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 | DTCC |
| Activity | CSD |
| 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>

DTCC, in conjunction with its subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), and ITP LLC (ITP), appreciates the opportunity to respond to ESMA’s call for evidence on shortening the settlement cycle. DTC is the U.S. central securities depository, providing settlement services for virtually all equity, corporate and municipal debt trades and money market instruments in the United States (U.S.). NSCC is a central counterparty (CCP) providing clearing, settlement, risk management, and other CCP services for equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts in the United States. ITP offers two services to facilitate the post-trade processing of institutional trades: (1) ETC service that allows broker-dealers, buy-side firms (i.e., investment managers, hedge funds, private banks and outsourcers), custodians, and agents to coordinate domestic post-trade activity in U.S. equity and fixed-income securities; and (2) central trade matching service that allows broker-dealers and buy-side firms to efficiently match blocks, allocations, and confirmations in order to mitigate exceptions.

In our experience, the expected transition of the U.S. securities settlement cycle to T+1 on 28 May 2024, will affect and require changes at all three DTCC subsidiaries.1 To the extent that this experience in the U.S. securities markets is helpful to ESMA’s consideration of a similar transition in the EU, DTCC is providing responses for those questions where such experience may be most relevant or otherwise informative.2

From an ITP perspective, EU cash securities are traded, processed and settled in ways similar to the U.S. markets while there are several fixed income products that currently settle on T+1. Additionally, market participants are able to settle cash securities on a T+1 cycle as long as both parties agree (ad hoc basis). In essence, the process of same day matching is not uncommon today. Settlement instruction can only happen accurately if both parties to the trade are in complete agreement with all components to the transaction. If this does not occur, it could cause pre-settlement matching issues at the CSD level. Truly, agreeing these details on execution date is essential for accurate and timely settlement.

**Trade confirmation, allocation, and matching processes.** DTCC believes ESMA should consider mandating that trade confirmation, allocation and matching take place on the same day as execution. Furthermore, the matching and allocation should also include additional settlement data and information, such as Place of Settlement (PSET), to become part of the data set included within the confirm, allocation and matching process. Trade matching is a critical part of the post-trade lifecycle and helps mitigate settlement fails. It is in fact the first safety check after execution has taken place. Matching allows the buyer and the seller to agree on all constituents to their transaction, thereby facilitating the settlement process. Most importantly, matching allows counterparties to identify any exceptions that may cause the transaction to fail. Electronic platforms and mechanisms should be utilised for the trade confirmation, allocation and matching process. In fact, the DTCC internal analysis demonstrates that most transactions matched on an electronic platform are matched and agreed on execution date. On average over 90% of all EMEA cash securities transactions utilizing electronic platforms/mechanisms are fully allocated and matched on execution date. (Please see Question 3 for further data analysis of straight-through processes-STP).

Other jurisdictions, especially in APAC, already operate and benefit from fully automated post trade processes. For example, the Hong Kong Exchange (HKEX) recently introduced a new authorization layer (Synapse) that operates on a T+0 settlement cycle3. The Synapse platform mandates trade ingestion to come via an electronic central matching platform before trades can be authorized to be instructed to the CSD for settlement.

**Standing Settlement Instructions (SSIs)**: Moreover, we are of the opinion that ESMA should also consider the importance of Standard Settlement Instructions (SSIs) and their role in settlement efficiency. Our experience demonstrates that incorrect or missing SSIs are a major contributor to trade/settlement failure. These issues occur because several market participants insist on using manual methods when sharing SSI information. This, in turn, leads to a degree of ambiguity as there are no standard templates to be used. Furthermore, some market participants continue to rely on internal data storage, such as outdated SSI materials, which in turn may lead to settlement failure. This is the reason why a centralised SSI repository and facilitating a harmonized SSI taxonomy is critical. Utilising a central SSI repository provides transparency, increases automation and significantly reduces trade failure, because all market participants contribute SSI data, access SSI data and enrich this data into the post trade processes. Among other issues, some market participants highlight FX challenges in a T1 settlement cycle. Utilizing a central SSI repository would bring standardization to FX SSI distribution, which would have a positive effect on FX settlement, as market participants will be able to share and access SSI information on FX transactions immediately.

Finally, on transparency and standardisation, we wanted to emphasise the potential of increasing the usage of Unique Transaction Identifiers (UTIs). Central matching allows, *inter alia*, identifiers to be generated in post-trade messaging. We believe that further adoption of UTIs could enhance transparency and automation in the post-trade process across the EU. This would help increase transparency into post trade workflows and help expedite identification of exceptions that would aide settlement accuracy. Similar adoption of identifiers in other markets (i.e., derivatives) have truly increased transparency and market efficiency. It would be a logical step to incorporate UTIs into cash securities workflows, as the market participants using these identifiers in OTC derivative markets tend to be the same firms trading in cash securities.

Regarding regulatory actions, we believe any E.U action should ensure legal and regulatory certainty for all market participants by mandating all the data elements and processes discussed immediately above. In particular, we believe there is value in mandating appropriate operational tasks to be completed by the end of trade date together with certain behavioural changes. Most importantly, we believe allocations, confirmations and matching should take place by the end of trade date. Also, electronic SSIs should also be mandated, and market standards established relating to trade date instructions and new accounts.

**General T+0 considerations.**  As a general matter we believe that firstly ESMA should further clarify and perhaps define what it means by T+0. To note, there are multiple models of what could be considered “T+0” settlement. For example, the concept of real-time gross settlement (RTGS) should not be confused with a netted T+0 settlement, as each model comes with its own set of risks and benefits. In this regard, there should be clear understanding of which version of T+0 is under discussion to avoid confusion. Further, we note that the U.S. Industry Working Group had assessed the industry’s readiness and potential barriers to accelerating settlement to T+1 or T+0. The conclusion was that that T+0 would not be achievable in the short term given the current state of the settlement ecosystem. To note, finally, that the Securities and Exchange Commission in the U.S. has defined T+0 as netted end of day settlement.

We believe that a move to T+0 would require a fundamental overhaul of the international capital markets industry and foreign exchange/payments processes. Such a move to T+0 would require not only a fundamental change in market structures but also in the roles of execution marketplaces and providers of CCP and CSD services. It will also require revisions to industry-wide regulatory frameworks and standards, legal and regulatory changes, as well as the potential implementation of real-time cash and currency movements to facilitate such a change. Additionally, the burden of adoption for such technologies would be unevenly spread. In any case, the DTCC will continue to work with clients to explore different settlement cycles in the future including netting T+0.

Ideally, any discussion for a potential move to a T+0 environment should not take place until after the move to T+1. A separate discussion and analysis would also be needed for such an exploration.

1 On 15 February 2023, the U.S. Securities and Exchange Commission adopted final requirements that would shorten the standard settlement cycle for most broker-dealer transactions in securities from two business days after the trade date (T+2) to one (T+1). It also established a compliance date of 28 May 2024 for such a transition.

2 Additional information and resources regarding accelerating the U.S. securities settlement cycle from T+2 to T+1 is available at the [UST1 website](https://www.dtcc.com/ust1).

3 <https://www.hkex.com.hk/News/News-Release/2023/231004news?sc_lang=en>

<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>

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>

From the ITP data analysis that we have conducted, we can see that utilizing electronic platforms/mechanisms (such as the ITP CTM product) for the confirmation, allocation and matching process proves:

* Over 95% of EMEA securities transactions are captured on T+0.
* Over 90% of EMEA securities transactions are fully confirmed, allocated and matched on T+0.
* By T+1 over 99% of transactions are fully confirmed, allocated and matched.
* In the majority of EMEA markets, equities have a higher same day match rate that fixed income.
* Electronic platforms/mechanisms allow trade exceptions to be highlighted faster, therefore fixed faster.
* Electronic mechanisms also allow a greater data set to be captured within the trade confirmation and allocation process, which provides more accurate settlement instructions down to the CSD: both parties to the trade have locked in their trade economics and agreed how and where the trade will eventually settle.

<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>

We believe that from a post-trade perspective, a potential EU move to T+1 will not fundamentally change market participants’ operating models because processing and workflows do not really change. It simply speeds up specific processes so long as trade data agreements happen on trade date (T0). The move also accelerates the trend towards full post trade automation which is a critical component for T+1:to process transactions more efficiently and achieve accurate and timely settlement.

The reality is that cost barriers to automate post trade processes are relatively low due to technological advancements, which effectively provide more options. Also, the majority of cash securities asset classes are processed and settled in a similar manner, therefore any investments on automation would eventually bring about cross-asset class benefits such as standardisation of trade messaging, exception management and lifecycle transparency.

While we recognise that investments need to be made, the reality is that an EU T+1 would be a catalyst for post-trade modernisation, allowing market participants to obtain resource and budget to increase settlement efficiencies throughout the post-trade securities lifecycle, which would benefit the industry as a whole. To be more specific, we believe that:

* introducing enhanced automation and standardization in post-trade processes will aid in delivering settlement efficiencies needed in a T+1 environment;
* using electronic mechanisms to agree and match transactions will allow cross currency transactions to be identified faster on T+0, therefore will help aide and identify where an edited and updated transaction is needed;
* utilizing a central SSI repository will also help aid FX transactions, as market participants will be able to share and access SSI information immediately.

With the aim of settlement efficiency in mind, having more automated and standardised processes, is critical to the smooth and efficient functioning of EU’s capital markets.

<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>

As per our previous comments, we would focus on changes in a T+1 environment. While acknowledging that there are different operational and regulatory requirements around fails in the U.S. and in the EU, we would expect that any increase in fails related to the move to T+1 would be minimal and temporary.  In the U.S., this is the expectation as the securities industry and the DTCC have committed significant effort and resources to ensure trades continue to settle on time.  Nevertheless, DTCC would review the fail rates after the launch of the 28 May 2024 date and share with ESMA and the European policymakers any relevant data as appropriate.

As regards the EU and – to an extent – the UK markets, the main reason for fails occurring in the current settlement cycle is inventory management. Moreover, missing or incorrect SSIs and PSET (Place of Settlement) mismatches are expected to approximately account for c.25% of trade failure at the CSD level.

The current environment also exhibits characteristics which are conducive to fails such as:

* manual processes, a lack of automation and standardisation, which eventually increase the risk of trade failure; and
* client behaviour (i.e.market participants not adhering to market best practice guidelines).

So irrespective of the settlement cycle, solving these issues will certainly help increase settlement efficiency. Ideally, and we argue for this throughout the consultation response, these issues will have to be resolved prior to any move to T+1 to support a reduction of settlement fails. In they are not, fails will likely remain at their current levels.

<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>

Please see our answer to Question 6.

<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>

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>

Yes, we agree with the benefits mentioned by ESMA, which, for T+1, have been well documented4.

 While we acknowledge the differences between the EU and the U.S North American markets, our experience in the U.S has shown that the linear evolution of shortening the settlement cycles have brought about significant benefits.

In the U.S., the primary motivation for accelerating the settlement cycle is to reduce the overall level of systemic risk in the financial system. The length of the settlement cycle is important because there is a risk that a trade counterparty may not be able to fulfil its obligations between the time a trade is executed and settled: the longer this period of time, the greater the risk. This risk becomes elevated during times of high volatility and stressed market conditions, as unpredictable market events, such as the risk of a firm defaulting, can potentially impact the transfer of cash or ownership of securities. Accelerating the settlement cycle would significantly increase market efficiency and mitigate market and counterparty risk, particularly during times of extreme volatility. There are several dimensions to this:

* As longer settlement cycles equate to increased risk, market participants face higher margin requirements with a two-day settlement cycle to manage those risks. A shorter settlement timeframe would reduce margin requirements, and therefore free up capital from market participants.
* For investors: a move to T+1 would also make cash and securities available sooner, leading to an overall optimisation of the use of assets.
* Accelerating the settlement cycle to T+1 would also be a catalyst for market participants to migrate to more efficient ways of securities transaction processing, including further automation and the adoption of industry standards. The systems and process improvements required to move to T+1 would thus be expected to reduce operational risk and further enhance market resilience and efficiency.
* There would also be additional benefits of aligning settlement cycles with other non-EU jurisdictions (see Question 23 for further detail).

4 See for instance: AFME [report on](https://www.afme.eu/publications/reports/details/t1-settlement-in-europe--potential-benefits-and--challenges)“T+1 Settlement in Europe: Potential Benefits and Challenges” (September 2022). See also: U.S. Securities and Exchange Commission [Final Rule](https://www.sec.gov/files/rules/final/2023/34-96930.pdf) - Shortening the Securities Transaction Settlement Cycle (February 2023)

<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>

As per our previous response, we will only focus on the T+1 case, where we have analytical data.

In the U.S., DTCC data shows that moving from T+2 to T+1 is expected to reduce NSCC’s daily clearing fund requirements on average by approximately 31%.  We also expect a further reduction in risk and margin requirements related to bilaterally settled trades, even though these savings have not been quantified given the bilateral nature of those transactions.

While the data may differ for the EU markets, we believe that for specific assess classes the margin savings would be of similar nature. For instance, in the U.S. cash securities transactions between institutional clients and broker dealers can be netted and cleared through a CCP, which reduces settlement risk and cost. This workflow is prominent where a Prime Broker acts as the settlement agent for an institutional buy-side firm. Prime Brokers are commonly used across EU markets and could play a pivotal role in increasing clearing and thereby lead to settlement efficiencies. We are happy to work with EU CCPs to offer a more consolidated output on the collateral savings on a T+1 environment.

<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>

On T+0, as per our previous comments, we believe that it is challenging to provide concrete estimates as they will depend on and differ across the different versions/definitions of T+0. Ideally, ESMA may wish to conduct a separate analysis on different versions of T+0 as, for instance, real time gross settlement may require prefunding/pre-settlement whereas batch End of Day would require Clearing/Default Fund coverage for the duration of the open trade.

More generally, cost savings through automation are typically expected to be realized across multiple operational areas, and they would differ across market participants and the different settlement cycles considered, making them inherently difficult to quantify.

On T+1 specifically, for broker-dealers, DTCC previously analysed operating costs to estimate potential efficiency and cost savings by leveraging the implementation of a no-touch processing workflow from trade agreement through to settlement finality. The survey5 found that, for large global broker-dealers, certain institutional post-trade processing costs for cash securities could be reduced by 20-25% through leveraging post-trade automation, which would eliminate redundancies and manual processing and mitigate operational risks.

Finally, we firmly believe that adoption of automation could help firms to solidify their operational flow and eventually increase settlement efficiency.

5 See DTCC [White Paper](https://www.dtcc.com/itp-hub/dist/downloads/broker_supplement_11.11.20z.pdf) - Embracing Post-Trade Automation (November 2020).

<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>

The DTCC has long advocated for solutions that carefully assessed the cost and benefits of shortening the U.S standard settlement cycle, with the intent of developing industry consensus, including to understand the impacts and evaluate the potential risks of such transition. This is the reason why DTCC published two white papers in 2018 and 20216 respectively and worked closely with the industry to further analyse the benefits and barriers to moving to T+1 and coordinate on recommending solutions for the transition7. DTCC has also established a dedicated microsite (UST1.org) to provide market participants and the public with various informational resources regarding the transition to T+1.

Similarly, we believe that any consideration for moving to a shorter cycle in the EU would require a holistic and industry-led initiative that can assess cost and benefits for each market.

6 See for instance DTCC [White Paper](https://www.dtcc.com/-/media/Files/PDFs/White-Paper/DTCC-Accelerated-Settle-WP-2021.pdf) - Advancing Together: Leading The Industry To Accelerated Settlement (Feb 2021).

<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>

DTCC believes it is worth summarising the U.S. market experience, which chronologically dates back to 2012, where the U.S. industry began its move to T+2 and will culminate in 2024 when the North American markets moves to T+1.

The work to move the U.S. industry to T+1 informally began in 2019 and formally in 2021, when the industry, namely the broker dealer community, through SIFMA, and the fund management industry, through ICI, together with the DTCC, took the lead to organise the market participants around a T+1 analysis. Workshops were held almost daily throughout the summer of 2021 to develop a robust understanding of the impacts across the industry. These efforts were followed by a three-month consolidation of ideas into a comprehensive report and recommendations.   The outcome of this analysis was published on 1 December 2021, in an executive summary report “Accelerating the U.S. Equities Settlement Cycle T+1”. The discussion was intentionally broad and designed to solicit input from all different market participants, which effectively allowed the industry to identify issues and craft solutions before any regulatory involvement. Additionally, it helped the market to shape several timeframes. This industry-led initiative developed a high-level roadmap and engaged with the market regulators in the U.S. The regulatory mandate was imperative to ensure all market participants were on board and ensure the commitment of resources and uniform compliance with various tasks. The proposed rule was published on 9 February 2022 and the rule was adopted on 15 February 2023.

The U.S. market has drafted and relied upon a T+1 industry Playbook, initially published in August, 2022 and subsequently updated, entitled,  “T+1 Securities Settlement Industry Implementation Playbook (Playbook),” which outlines a detailed approach to identifying the potential impacts for the U.S. moving to T+1, implementation activities, implementation timelines, dependencies, and risk impacts, that market participants should consider in order to prepare for the impending transition to a T+1 Settlement Cycle. Throughout the process, from the initial paper through today, DTCC, SIMFA and ICI have been augmenting the library of materials supporting knowledge sharing in anticipation of T+1.  All materials can be found on *UST1.org.* Additionally, the published materials have been supported by numerous webinars that address member questions (recorded replays are also available on UST1.org).

We believe this approach should be taken into consideration as it helps private and public sector participants prepare for a change in the settlement cycle and can be used as a guide to identify the areas impacted by shortening the settlement cycle and the various considerations that should be contemplated. This is true in the U.S. as well as in the EU markets with its pluralistic and more idiosyncratic market structure. Evidently, every financial institution has a different infrastructure, different businesses, clients, as well as operational processes and geographies which all need to be taken into consideration.

Finally, on the timing issue, we believe that regulatory certainty is needed to support the timelines that will be put forward. In the absence of legal requirements, it would be difficult to hold accountability for the needed operational and behavioural changes. We firmly, believe that enough time needs to be given to the market participants for digesting changes, developing solutions and testing enhancements with their CSD providers and intermediaries.

7 See the Industry [Report](https://www.dtcc.com/-/media/Files/PDFs/T2/Accelerating-the-US-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf) from SIFMA, ICI and DTCC: Accelerating the U.S. Securities Settlement Cycle to T+1 (December 2021).

<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>

We believe that from a post trade perspective, the biggest challenge for T+1 implementation will be changing current market infrastructure cut off times. We also believe that making systematic changes such as mandating trade allocation, confirmation and matching on trade date (T+0), increasing the usage of electronic platforms/mechanisms and using a central SSI repository are changes that can be achieved in a very short space of time, and should be considered for implementation prior to the actual move to T+1.

In the U.S market, the changes could happen faster due to the consolidated nature of the market. The EU markets, however, which are far more fragmented, would likely benefit from a period longer than the one provided in the U.S. While we appreciate that evaluating the scope and challenges around moving to T+1 in the EU remains ongoing, our preliminary sense is that if a determination were made to move to T+1 in the EU, the transition should occur over a period of at least 2 years after the final E.U regulatory change is adopted.

<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 across different instruments, as the U.S. equity and Treasury markets may demonstrate. Clearly, it is important that each asset market have the settlement cycle that is the most appropriate for them. On the other hand, when supervisory authorities look to make a change to a settlement cycle for one asset class, they should explicitly consider the cross-asset benefits and costs.

We also believe that the misalignment of the settlement cycles, for a prolonged period of time, creates operational challenges for market participants. Certain assets trade and settle in multiple markets or have product components that trade and settle in different markets. The misalignment of settlement cycles would then create potential funding challenges when processing back-to-back transactions or leads to an increase in the likelihood of trade failures and associated capital implications.

<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>

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>

We believe that the misalignment of the settlement cycles, for a prolonged period of time, creates operational challenges for market participants.  Certain assets trade and settle in multiple markets or have product components that trade and settle in different markets.  The misalignment of settlement cycles creates potential funding challenges when processing back-to-back transactions or leads to an increase in the likelihood of trade failures.

<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>

Please see our response to Q1.

We believe that any EU regulatory action should ensure legal and regulatory certainty for all market participants by mandating all the data elements and processes. In particular, mandating appropriate operational tasks to be completed by the end of trade date together with certain behavioural changes. Most importantly, we believe allocations, confirmations and matching should take place by the end of trade date. In addition, electronic SSIs should also be mandated, and market standards established relating to trade date instructions and new accounts.

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

Yes. We believe that one of the biggest challenges for all market participants would be the misalignment of the settlement cycles. Harmonisation of settlement cycles at international level is eventually the desirable state as it would help avoid inefficiencies and market fragmentation.

Historically, securities settlement cycles have shortened in an evolutionary way, and in fact the story so far has been quite linear.  For example, the U.S. markets migrated from T+3 to T+2 settlement in 2017, after several other international markets, including the EU and UK markets were already on a T+2 settlement cycle. Most securities transactions executed on trading venues (in EEA countries, the UK, and Switzerland) have followed T+2 settlement cycles for most major asset classes since 2014. Following the adoption of shorter settlement cycles in India and China and expected implementation of T+1 in the U.S., Canada and Mexico in 2024, other markets including the UK and Australia are now also exploring a potential move to T+1. In fact, there seems to be a growing consensus that in the medium to long term, major markets will coalesce around a T+1 cycle.  According to a survey by Citi,8 89% of respondents across the world expect their local settlement cycles to shorten to T+1 or T+0 in the next five years. In this context, due to the increasingly global and interconnected nature of financial markets, aligning the timeframe for settlement between the EU and other major markets would be beneficial to avoid inefficiencies and market fragmentation.

8 See Citi’s [report](https://www.citibank.com/mss/docs/Citi_Securities_Services_Evolution_2023.pdf) on “Securities Services Evolution 2023” (August 2023).

<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>

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<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>

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<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>

Please refer to our responses under Questions 21 and 23.

<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>

The DTCC would like to thank ESMA for the opportunity to offer its thoughts and experience on shortening the settlement cycle in the EU.  Several parts of our response have been based on our experience in the U.S. market, a process that has evolved to lead to a T+1 implementation date in May 2024.

The U.S experience, which combined a thorough and coordinated private sector initiative coupled by the SEC’s regulatory mandate, offers an interesting blueprint for the journey of the EU’s market towards a shorter settlement cycle.

The DTCC has addressed in this consultation issues only around a T+1 cycle as we believe any discussion on T+0 should first be properly defined and probably merits a separate assessment after the implementation of the analysis on T+1.  We have stressed that currently we do have T+0 settlement capability, however this does not mean such capability will inevitably translate into a standard settlement cycle in the U.S. We feel however that, if and once defined and properly studied, T+0 may be a paradigm shift and may require a fundamental overhaul of capital markets industry, foreign exchange/payments industry and securities services industry processes. It will also require revisions to industry-wide regulatory frameworks and standards, legal and regulatory changes, as well as and the potential implementation of real-time cash and currency movements to facilitate such a change. We are also of the opinion that the discussion on shortening the cycle should be decoupled from the discussion about the potential of any specific technological development (such as distributed ledgers). Shortening the cycle can happen by using existing technologies, if needed, and of course by taking into account the future potential of newer types of technology.

Also, we strongly believe that harmonisation of the settlement cycles would be eventually beneficial at least in the medium to long term.

Finally, we have consistently stressed that automation and standardisation of several key post trade/pre settlement processes would be critical components of operational efficiency, market transparency and increase in settlement efficiency.

<ESMA\_QUESTION\_SETT\_27>