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 | Swift |
| Activity | Financial Messaging Provider |
| Are you representing an association? |  |
| Country / Region | International |

# 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>

Rationale:

Swift facilitates securities settlement activities of more than 5,000 financial institutions, including around 1,100 in the EU. Therefore, a change in the settlement period is of particular relevance. Our response is based on the experience of our numerous customers in the sector, which rely on Swift for the efficient settlement of cross-border transactions.

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**Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0.**

The call for evidence requests respondents to consider the possible impacts on processes and operations of both a T+1 and T+0 settlement cycle.

It is worth noting that current processes and technologies already support certain securities transactions with a shorter settlement cycle (T+1), including securities lending and collateral postings. However, a move towards an intended settlement date of T+0 is considered by most participants to require the adoption of new technologies such as tokenisation and digital ledgers. It is also relevant to clarify that the response assumes a simultaneous settlement process as opposed to simultaneous and instant.

In the context of a shorter settlement period, several challenges and issues become apparent, which may affect various market participants:

**Overseas investors and mismatched time zones:**

* **Time-sensitive settlement activities:** Ashorter settlement cycle leaves limited time to complete crucial paperwork and processes necessary for trade settlement. This challenge is particularly pronounced for overseas investors and participants operating in mismatched time zones.
* **Complex cross-border transactions:** In the case of cross-border securities transactions, the transaction chain can be intricate and involve a lengthy series of intermediaries. This complexity, combined with the shorter settlement period, exacerbates the time zone challenges.
* **No flexibility for delay:** The compressed timeline leaves no room for flexibility, and key activities such as trade matching and affirmations must occur within a strict timeframe, even if they fall outside normal office hours.

**Smaller firms with manual settlement processes:**

* **Automation gap:** While larger financial institutions employ automation wherever possible and have robust control mechanisms to mitigate the risk of sending non-compliant instructions to their custodians, many smaller wealth and fund managers continue to rely on manual settlement processes.
* **Operational efficiency:** The transition to a shorter settlement cycle necessitates heightened operational efficiency. Smaller firms may face challenges in adapting their processes, and they might need to invest in automation solutions to keep pace with the compressed timeline.
* **Risk of errors:** Manual processes are more susceptible to errors, and the risk of discrepancies or non-compliance with the tighter settlement cycle requirements increases, potentially resulting in failed trades or financial losses.

**Impact on the post trade lifecycle of the securities transaction and on the ancillary processes related to securities transaction:**

* **Data exchange:** In functional terms, the post trade process, following execution, requires additional data exchange between the trading parties, their corresponding account servicers (settlement parties), as well as market infrastructures, service providers and technical vendors. These interactions support business processes such as allocation, confirmation, affirmation, matching, instruction, validation, status and confirmation updates. The compression of an intended settlement date requires that these data exchanges can occur in a sufficient time.
* **Cut-off time:** It is relevant to note that account servicers have corresponding cut-offs, or market deadlines, as part of their agreement to support their clients (account owners). Therefore, the majority of impacts can be attributed to a lack of timely exchange of post trade data between the securities transaction parties.

The above-mentioned issues apply to both the ancillary processes such as cash/fx/inventory management and the securities finance transactions, which also require a data exchange process between account owners and account servicers to ensure sufficient funding and/or inventory is in the correct place to enable settlement.

**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.**

**Adoption of ISO Standards (ISO 15022 and ISO 20022) for Trade Settlement:** regulatory bodies can advocate for the adoption of ISO standards, including ISO 15022 and ISO 20022, for securities settlement. These ISO standards provide globally recognized and standardized frameworks for messaging and data exchange in financial services. The use of ISO 15022 and ISO 20022 would promote greater consistency and interoperability across the industry, streamlining trade settlement documentation processes. This approach helps address the challenges associated with shorter settlement cycles, enabling faster and more accurate trade confirmations and settlements.

**Encourage transparency to promote real-time settlement status and end-to-end visibility: r**egulators and market participants should aim to enhance transparency and visibility throughout the trade lifecycle, which is crucial for managing risk and ensuring timely settlement. This could be done through the use of a unique transaction identifier, which can help facilitate real-time tracking and monitoring of trades.

**Collaborative Industry Initiatives:** encourage industry-wide collaboration and best practices to develop standardized protocols and technologies for faster trade confirmation and settlement. Regulatory support can facilitate these initiatives, encouraging market participants to work together on solutions that are adaptable to shorter settlement cycles and that promote efficiency while maintaining compliance with regulatory requirements.

<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>

It has been identified that most ancillary processes such as FX cash management and securities finance would also necessitate a compression of their own processes and/or an extension to current cut-offs. In particular, operators that require a short settlement may not be able to benefit from current netting services due to existing cut-off times. <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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

In the event of transitioning to a T+1 settlement cycle, there is the likelihood that settlement fails may increase, particularly in the short term. The extent of this increase is contingent upon the ability of market participants to adapt to the accelerated timeline.

Some firms lack the necessary resources to process settlements in shortened timeframes, while others rely on manual processes. For these firms, the move to T+1 could lead to an increase in the late settlement rate. According to data from the Swift network, within the current T+2 framework, five out of every 100 securities transactions sent for settlement already fail to complete on their expected date. This is costing the industry billions.

In the medium and long term, the increase in settlement fails could be expected to decrease as market participants adapt and implement new solutions and processes to accommodate the shorter settlement cycle. The extent of this decrease would depend on the pace at which industry-wide changes are adopted and the effectiveness of these solutions.

While the increase in settlement fails may not be permanent, it serves as a warning about the critical role of preparation in ensuring a smooth transition and minimizing disruptions. With adequate preparation, settlement efficiency can recover over time as market participants adapt to the new settlement cycles and implement solutions to mitigate challenges. <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>

See answer above.

It may be beneficial for the regulator to examine the experience of countries that have made a similar transition, for example India, in order to assess this further. <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>

Europe’s complexity of multiple currencies, depositories, jurisdictions, as well as the financial penalties in place under the Central Securities Depositories Regulation (CSDR) regime mean the risk of settlement failure is high, and so too are the associated costs to firms. ESMA should consider this additional cost and its implications for market participants when evaluating the transition to shorter settlement cycles.

Market readiness, enhanced automation, standard adoption and improved processes will be critical in addressing this challenge and minimizing its impact on trading and settlement efficiency.

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

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<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

Yes, it is feasible to have different settlement cycles for different types of financial instrument. The suitability of varying settlement cycles depends on the specific characteristics and trading dynamics of each instrument.

In the case of equities, markets often have more alignment in the settlement cycle, with a preference for shorter settlement periods due to the standardized and highly liquid nature of equities.

Conversely, the fixed income market, which includes a variety of debt securities, is often characterized by over-the-counter trading. This market also encompasses transactions for interbank purposes, which require greater flexibility. As a result, different types of fixed income instruments may benefit from settlement cycles tailored to their specific characteristics. <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>

Equity instruments are typically easier to migrate to a shorter settlement period. This is in line with the historical trend observed in many countries where the transition to shorter settlement cycles often begins with the equity market. Equity instruments are often more standardized, highly liquid, and well-suited for shorter settlement periods.

The feasibility and advisability of having different migration times for different products, markets, or assets depend on various factors, including the complexity of the instruments, market structure, and regulatory considerations. While equity instruments are generally more amenable to shorter settlement cycles, other asset classes may require a more phased or tailored approach based on their unique characteristics. <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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

From a functional perspective, feedback has been that a harmonised settlement cycle would be the most beneficial. As any migration incurs cost, it would be strongly advisable to coordinate any potential change in settlement cycle with other close jurisdictions – for example a coordinated change of settlement cycle between the EU and UK would reduce costs and disruptions for market participants.

<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>

**Automation:** Improved automation is a vital component in the transition to shorter settlement cycles in the securities industry. Without enhanced automation, the persistence of manual processing and human error could hinder efficiency and continue to lead to late or failed settlements.

**Transparency:** The introduction of comprehensive end-to-end transaction transparency is critical. Currently, during the trade settlement process, firms often face challenges accessing real-time information regarding the status of settlements and the progress of other counterparties. This lack of real-time visibility can impede proactive risk management and issue resolution.

The industry is working on a solution to address this challenge by using a unique transaction identifier (UTI), which can help facilitate real-time tracking and monitoring of trades. This provides automated tracking access for all transaction participants. By enhancing visibility throughout the transaction chain, firms can identify and resolve bottlenecks and settlement lifecycle issues more rapidly. This, in turn, reduces costs and operational risks associated with potential settlement failures. It also fosters consensus in resolving discrepancies more quickly, streamlining operational complexity, and mitigating settlement risk.

Improved post-trade transparency also benefits intermediary firms, enabling them to address client inquiries about clearing and settlement more efficiently. The consistent data provided by the UTI facilitates the transmission and tracking of transactions between traditional and next-generation technologies, enhancing interoperability and setting the stage for innovation.

**Collaborative action:** Collaborative action is essential in addressing the challenges associated with the transition to shorter settlement cycles. The industry must continue to work together to boost efficiency, transparency and automation, ensuring the successful adoption of shorter settlement cycles.

<ESMA\_QUESTION\_SETT\_27>