmatched trades. As the transition to T+1 could lead to longer working days there would be a need to increase staffing towards the later hours of the day which would increase employee costs.

Some market participants currently have lower levels of automation than others, which could mean quite differing investment costs are needed dependent on the institution.

It is also important to consider the impact of expected costs following from reduced settlement efficiency such as increased funding costs and settlement penalties.

<ESMA\_QUESTION\_SETT\_5>

1. : In your view, by how much would settlement fails increase if T+1 would be required in the short, medium and long term? What about T+0? Please provide estimates where possible.

<ESMA\_QUESTION\_SETT\_6>

Judging by the settlement statistics for the Swedish equity and bond market the local participants have a very high (close to 100%) settlement rate and the general settlement rate for equities is currently above 95% and close to 100% for bonds and money market instruments. The settlement ratio for equities has not always been at these high levels and was as low as around 80% only a few years ago. The evolution of the settlement rate will be dependent on the measures taken by all participants to speed up operational processes. Nevertheless, we see a large risk of a decline in the settlement rate if the settlement cycle is shortened although we are unable to estimate the size of the decline. We would like to believe that all the measures that have already been taken to improve the settlement ratio, as the introduction of the partials functions in Euroclear Sweden, extended settlement opening hours and the introduction of the CSDR penalty regime, will continue to have a positive impact on the settlement rate and consequently do not expect the decline to be as deep as to an 80% settlement ratio.

<ESMA\_QUESTION\_SETT\_6>

1. : In your opinion, would the increase in settlement fails/cash penalties remain permanent or would you expect settlement efficiency to come back to higher rates with time? Please elaborate.

<ESMA\_QUESTION\_SETT\_7>

The assumption is that settlement efficiency will decrease instantly with a related increase in penalties, but that it will not remain permanently low. Settlement fails will have associated costs and certain disruptive effects, so all parties will have an interest to improve and make the processes more efficient. They can do so by investing in IT systems, standardising operational procedures, and improving the way they instruct securities settlement to their custodian and/or CSD directly. Although this is perhaps most needed on the buy-side.

As stated above it is a challenge that EU markets close later than in the US. It would therefore, from a T+1 perspective, be easier to handle a compression in the settlement cycle with an earlier official market close. In US there is a 16.00 official closing followed by an unofficial aftermarket.

<ESMA\_QUESTION\_SETT\_7>

1. : Is there any other cost (in particular those resulting from potential impacts to trading identified in the previous section) that ESMA should take into consideration? If yes, please describe the type of cost and provide estimates.

<ESMA\_QUESTION\_SETT\_8>

If the T+1 transition would be combined with a longer trade day the employee cost as well as every cost it takes for a bank to keep its office´s running would increase. Also see comment in question 4 as regards opening hours.

<ESMA\_QUESTION\_SETT\_8>

1. : Do you agree with the mentioned benefits? Are there other benefits that should be accounted for in the assessment of an eventual shortening of the securities settlement cycle?

<ESMA\_QUESTION\_SETT\_9>

Overall, we agree. As the US is moving to T+1 and the UK will soon take a decision on the topic, it is important from an investor perspective that our local markets in Europe are deemed to have a modern attractive marketplace to remain competitive. But, as already stated above it is necessary that the settlement cycle on the FX market should also be compressed to T+1 to ensure that markets with smaller currencies do not lose in attractiveness. If the FX market remains on T+2 we are afraid that investors could avoid investing in markets with small currencies as those investments will likely need to be prefunded.

<ESMA\_QUESTION\_SETT\_9>

1. :Please quantify the expected savings from an eventual reduction of collateral requirements derived from T+1 and T+0 (for cleared transactions as well as for non-cleared transactions subject to margin requirements).

<ESMA\_QUESTION\_SETT\_10>

In theory we agree that there will be savings from an eventual reduction of collateral requirements if we go to a T+1 settlement cycle. However according to our early investigations, the collateral reduction for initial margin would only be in the region of 20-30%. But more investigations need to be done in this area before we can get the full picture of potential reductions.

<ESMA\_QUESTION\_SETT\_10>

1. : If possible, please provide estimates of the benefits that you would expect from T+1 and from T+0, for example the on-going savings of potentially more automated processes.

<ESMA\_QUESTION\_SETT\_11>

Firstly, there are on-going post trade harmonization initiatives on the Swedish market that will, by themselves, lead to increased operational efficiency and thereby to cost savings throughout the settlement chain. Hence, we are not convinced that a potential shortening of the settlement cycle will be the main contributing factor to engage in more automated processes. Secondly, the STP rates for standard trades are already high on our market. What could potentially contribute to a marginal decrease in the costs for the sell side is if the buy side develops more STP as a result of a shorter settlement cycle.

<ESMA\_QUESTION\_SETT\_11>

1. : How do you assess the impact that a shorter settlement cycle could have on the liquidity for EU markets (from your perspective and for the market in general)? Please differentiate between T+1 and T+0 where possible.

<ESMA\_QUESTION\_SETT\_12>

There is a risk that the buy side will change behaviours and trade and execute differently depending on what decisions on the settlement cycle are taken in different markets. Dual listing and shifts in market liquidity in different time zones and settlement cycles are some parts of the market structure that could face challenges. Larger buy-side clients could also change their preferences in how, where and when they want to execute their orders. This could affect both the overall total liquidity and the intraday liquidity negatively.

We see a risk that market liquidity for Swedish equities will decline as transactions in SEK might need to be prefunded. That could lead to lower interest to invest in Swedish equities from investors in jurisdictions with another currency. Therefore, it is deemed necessary that the settlement cycle on the FX market should also be compressed to T+1 to ensure that markets with smaller currencies do not lose in attractiveness.

<ESMA\_QUESTION\_SETT\_12>

1. : What would be the benefits for retail clients?

<ESMA\_QUESTION\_SETT\_13>

A shortening of the settlement cycle to T+1 could lead to benefits for retail clients as they could get faster access to funds if they sell securities, but it also depends on each bank’s contracts with their retail customers i.e. if they offer contractual settlement or not.

The Free of Payment process could, to a certain extent, in theory be shortened as some clients transferring securities between banks could notice a shorter processing time. Nevertheless, the banks generally agree with the other banks the point in time for a FoP transaction. Depending on the terms of this agreement, it is not sure that it will imply a change for the retail customer.

<ESMA\_QUESTION\_SETT\_13>

1. : How would you weigh the benefits against the costs of moving to a shorter settlement cycle? Please differentiate between a potential move to T+1 and to T+0.

<ESMA\_QUESTION\_SETT\_14>

As already stated above, we are at the current stage not able to estimate the full cost or benefits from moving to a T+1 settlement cycle but we believe that counterparty risk will be reduced while operational risks and costs will increase. According to our early investigations, the collateral reduction for initial margin would only be in the region of 20-30%. Anyhow, as also stated above, we deem that European markets cannot keep a longer settlement cycle than other, similar markets as our marketplace could thereby become less competitive and lose in attractiveness.

<ESMA\_QUESTION\_SETT\_14>

1. : Please describe the main steps that you would envisage to achieve an eventual shorter securities settlement cycle. In particular, specify: (i) the regulatory and industry milestones; and (ii) the time needed for each milestone and the proposed ultimate deadline.

<ESMA\_QUESTION\_SETT\_15>

A transition to a T+1 settlement cycle will imply behavioural changes more that changes to the technical setup and operational processes. It will also, above all, affect end investors. A thorough review of the entire process to identify areas where there is not full STP will be crucial for an optimal functioning of the settlement processes. Investment firms and banks will also need to identify which clients are not currently allocating on trade date. Clients would also need to input their SSIs in time. The creation of an SSI repository would assist our members in making post trade processes more efficient. Here again we believe that an earlier official market close would be beneficiary from a strict T+1 perspective.

<ESMA\_QUESTION\_SETT\_15>

1. : Assuming that the EU institutions would decide to shorten the securities settlement cycle in the EU, how long would you need to adapt to the new settlement cycle? And in the case of a move to T+0?

<ESMA\_QUESTION\_SETT\_16>

The answers received concerning our members own ability to adapt to a T+1 settlement cycle vary, in theory, between one and two years. Nevertheless, as there are many market participants that will be concerned by a potential shortening of the settlement cycle and as it will also need to be included in a road map among many other time and resource consuming projects, we deem that in practice more time will certainly be needed for a successful move. Also, as mentioned throughout the answer certain buy-side institutions might need to make substantial upgrades to their processes and the market must ensure they get sufficient time to get ready.

<ESMA\_QUESTION\_SETT\_16>

1. : Do you think that the CSDR scope of financial instruments is adequate for a shorter settlement cycle? If not, what would be in your views a more adequate scope?

<ESMA\_QUESTION\_SETT\_17>

Yes, all the instruments in the CSDR scope should be included. But as we have also stated in the answers to other questions, we are of the opinion that all financial instruments and FX, should be on the same settlement cycle as those included in the CSDR scope. Derivatives need to be on the same settlement cycle as the underlying securities to continue to be efficient hedging instruments. The FX market’s settlement cycle should also be compressed to T+1 to ensure that markets with smaller currencies do not lose in attractiveness. If the FX market remains on T+2 we are afraid that investors could avoid investing in markets with small currencies as those investments will likely need to be prefunded.

<ESMA\_QUESTION\_SETT\_17>

1. : Is it feasible to have different settlement cycles across different instruments? Which are the ones that would benefit most? Which least?

<ESMA\_QUESTION\_SETT\_18>

All instruments should be aligned, and it is very important that derivatives and FX have the same settlement cycle as securities. It is not feasible to have different settlement cycles across different instruments. Different settlement cycles would also make settlement processes less efficient and would require far more development regarding system and technical aspects, which would require more time, resources, and costs. Hence, every instrument that today settles T+2 should be included in the T+1 transition. Of course, there are instruments, some bonds for example, that today settle once a month and those bonds should be kept untouched. Also, the use of derivatives as hedging instrument for underlying positions will be less efficient if on a different settlement cycle and transactions on markets with small currencies will likely need to be prefunded if FX remains on T+2 which would make them lose in attractiveness.

<ESMA\_QUESTION\_SETT\_18>

1. : Which financial instruments/ transaction types are easier to migrate to a shorter settlement period in the EU capital markets? Does the answer differ by asset class? Should it be feasible/advisable to have different migration times for different products/markets/assets? If yes, please elaborate.

<ESMA\_QUESTION\_SETT\_19>

It would be preferable for all markets and asset classes to be migrated at the same point in time.

<ESMA\_QUESTION\_SETT\_19>

1. : Do you think that the settlement cycle for transactions currently excluded by Article 5 of CSDR should be regulated? If you think that the settlement cycle of some or all of these transactions should be regulated, what would be in your view an appropriate length for their settlement cycle?

<ESMA\_QUESTION\_SETT\_20>

No.

<ESMA\_QUESTION\_SETT\_20>

1. : Please describe the impact(s) that the transition to T+1 in other jurisdictions has had or will have on your operations, assuming the EU remains on a T+2 cycle.

<ESMA\_QUESTION\_SETT\_21>

Although a complete assessment of the impact will need to await the go-live of the US and Canada in May it is still possible to draw some conclusions about the potential effects on operations.

Since 2017 the US and the EU have operated on a harmonized settlement cycle. Even though a transition to a shorter settlement cycle in other jurisdictions are largely independent to the EU, upcoming changes in the US with a deviation from this harmonized approach will likely cause medium-term complexities for globally active financial institutions with operational adaptions and changes for both our members and other market participants. Coverage during the evening/night will also be required.

Custodians, broker-dealers, asset managers and settlement agents, need to adapt their operational processes and systems to accommodate the misalignment, managing differentiated processes across jurisdictions.

Furthermore, many market participants are not directly connected to market infrastructures (e.g., exchanges, CCPs, CSDs) and therefore rely on the use of intermediaries.

In this context, the need for additional operational adjustments and potential system complexities can increase costs and create operational challenges for participants involved in cross-border transactions between the EU and the US.

More specifically, FX transactions related to transactions in US securities will need to be executed on the trade date (T+0). Also, customers may need to deposit more cash to have the funds available to trade on both settlement cycles. Recalls on security lending/borrowing need have a much shorter cycle (T+0) for the T+1 markets. System and technical jobs will need to have different cycles to account for the different settlement cycles, instead of having a unified approach.

This could also cause issues regarding Corporate Action events for instruments that have multiple listings. To ensure that different market listings do not have different ex / record dates a clear standard market approach needs to be implemented.

For securities that are tradeable across multiple markets, the time difference in settlement cycles between the EU (T+2) and the US (T+1) may lead to increased market risk. If a trade is executed in the EU for settlement on T+2, but the corresponding US trade settles on T+1, there is a one-day gap during which one party’s obligation may be fulfilled before the other party’s is. This difference may introduce potential risks related to counterparty exposure, liquidity management and market risk.

ETFs already have a generally lower settlement efficiency compared to other asset classes; this is due mainly to a misalignment between the primary market (creation/redemption required by authorized participants) and the secondary market. Shortening the settlement cycle of a part of the ETF portfolio will likely increase this inefficiency.

Should ETFs in Europe remain on T+2, ETFs tradeable in the EU might become less attractive for investors and market participants compared to ETFs tradeable in the US. Misalignment of settlement cycles for global funds and cross-border instruments such as ETFs and ADRs are likely to cause funding and/or balance sheet inefficiencies.

From a trading perspective we also expect changes. There is a real risk that market liquidity of securities tradeable across multiple markets will be concentrated in one of the settlement cycles. Hence, for Europe there is a risk that market liquidity in securities that are dually listed move to the US market.

<ESMA\_QUESTION\_SETT\_21>

1. : Can you identify any EU legislative or regulatory action that would reduce the impact of the move to T+1 in third countries for EU market participants? Please specify the content of the regulatory action and justify why it would be necessary. In particular, please clarify whether those regulatory actions would be necessary in the event of a transition of the EU to a shorter settlement cycle, or they would be specific only to address the misaligned cycles.

<ESMA\_QUESTION\_SETT\_22>

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<ESMA\_QUESTION\_SETT\_22>

1. : Do you see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions?

<ESMA\_QUESTION\_SETT\_23>

Overall, we do see that a harmonization between major markets would be beneficial but not necessary and we do not, at the current stage, see a move to T+0 as feasible with the current infrastructure.

<ESMA\_QUESTION\_SETT\_23>

1. : Would reducing the settlement cycle bring any other indirect benefits to the Capital Markets Union and the EU's position internationally?

<ESMA\_QUESTION\_SETT\_24>

It could ensure that the EU remains competitive and attractive to investors.

<ESMA\_QUESTION\_SETT\_24>

1. : Do you consider that the adaptation of EU market participants to the shorter settlement cycles in other jurisdictions could facilitate the adoption of T+1 or T+0 in the EU? Please elaborate.

<ESMA\_QUESTION\_SETT\_25>

For participants active in the US markets and that have not taken a decision to increase automation and STP for other reasons it could be of some help. Nevertheless, as we have already elaborated above, most of our members are already working on a harmonisation of post trade processes to European standards with per se includes making operations more efficient and STP. The adaptation to a shorter settlement cycle in the US for the buy-side could possibly facilitate the adoption of T+1 in the EU.

<ESMA\_QUESTION\_SETT\_25>

1. : Would different settlement cycles in the EU and other non-EU jurisdictions be a viable option?

<ESMA\_QUESTION\_SETT\_26>

A different settlement cycle in the EU compared to other non-EU jurisdictions would be viable but not preferable as a longer settlement cycle in the EU could decrease the attractiveness and competitiveness of the EU markets. We also believe that harmonized settlement cycles within the EU is crucial and that all EEA or AMI-SeCo markets should continue to be harmonized.

<ESMA\_QUESTION\_SETT\_26>

1. : Please elaborate about any other issue in relation to the shortening of the securities settlement cycle in the EU or in third-country jurisdictions not previously addressed in the Call for Evidence.

<ESMA\_QUESTION\_SETT\_27>

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<ESMA\_QUESTION\_SETT\_27>