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 | Association Nationale des Sociétés par Actions- ANSA |
| Activity | Not for profit association representing the interests of French quoted and non-quoted companies  |
| Are you representing an association? |[x]
| Country / Region | France  |

# 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>

We, as issuers, support the objective to improve efficiency and reduce risks in securities markets and are open to consider a move to T+1 which, if implemented correctly, could help EU capital markets invest in more automation and increase standardization.

Mindful of ESMA's objectives to gain an understanding of the costs market players may incur and the difficulties it would entail for them to migrate and operate in a shorter settlement cycle environment, issuers have found it difficult to collect quantitative data on the potential costs and benefits. Despite these difficulties there are questions on which issuers are legitimate to comment on.

Generally, moving to T+1 will be more challenging in the EU than in other jurisdictions, including the US or in jurisdictions with centralized post-trade financial markets infrastructure and harmonized securities laws such as the UK. The complexity of the post-trade landscape in the EU, with its multiple market infrastructures (i.e., inconsistent national securities laws), suggests that each regional market must carry out its cost-benefit analysis. There is no point in mechanically following the first one that shortens its settlement-delivery cycle.

Cases of countries that had moved to T+0/T+1 cycles but had to switch back to a T+2 cycle to stop the foreign investors from exiting their market are of particular interest. Taiwan for instance moved back to T+2 from T+1 for time zones issues for US investors. Also, some T+1 markets can require pre-funding, and this must be taken into account when looking at a cost/benefit analysis to a potential move to T+1.

Setting an appropriate timeframe and making the necessary operational and regulatory changes before considering migrating to T+1 will be essential. A precipitated decision will likely increase European capital markets' risks, costs, and inefficiencies. After completing a robust cost-benefit analysis considering the unique features of the EU post-trade landscape, the EU would benefit from reflecting on the lessons learnt from the US migration to T+1 and feedback from US investors and international investors active in the US market. Also, in order to adopt a realistic roadmap, a coordination with other European markets in the region such as the UK or Switzerland should be undertaken.

When considering the costs and benefits of migrating to T+1, while market infrastructures and intermediaries should bear all investment costs, they risk apportioning part of them to their clients, issuers and investors.

It follows that, from the standpoint of the expected benefits, the picture is a more mixed one. On the upside, it is claimed that T+1 could i**mprove liquidity in the market from lower collateral requirements and encourage automation**. But on the downside, it may result in higher trade costs, especially for retail investors, as intermediaries and market infrastructures are likely to pass on their investment costs to their clients.

Another important aspect of moving to T+1 settlement cycle is the misalignment across markets which are expected to create liquidity mismatches. If one purchases a security on a T+2 basis in say, Euroclear, but delivers it on a T+1 basis in DTCC, then there will be a funding gap to manage. It will be very important to see whether market players can adapt to this situation when the US market moves to T+1 and becomes misaligned with the EU to understand the depth of the liquidity mismatch.

We therefore urge ESMA to gather information from international investors on the difficulties resulting from misalignment between settlement cycles. Against this background, the best option would be to seek coordination with the UK and Switzerland (See reply to Q.21).

A further potential downside is the risk of a significant increase in settlement fails, especially on less liquid instruments. resulting in cash penalties under CSDR. Data has showed a recent upwards trend for equity settlement fails in Europe.

Turning to the global settlement fails picture, according to an article published by Swift, currently one out of 10 transactions need correcting or ends up failing: 4% of settlement instructions are cancelled before or on settlement date, 1% of settlement instructions are cancelled after settlement date, 5% are completed after settlement date. Among the reasons for settlement fails are poor data quality, spikes in transactions volumes, often caused by market volatility, illiquidity that will become more acute as settlement cycles are shortened.

It is too early to form a conclusion on the impact of the penalty regime on the reduction of settlement fails. It is imperative that before any move to T+1, improvements to settlement efficiency are made across the industry. Additional possible regulatory action that may help address the problem includes enhancing the attractiveness of the SME growth market by ensuring that the flexibilities to agree extended settlement dates continue and a move to T+1 doesn’t negatively impact this segment of the market.

Lastly, the move to T+1 is likely to call into question the processing of certain corporate actions initiated by issuers. Corporate Actions customarily have ex-date one day prior to the record date, enabling trades to settle in advance of the record date cut off. The US market change will mean that the ex & record dates will need to be the same day which will lead to more reconciliation issues and subsequent market claims. In addition, there is increased risk and impact of managing fails, liabilities and claims in a shortened window.

TYPE YOUR TEXT HERE

<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>

We comment on hedging from the perspective of non-financial companies using OTC derivatives to hedge against interest rate, FX or commodity price risks that are linked to operational and financing activities.

It is our understanding that these transactions are out of scope as Article 5 of CSDR applies to transactions in transferable securities, money market instruments, units in collective investment undertakings and emission allowances which are executed on trading venues and excludes transactions which are negotiated privately but executed on a trading venue or transactions which are executed bilaterally. (see also Q 17)

If this was not the case, potential impacts would have to be considered thoroughly before drawing conclusions.

A more general issue that also needs consideration are hedging transactions linked to or following from transaction in securities. If T+1 applies e.g. for transaction in a listed bond denominated in a foreign currency, it is important that the related hedge can also be executed on a T+1 basis in order to avoid a mismatch.

TYPE YOUR TEXT HERE

<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>

**-N/A** 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>

**N/A** 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>

In theory, issuers should not face any direct costs of any shortening of the settlement cycle. There is, however, a risk that intermediaries and market infrastructures apportion some of the costs upstream to issuers and downstream to investors.

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>

It is difficult to quantify the risk of increase in settlement fails. What is sure, as noted in our reply to question 1, is that the question needs to be addressed and settled before moving to T+1.

TYPE YOUR TEXT HERE

<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>

**N/A** TYPE YOUR TEXT HERE

<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>

**N/A** TYPE YOUR TEXT HERE

<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>

**N/A** 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>

**N/A** TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

While retail investors will benefit from increasing trading speed (the reduced credit and market risk will still be borne by intermediaries), they may be required to pre-fund trades and costs of “change” may be passed down to them by intermediaries.

TYPE YOUR TEXT HERE

<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>

Please see our responses to questions 1 and 5.

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>

Migration to T+1 should occur in several stages: First , there is need to carry out a robust cost-benefit analysis considering the unique features of the EU post-trade landscape Second, the EU would benefit from reflecting on the lessons learnt from the US migration to T+1 and feedback received from US investors. Third, as noted above, there is a need to address and settle a certain number of short-term issues, including the reduction of settlement fails and the interaction with global investors, and identify the list of required regulatory changes to the EU's existing framework before moving to T+1. Fourth, the EU should adopt a realistic roadmap/playbook with strict implementation timelines and close cooperation between EU and MS authorities, regulators and industry.

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>

We fully support the existing scope. It is important to note that e.g. in primary markets a t+1 settlement might cause additional problems as e.g. typically time is needed to finalize documentation etc. We for example received the feedback that in primary bond markets a t+1 settlement would not be feasible due to the existing documentation needs.

Similarly, OTC hedging transactions should be freely negotiable between counterparties to optimally link them to underlying operative or financing transactions (see Q 2)

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>

Issuers may consider (re)alignment between global markets on individual instruments. For this purpose, the EU could realign, ideally in lockstep with the UK and Switzerland to T + 1. Equity comes closest to issuers’ mind, but we recognize the merits of having associated derivatives settle in lockstep.

TYPE YOUR TEXT HERE

<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>

Different migration timelines should not only be considered from the standpoint of products/asset classes but also from the perspective of companies’ categories. A case in point, as noted above in our reply to question 1, is the SME growth market for which there is a need to ensure that a move to T+1 doesn’t negatively impact this segment of the market.]

TYPE YOUR TEXT HERE

<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>

See our answer to question 1

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>

 See our responses to Q1 and 21 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>

See our response to Q.1 The move to T+1 will support a globally competitive EU securities market, with high levels of automation and standardisation/ Moving to T+1 does noy in itself achieve this objective, but, if implemented correctly, mat prove a catalyst towards delivering this objective. 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>

See our response to Q.1 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>

See our response to Q.1. TYPE YOUR TEXT HERE

<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>

See our response to Q.1. Unfortunately, some temporary misalignment versus the US is unavoidable, so it will be beneficial to identify all the potential issues when the US moves to T+1 to quantify the impacts and determine corrective actions where necessary. TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_27>