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 | SIX Group |
| Activity | CSDs, CCPs, trading venues, data repositories, financial information and banking services |
| Are you representing an association? |  |
| Country / Region | Spain (EU), Switzerland |

# 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>

SIX Group extends its gratitude to ESMA for the possibility to contribute to the discussion by sharing our views in this response. We would like to highlight that our answers to this Call for Evidence will be focused on analysing the impact of a potential reduction in the settlement cycle from T+2 to T+1 only. Currently, most CSDs have the capability to settle on T+0 real time; in fact, some activities such as bonds and repo already settle on T+0. Additionally, there are FMIs operating on digital technology, such as SDX (SIX Digital Exchange) which perform atomic settlement. Nevertheless, we think that it is not realistic to consider a reduction from T+2 to T+0 across the whole industry at this point and it is crucial to analyse the move to T+1 first.

SIX Group believes that the analysis should focus solely on a move to a T+1 settlement cycle, as the reduction of one business day in the settlement cycle would have a great impact on the industry. Further to this, a move to T+0 would fundamentally alter post-trade processes beyond a simple shortening of the settlement cycle. Before a move to T+0 can be considered, it would be necessary to first address the current challenges associated to T+1 and allow the market to implement the necessary adaptations. Once T+1 is operational, the impact of a move to T+0 and the new challenges that could arise from such a reduction in the settlement cycle could be analyzed.

The reduction in time between trading and settlement due to a move to T+1 would considerably reduce the time for post-trade processes, which could result in an increase in operational inefficiencies, which would require then to be re-engineered. Settlement fails and liquidity problems could arise due to less time for the entities to manage their transactions, resulting, at least in the short run, in reduced settlement efficiency.

Currently, settlement efficiency rates in Europe on T+2 are seen as a concern by market regulators and authorities, so improving settlement efficiency would be a prerequisite for a successful implementation of a shorter settlement cycle.

**SIX has identified following business areas and processes, on which we would like to provide further comment on their impact.**

* **Time constraint**

All post-trade operational processes and activities would need to be performed in a compressed time frame, whilst maintaining the same, if not better level of settlement efficiency. The timescale available to process activities would be reduced, not by 50%, but by as much as 92%. This would have a negative impact on the ability to resolve operational issues. The compressed timescales will impact the full transaction lifecycle from trading, clearing and settlement until the actors within the environment in different ways.

More specifically, the compression of relevant settlement cycles in CSD systems (including, for those who affected, T2S) should be addressed as many processes currently performed on T+1 would need to be truncated into T+0 to enable efficiencies to be possible on a revised settlement cycle:

* Possible delay to the start of the day’s activities.
* Night-time settlement processes could also be significantly affected if there is insufficient time to process all transactions.
* If a significant number of transactions are received during the day there could be a potential impact or delay to the delivery versus payment cut-off times (coordination with NCBs may be necessary). The free of payment deadline could also be affected
* These could all impact intra-day processes if more transactions are then processes at different points in time.

Also, the assessment should take into account that all cash activities will be constrained which implies that significant improvements in the automation and coordination between treasury and securities teams would be necessary.

This could imply that internal processes (such as credit approvals, sanctions, etc.) must be conducted more efficiently in order to avoid negative impacts on the settlement lifecycle or settlement efficiency.

These time constraints might be particularly severe for trades that are traded outside normal trading hours, such as on the Spanish Stock Exchange where trading is possible until CET 20:00 CET which is when the T2S night settlement cycle starts. Trades executed in this segment and those resulting from the exercise and maturity of derivatives trades (registered after CET 19:00 on T+0) could be impacted since, in a T+1 settlement cycle, members would have less time to manage these transactions compared with transactions traded during the normal trading schedule. Similarly, trades resulting from the quarterly maturity of derivatives transactions create considerable spikes in the amount of equity trades and hence may require members to allocate more resources to manage and settle them on time.

* **Trading**

The expected impact of a move to a T+1 settlement cycle on trading operations is substantially less complex but could affect trading if settlement processes are not effective and settlement failures become significant.

For the remainder of this document, we therefore limit ourselves to the specifics of the exchanges within SIX Group in the context of the proposed initiative except for SIX Digital Exchange (SDX), which already offers atomic settlement due to the nature of the underlying technology.

General concerns exist regarding the effectiveness of settlement in the following areas:

* ETFs, mainly on foreign indices, in which settlement can be already challenging in today’s T+2 set-up due to their creation/redemption processes
* Instruments depending on rate or price fixings:
  + NAV trading in Open-ended Investment Funds (SICAVs)and Hedge Funds (SILs)
  + Accrued interest calculations and instructions for instruments based on risk-free rates with look-back (e.g. TONA which will not be available until T+1 in Europe)
* Bilateral or manual settlement instructions for instruments traded/reported:
  + in the after-trading hours with safe-keeping outside of the NCSD (i.e. cross-border transactions)
  + as part of a special trading service offerings such as buybacks for equities listed e.g. in the USA which today requires a T+3 settlement cycle (that may be reduced to T+2 with the T+1 move in the USA)

From the trading venue perspective, it is worth mentioning the particularities of Open-ended Investment Funds (SICAVs) and Hedge Funds (SILs) traded at NAV in Spain. We would have to change the trade date so that it would be the same as the date when the NAV is issued and when the CCP registers the trade, the day prior to settlement to be on time. The management company that calculates the NAV and the counterparty member would also need to adjust.

The impact would also be relevant for Latibex, a stock market for Latin American securities based in Madrid, where the specialists arbitrate with the market of origin (Latin American countries). A different settlement cycle between countries might result in an increase in settlement fails on these securities by specialists. On the other hand, any difference in settlement periods would have an impact on corporate events leading to different prices and/or rights, which should not happen.

There would also be an issue with some trades that take place late at night and are published the following day in the morning with the trading date the previous day having to be settled that same day.

Changes to deadlines and transaction process cut-off timings may need to be adjusted to allow transactions to be processed and submitted through the value chain in time for them to be settled efficiently and without impacting settlement efficiency.

SIX Group has also contributed to FESE´s response which support and will be submitted directly by them.

* **Clearing**

Due to the compression of time for post-trade processes, any market issues would become more urgent to solve, which might require more operational resources and could potentially lead to higher costs.

As outlined above, all transactions would be impacted by a compressed timeframe in which to process the activity, especially those traded outside normal trading hours and those arising from the exercise and maturity of derivatives trades. If members do not adapt their processes to accommodate this there is a potential for increased operational risks and settlement failures with a shorter settlement cycle.

With the compressed settlement cycle, the risk of settlement instructions being unmatched will increase. This can become particularly problematic for CCPs if it results in a mismatch of transactions and with open positions held by the CCP. This could potentially result in a CCPs cash deficit. If the issue persists, credit lines may be fully utilized, potentially leading to a freeze in settlements in the market. In a worst-case scenario, CCPs would have to increase their capitalization and credit lines, resulting in additional costs for its clearing members.

The changes to a T+1 settlement cycle for CCPs’ processes will need to be analyzed and coordinated with trading platforms. Special consideration would be required for T2S’s night settlement cycle schedule. It may be necessary for T2S to move back the start of the overnight settlement cycle to allow the CCPs to include all their trades in the netting process and send them for the overnight settlement cycle.

For instance, the Spanish CCP, BME Clearing currently sends its trades to the CSD on T+1 around CET 19:00 (after netting is performed) before the trading venue closes (at CET 20:00) to be able to adhere to the start of T2S overnight settlement cycle. This means that, in a T+1 cycle, trades registered afterwards would miss the start of the night settlement cycle of the following session.

On the other hand, the Swiss CCP, SIX x-clear’s netting is performed around CET 20:00 after the last trading venue is closed for the trading day, the same time T2S overnight cycle starts, meaning the CCP would also miss the start of the overnight settlement cycle.

Therefore, to enable T+1 settlement, SIX Group post-trade processes (e.g. allocations, transfers, holds and releases, netting, etc.) would need to be rescheduled with new deadlines for the cut-offs times for registration of trades from trading platforms, to provide members with enough time to handle their trades in the CCP before the settlement period starts. As mentioned above, the adjustment of timetables would affect not just CCPs but also trading platforms and settlement systems (such as T2S).

Furthermore, some asset classes may need to be analyzed due to their particularities. This could be the case with SICAVs at Net Asset Value (NAV[[1]](#footnote-2)) since they are currently registered in the Spanish CCP the day prior to their ISD (ISD-1) at 15:15 (approx..) and sent by the trading platform with a trade date previous to the registration date. However, a significant impact is not expected as it may be considered that they are already being registered in the CCP following a T+1 settlement cycle.

SIX Group supports the submission by EACH, to which we have also contributed, and which will be submitted directly by them.

* **Settlement efficiency**

Shortening the settlement cycle will imply less time to instruct, perform internal processes, manage the resources and solve any incidents or discrepancies that may occur across the whole transaction lifecycle.

Operational and administrative costs, including CSDR settlement fail penalties, would increase for both the CCP and the members but could also act as a catalyst to improve settlement efficiency. This may limit the proposed benefits of a move to T+1.

While these concerns do not per se prevent a migration to T+1, allowing a large number of trades to remain unsettled overnight into the next day would significantly increase the risk to settlement efficiency due to less liquidity being in the market as a result of less trades being settled.

If trading can be carried out up to the current deadlines, the corresponding reporting to subsequent infrastructures (for clearing and settlement activities) should be faster and efficient to avoid the domino effect of “delay” and potential increasing of instructing late and/or errors, which would require more time to be resolved and avoiding an increase in matching/settlement failing rates.

As a result of the above, it is likely that not only settlement fail but also late matching penalties will be increased if automation and other mitigation measures are not implemented.

Some asset classes, such as ETFs, already have a significantly lower settlement efficiency than others. This must be assessed to avoid significant bottlenecks in the markets where these assets are traded, and the corresponding post-trade activities are to be carried out.

SIX Group supports the ECSDA response to the Call for Evidence on T+1, to which we have also contributed on this topic and also on the settlement matters in general.

* **Securities Lending & Repo**

**Stock borrowing & lending**

To mitigate some of the impacts of compressed timelines to process transactions securities lending and borrowing activities should be facilitated and/or automated where possible.

However, a side-effect of shortening the settlement cycle could also affect the ability to close securities loans which could exacerbate settlement efficiency problems. As it is obvious that higher settlement failure rates in Europe will affect the competitiveness of the European financial institutions, and more generally, the European economy.

A compressed settlement cycle may have an impact on collateral management in securities lending. Borrowers would need to ensure the timely availability of acceptable collateral to secure borrowed securities, while lenders would need to efficiently manage collateral receipts and returns within a much-compressed time frame.

**Repo**

Due to the fully integrated value chain which includes Repo trading, post-trading and settlement, Repo transactions can already be settled instantaneously (T+0).

* **Corporate actions**

Although a shortening of settlement cycle impacts settlement activities, it is important to highlight that there is a consensus that corporate actions management is one of the post-trade areas most affected by this change.

In a T+2 environment the current convention is that there are three different dates which facilitates the management of the corporate events as follows:

* Ex Date (D-2)
* Record Date (D-1)
* Payment Date (D)

As far as we understand, in the T+1 environment these dates would have to be adjusted, meaning that Ex Date and Record Date will be on the same date (D-1) and the Payment Date (D) would continue on the same day. Therefore, it is very important to define a clear standard to be followed by the whole industry, including for multi-listed securities that can be settled in different settlement cycles depending on the market (US / EU).

These changes will affect not only the management of corporate action on stock, but also on flow, thus also for complex capital market transactions like splits, capital increases etc.

* **Forex (FX)**

The analysis cannot be limited only to euro settlement as in Europe other currencies coexist and investors switch between currencies frequently.

Currently, the FX settlement cycle is on a T+2. Should this FX cycle remain, investors in different currencies may need to pre-deposit cash which increases liquidity costs and risks, on top of an increase in operational processes complexity and risks. It seems it would be necessary to harmonise and align the FX settlement cycle and the securities settlement cycle.

* **Cross-border custody/transactions**

Shortening the settlement cycle will pose challenges for cross-border transactions for equities, bonds and structured products, as markets have different operating models (RTS, Batch), that may cause technical delays amongst markets. Registration/de-registration processes, which are essential for settlements, may not be compatible with a T+1 window in some cases.

Regarding technical infrastructure or processes, no technical changes are anticipated at SIX SIS, in its role as international sub-custodian. As Switzerland is in the same time zone as EU, no significant time constraints are foreseen in processing settlement orders.

Shortening the settlement cycle will affect the netting process, as clients will have to deal with timing constraints in a T+1 environment. This could lead to operational difficulties and inefficiencies, as well as increased risks and costs.

Funds do not adhere to today’s T+2 rules, i.e. their settlement cycle is determined by their prospectus. Whereas ETFs are subject to T+2, redemption orders entail a higher liquidation risk for funds.

Shortening the settlement cycle will increase the risk for corporate actions on flows as timing constraints will limit the ability to perform timely compensations. This could result in more failures and penalties, as well as lower customer satisfaction.

* **Other points to be addressed**

The migration to a compressed settlement cycle will require a number of key adjustment to the current model which will help deliver the expected benefits and would include: **Enhance market liquidity** by freeing up capital that would otherwise be locked in unsettled trades which will facilitate market participants willingness to engage in additional trading activities as they can quickly access funds and securities after trades are executed. **Drive increased automation in settlement processes** which will result in faster and more accurate execution of trades, reducing the likelihood of errors. **Enhance cross-border processes** for the infrastructure and communication flow to enable efficiencies. **Enhance technology** which will require investment in or upgrades to technological systems to support the faster settlement process. This can lead to advancements in trading technology and infrastructure. **Regulatory certainty** which will improve those aspects that could support a better and faster adaptation to this shorter settlement cycle through regulation.

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

Rather than legislative or regulatory action, considering the previously described issues, a review of processes and applicable standards would help to mitigate or absorb negative implications or effects.

The following actions would be worth considering in order to facilitate the adoption of T+1:

* Members of CCPs should be encouraged to utilize the mechanisms currently provided by CCPs that allow for the automatic processing of certain clearing activities without needing additional intervention (i.e. transfers and allocations). Internal processes such as the hold and release mechanisms should also ideally be automated.
* Support for market practices that allow transactions to be fully matched on trade date (T) and securities and cash to be in place to settle on T+1 within the CSD.
* Support the use of partial settlement functionality.
* A review on T2S schedule day: the possibility of increasing T2S real-time settlement hours, including partial settlement, which is currently limited to certain windows (besides the option of delaying the start of the night settlement cycle).
* A review on corporate action standards in a European context.
* Finally, having an open debate with regulators on some of the SDR elements could soft or mitigate some of the negative effects that have been mentioned.

<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>

SIX Group considers that the move to a shorter settlement cycle for securities aligned with FX which continues operating on T+2 will introduce higher spreads and opportunity costs to the market.

Below are some anticipated general potential consequences on both hedging practices and transactions with an FX component:

* **Increase of pre-hedging**: market participants may need to initiate hedges earlier to mitigate risk, leading to a situation where traders may initiate hedges before the actual trade to reduce exposure during the settlement period.
* **FX Rate Risk**: Transactions with an FX component may face increased FX rate risk with a shorter settlement cycle. This is because changes in exchange rates can have a more significant impact on the value of the transaction over a shorter period. Therefore, market participants may need to manage this risk more actively.
* **FX Hedging Needs**: Market participants involved in transactions with an FX component may need to adjust their FX hedging strategies to accommodate the shorter settlement cycle. They may increase their use of FX derivatives or other hedging instruments to mitigate FX rate risk.
* **Impact on Cross-Border Transactions**: Cross-border transactions involving different currencies can be more complex with a shorter settlement cycle, potentially requiring faster currency conversion and settlement. Participants in such transactions may need to adjust their operational processes and technical systems accordingly.
* **Enhanced Liquidity Management**: Market participants may need to improve their liquidity management practices to ensure they have the necessary funds or currencies available for timely settlement in transactions with an FX component.

In addition, the move to a shorter settlement cycle will bring additional consequences for hedging practices and for transactions with an FX component:

* **Securities Lending**: in addition to our previous response, the shorter settlement cycle may have an impact on collateral management in securities lending. Borrowers would need to ensure the timely availability of acceptable collateral to secure borrowed securities, while lenders would need to efficiently manage collateral receipts and returns within a much-compressed time frame.
* **Auto-collateralization**: this service offered by both NCBs and banks in general, to payment/settlement banks to facilitate the automatic provision of intraday credit, secured with collateral, will be increased in T+1 regarding the need of cash for settle in a shorter settlement cycle. Increasing the automation of these processes would be relevant in order to mitigate, at least during the beginning of T+1 implementation, the negative impact on liquidity availability.
* **Potential side effect on cross-border transactions**: in a T+1 environment, the cross-border activity can be more negatively affected than domestic activity as more processes are needed (e.g. realignments or management of the securities holdings moving from one market/CSD where they are held to the market/CSD where the sale is going to be settled) and larger chains of intermediaries needed to settle the trade. This impact cannot be considered residual and could affect all European markets.

<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>

Automation of the whole transaction lifecycle will have a positive impact on the current processes, but especially when time pressure becomes a key factor, which is the case with a shortening in the settlement cycle.

These positive effects are truly relevant for stability and settlement efficiency, especially in times of market volatility and political and economic uncertainty as they absorb increases of volumes or volatility, especially with a shorter settlement cycle.

In general, SIX FMIs are capable of processing STP for all trades and only use manual intervention for technical issues or some procedures to handle settlement fails and corporates actions that are not processed by the CSDs.

The STP rate on our platforms for domestic and international settlement transactions averages over 95% and for Repo transactions averages 100%.

All domestic trades from SIX Swiss Exchange are fully STP and instructed to the relevant CCP and domestic CSD in real time throughout the business day.

SIX Group CCPs provide members with the possibility to automate post-trade processes, such as allocations and transfers of trades in BME Clearing, to reduce any manual intervention. Likewise, CCP members can automate some internal processes such as the hold and release mechanism.

Most allocations of trades between members are performed on trade date and this averages more than 90% of the total trades allocated, regardless of whether the allocation is done automatically or manually. This percentage is even higher for trades traded in daily accounts that have been transferred to other accounts of the same Member on trade date. However, some improvements would need to be made for transfers between Member accounts (different than daily accounts) as the percentage of these transfers executed on trade date is very low, averaging around 30%.

<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>

The compressed timescales will impact the full transaction lifecycle from trading, clearing and settlement.

* **Trading**

In terms of trading activity, cross-border transactions in the same products with different settlement periods (T+1 vs T+2) would result in differences in pricing for bid/ask spreads which would increase upfront costs to the trading desk and a funding gap between the purchase and sale.

This could become more expensive for market makers due to the increased cost of securities lending and make the market less efficient.

The ideal scenario is to align settlement cycles across jurisdictions. If traders and other significant market participants from third countries adjust to a T+1 environment, they might avoid or reduce their activities in those jurisdictions that still operate on a T+2 cycle. Under this scenario, trading financial instruments in the EU could become less attractive for overseas market participants, decreasing the overall liquidity and depth in EU capital markets.

However, it is imperative to ensure that a move to T+1 will not result in a migration of trading activity from regulated markets to bilateral trading. Without proper preparation and coordination prior to a move to T+1, some market participants might be encouraged to move their activities into the OTC space due to the limitations of adapting certain settlement practices in a T+1 process.

* **Clearing**

Cleared trades on securities also traded in other international markets with different settlement cycles may be negatively impacted by a move to T+1 in Europe. For SIX Group, this is the case for its international market for Latin American securities (Latibex) operated by the Spanish Exchange, given the arbitrage work that Specialists or Market Makers perform to guarantee liquidity. These brokers buy or sell in Spain and perform the opposite operation in the Latin American market of origin, which also settles on a T+2 settlement cycle. Although these securities are exempt from the penalty regime under CSDR, the change to T+1 in Europe, with the Latin American market of origin remaining at T+2, would create a difference in settlement cycles between the two markets. This could contribute to an increase in failures in this type of securities and exacerbate difficulties already present due to the time difference and different holidays.

* **Settlement**

Shortening of the settlement cycle might impact the way to evidence tax-benefit entitlements or roll-over. Also, it might impact the calculation of the holding period of relevant stakes in listed companies, as well as the timeframe that is imposed on notification and reporting to different authorities.

EU legislation may have an indirect extraterritorial impact also on third countries (incl. third country entities like SIX SIS).

We would like to mention that an EU reduction of settlement cycle will not have an impact existing Spanish and Swiss law/regulation.

<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>

Defining the costs related to the technology and operational changes depends largely on what exactly is needed (by the broader industry), but clearly, the time scheduled for certain processes will be modified in order to accommodate a new settlement cycle. Although the estimate at this stage may be not accurate, we have identified the following impacts:

* **One-off costs**

No significant one-off costs are expected in the trading and clearing areas and the main elements of cost will relate to adjustments to the internal processes to accommodate the shorter settlement cycle, i.e. timetables for registration of trades, allocations, transfers, and netting.

Regarding the settlement processes, the costs related to the technology and operational changes depends on the changes related to the delay of night-time settlement batches which would be starting on the same working day as the trading date, allowing for the securities to be settled on T+1. The delay would have an impact on CSDs, clients, and T2S technical platform (for in-T2S CSDs).

Furthermore, the costs related to implementation would be very different and significantly higher if there was not a meaningful period in which to plan and deliver the necessary changes within the usual roadmap timings.

* **On-going costs**

In general, on-going costs would depend on the outcome of the T+1 implementation in terms of potential operational issues and settlement failures to be managed, which could lead to higher running costs. There may be a need for quicker intervention in solving the IT incidents or manual intervention, which may require a higher availability of qualified employees at all levels.

It is unclear to us at this stage if the change will require CSDs to provide longer operating hours or to set up operational centers in other time zones.

<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>

SIX Group considers that the impact on the settlement fails would be difficult to estimate, but launching T+1 too prematurely could hinder the assessment of the impact of SDR and any improvements that may accrue from this.

There is a clear consensus that settlement efficiency will decrease, at least in the short/medium term. Subsequently, we would expect this to improve once the market has had time to adjust to the new settlement cycle.

It should be also considered that the processing of some ancillary financial arrangements which support transactions (e.g. borrowing or lending) which need to be in place prior to the settlement of the main transaction, may not be completed in the limited available time, now clearly shorter, with the corresponding negative impact on settlement efficiency.

Therefore, as mentioned above, an increase in the settlement fails rate can be expected, and hence, cash penalties (including costs charged by CCPs to their clearing members) due to the time compression for post-trades processes, at least in the short run. Nevertheless, it is worth noting that CCPs currently have a low settlement fails rate so it is important to ensure that the move to t+1 does not result in a shift from CCP cleared trades to bilateral settlement, which could worsen settlement efficiency ratios.

The time difference might also have an impact on settlement fails increase rate. More difference in time means less time for manual interventions handling. A differentiation is needed with regards to locations of international participants (Europe/Asia/USA etc.).

<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>

In accordance with our previous comments, SIX Group considers that it is likely that penalties will increase in the near term. However, it can be expected that such an increase would not be permanent, and that the settlement efficiency would recover or even improve with time.

Reason for that is the following:

* **Market Adaptation**: Financial markets and participants are generally adaptable. When faced with challenges that lead to settlement issues, they tend to find ways to enhance operational processes, implement technology upgrades, and improve risk management. Over time, these adjustments can help restore or even bring back higher settlement efficiency.
* **Technological Advancements**: Advances in technology can significantly contribute to the improvement of settlement efficiency. With the adoption of more sophisticated trading platforms, clearing and settlement systems, and blockchain-based solutions, the potential for automation and real-time settlement increases.
* **Industry collaboration and awareness**: Collaboration among financial institutions, clearinghouses, and other stakeholders can lead to collective efforts to enhance settlement processes. Industry initiatives and best practices can emerge to mitigate settlement issues.

<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>

SIX Group has not identified any other particular cost. However, it should be acknowledged that the pipeline of regulatory and market initiatives is currently very demanding, and it is important to recognize the opportunity costs of the evaluation of this initiative and the impact this may have on existing initiatives.

<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>

SIX Group does agree with the potential benefits listed. However, certain conditions would need to be met to materialize these potential benefits. For instance, the potential increase in settlement fails and operational risks should not be permanent. The harmonization of settlement cycle should be implemented across jurisdictions and include both the UK and Switzerland.

Other potential benefits include:

* **Enhanced global cross-border capital flows**: Harmonization and alignment with international markets, particularly those that will soon be operating on shorter settlement cycles like the US, can aid to enhance cross-border capital flows globally.
* **Market innovation and competitiveness:** Shortening the cycle may foster competition by levelling the playing field for different market participants, including smaller firms. It can also hold the potential to push for innovation and investment in upgrading legal systems and processes, leading to more robust and resilient markets. However, there is a caveat to the latter potential benefit. The need to innovate to accommodate for a shorter settlement cycle, means that market participants would most likely need to slow down their investment on other projects or areas (digitalization, new technology, etc.), what could ultimately hinder competitiveness of European firms and the attractiveness of European Capital Markets
* **Reduced systemic risk:** Shortening the settlement cycle can reduce systemic risk by minimizing the exposure to potential default by counterparties. This is particularly relevant in times of financial stress or market volatility.
* **Cost Savings:** Market participants could potentially experience cost savings associated with reduced collateral requirements, lower capital allocations and improved operational efficiency. These cost savings could positively impact overall market performance if, as mentioned before, the potential risks are addressed.

<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>

Expected savings from an eventual reduction of collateral requirements derived from T+1 depend on a variety of factors, market conditions, and the specific risk management practices of market participants. Detailed analysis is needed to quantify exactly what expected savings for both cleared and non-cleared transactions are likely.

As for repo market, there are no expected savings as it already settles on T+0 and covers margin requirements bilaterally on demand (no initial margin).

For cleared trades in the cash markets segment, we assume that all other things being equal, a move from T+2 to T+1 would reduce the open portfolio position by up to 50%. However, the portfolio’s risk is not linearly correlated with its size. Accordingly, while the open portfolio might be reduced by 50%, the overall margin requirement may drop by a smaller amount (for more details, refer to EACH's response to this question).

More generally, the impact of moving to T+1 may vary substantially depending on the risk model used by the CCPs and the underlying portfolio. Having open positions of two consecutive trade days aggregated might also have risk offsetting benefits, which might fall away with the move to T+1. Reductions in margin requirements would also depend on the impact that shorter settlement cycles have on settlement fails. If settlement efficiency decreases, transactions will remain open for longer regardless of the settlement cycle which in turn could raise margin requirements.

In order for ESMA to obtain a more accurate estimate of any margin requirement reductions, SIX Group recommends that ESMA provide all CCPs with the same sample portfolio (and accompanying assumptions such as 100% settlement efficiency). ESMA could aggregate the results of these individual CCP simulations on an anonymized basis and could provide a more accurate estimate and baseline in the expected reduction in margins.

<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>

At this stage it is difficult to estimate the potential benefits of a more automated process, except for the repo market, where no savings are expected. However, the costs incurred for increased automation might be justified in the future and would generate a significant return on investment in different ways. For instance, system automations benefit other processes, and lowers risk rate and increases efficiency thanks to more efficient operational systems as well as processes and decreased manual intervention.

<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>

A shorter settlement cycle would potentially increase liquidity for the EU markets in general.

This increase in liquidity can be explained from different angles as follows:

* **Time reduction**: reduced settlement cycles can result in more liquidity by reducing the time between trade execution and actual settlement. This could facilitate quicker access to funds and assets, encouraging market participants to engage in further trading activity. However, as previously stated, the increase in settlements fails due to shorter settlement cycle, should not hinder the expected benefits.
* **Counterpart risk**: a shorter settlement cycle decreases the exposure to counterparty risk, as settlement is completed sooner after trade execution. This reduction in risk can lead to increased confidence among market participants, potentially attracting more liquidity.
* **Operational efficiency**: the automation and streamlining of post-trade processes associated with shorter settlement cycles could improve operational efficiency, potentially reducing the need for excess liquid reserves.
* **Margins**: Less margin requirements would free up capital for other purposes, potentially contributing to better liquidity.
* **Harmonization**: Globally aligned settlement cycles will ensure timely and frictionless flow of collateral that can be used for the transactions.

However, to achieve this it would be crucial to address potential settlement inefficiencies and to align practices to be able to operate effectively in a T+1 environment. It will require significant industry effort to solve common problems and to harmonize business processes prior to implementation of the initiative, for which adequate timescales will be necessary to prepare and implement these changes.

In addition to that, below are some factors that can impact liquidity negatively:

* In a T+1 environment, banks would need to hold a larger amount of funding intraday as pre-funding needs will grow substantially due to compressed settlement periods, increasing the cost of business for banks and their clients.
* Regarding securities lending activity, with less time to identify and recall loans, settlement fails and resulting penalties and charges may rise. Securities lending and repo activities are key functions for inventory management and the shortening of the settlement cycle can have an impact as such activities often settle even on a shorter cycle than the underlying cash trades. In addition to that, moving securities across borders will become especially challenging due to the differences in settlement cycles across jurisdictions, that can generate friction flow of collateral.
* Currently the FX settlement cycle operates on a T+2. Should this FX cycle remain, foreign investors in different currency zones may need to pre-deposit cash, increasing liquidity costs and risks, on top of an increase in operational processes complexity and risks.

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

SIX Group is not in a position to respond to this question, however, we do not see any additional benefits for retail investors.

<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>

It is expected that the potential benefits will not all be achievable from the beginning, and a period of adjustment will be needed. On the other hand, there may be some asymmetry, because those who must make investments to face T+1 do not benefit from the change: in weighing the benefits against the costs, regulators and market participants must carefully consider the unique characteristics of their markets and participants.

While compressed settlement cycles may potentially offer various advantages, including reduced risk and enhanced liquidity, they also entail significant upfront and ongoing expenses to the industry due to investments in the system upgrades and process adjustments. Especially, the impact on smaller market participants should be carefully assessed to ensure a fair and equitable transition, because they may face difficulties adapting to the shorter cycle. If the move to T+1 is not implemented correctly, it could lead to operational inefficiencies. Finally, an increase of settlement penalties is a threat as well, mainly at the beginning of the move to T+1. Also, there might be some challenges in cross-border activity, and the impact of "Black Swan" events due to less time for market reflection, increased market manipulation risk etc.

The potential benefits are more tangible which include increased operational efficiency, reduced counterparty risk, reduced collateral costs, increased liquidity and transparency, enhanced innovation and competition and international harmonization. However, the risks mentioned before could lead to higher costs and make the principal benefits of a move to T+1 less visible, at least in the short term. It is therefore important to take measures to help improve settlement efficiency and facilitate the adoption of T+1. A move to T+1 should only take place if it benefits all market participants.

<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>

Although Article 5 of CSDR does not prevent the adoption of a shorter securities settlement cycle, it might require a change to drive the whole industry to move to T+1. Therefore, regulators should provide the industry with sufficient lead time to implement the change.

Ideally, there are some prerequisites that should be taken into consideration:

* First, the migration to T+1 will require participants and their clients to increase their level of automation and work on further harmonization and standardization of processes. This transition will require sufficient time to enable the re-engineering of front and back-office processes by the entire value chain to allow a smooth compression of the settlement timelines to mitigate and avoid any detrimental impacts in terms of market liquidity and settlement efficiency.
* Second, a migration to a T+1 environment would require a review of multiple market standards, such as those related to corporate events, in order to ensure an appropriate level of alignment and harmonization across markets. This would include alignment of schedules for registration of trades, CCPs processes and settlement deadlines with trading venues, CCPs, CSDs and settlement systems (such as T2S).
* Third, shortening the cycle should not negatively impact the implementation of ongoing projects. The current list of mandatory projects by EU post-trade actors is already filled with ECB projects, and regulatory requirements (such as Digital Operational Resilience Act). Together, these projects aim to build more robust and efficient European Capital Markets.
* Finally, reduction from T+2 to T+1 should occur simultaneously for all EU markets, to avoid an increase in operational risk, and in parallel should aim to align with the UK and Swiss markets.

Therefore, the main regulatory and industry milestones would be the following:

* Decision on whether to move to a shorter settlement cycle and product scope.
* An agreed industry roadmap and meaningful timeline for implementation which should include sufficient time for participants and their clients to increase their own level of automation and for FMIs to align of schedules for registration of trades, CCPs processes and settlement deadlines with trading venues, CSDs and settlement systems (such as T2S).
* Testing phase.
* Continuous assessment of industry readiness throughout the roadmap cycle allowing for ongoing monitoring and oversight by regulatory authorities to ensure compliance and market integrity.
* Go-live of T+1.
* Continuous monitoring and fine-tuning post implementation to ensure continued efficiency, reliability, and regulatory adherence of the new settlement cycle.

In terms of planning, it seems that the transition should be planned for the mid-term.

<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>

As mentioned in Q15, migration to T+1 should not be considered before the mid-term and should provide the industry with sufficient lead time to prepare and implement the necessary changes effectively. In addition, smaller market participants may require additional support to transition to a new compressed cycle. Therefore, successful implementation depends on the readiness of the entire industry.

<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>

SIX Group agrees that it is adequate.

<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 would be possible to handle different settlement cycles across different instruments. As mentioned in answer to Q1, some asset classes would be more impacted by the implementation of T+1 settlement cycle, such as the less liquid assets and ETFs. However, such differentiation could cause funding issues if investments cross asset types.

Settlement cycles are influenced by asset class differences, with equities, bonds, derivatives, and commodities having unique trading and settlement requirements tailored to their specific characteristics. Regulatory considerations accommodate this diversity, with rules designed to ensure market efficiency while addressing asset-specific needs, and established market practices to align with operational requirements for each asset class. Settlement cycles also factor in risk management, operational considerations, and the liquidity and trading volume of different assets, tailoring the cycles to the capabilities, risks, and trading patterns associated with each class.

From SIX Group this would be possible, and every asset class should be assessed separately due to their particularities. Nevertheless, different settlement cycles might needlessly complicate some operational post-trade processes, such as the handling of settlement failures and corporate action processing.

<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>

Whilst a modular migration path may appear to offer benefits it could also result in negative consequences such as funding differences across asset classes and additional technical adjustments to accommodate multiple different regimes. This may not be a sensible approach which could further harm settlement efficiency ratios.

The reduced operating window would be more challenging for certain asset classes, i.e., ETFs, where the current settlement efficiency is below average. This is partly due to the global composition of many ETFs, which contain underlying securities from several markets. Because the availability of newly created ETF’s quantities is connected to the subscription of new units (and thus to the settlement of the underlying instruments), this can often lead to settlement delays in a T+2 context, due to time zone differences, market holidays and cross-border settlement challenges. Consequently, this process for subscribing new units can become even more critical in a T+1 settlement cycle and would significantly impact timely settlement.

From the Equities perspective, SICAVs and SILs trading at NAV would be the most complicated assets to change, as well as Latibex securities since a solution needs to be found in case of different settlement cycles.

In addition, there are some transaction types that would be more impacted by a shorter settlement cycle, such as transactions coming from derivatives since, as mentioned previously, they are currently registered late in the evening on T, which means that they have less time to be managed within the CCP before being sent to settle.

From SIX Group perspective, the migration must be done as efficiently as possible, and for all the assets at the same time, if possible.

<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>

SIX Group understands the rationale for the exemption within Art. 5 but this should not become a norm for transaction processing or a means to avoid the revised cycle.

<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>

The impacts that the transition to T+1 in other jurisdictions will have on our operations, assuming the EU remains on a T+2 cycle are as follows:

* Trading: the impact of the transition of some Latin American countries would be relevant in Latibex, international market for Latin American securities, operated by the Spanish Exchange, where the specialists arbitrate with the market of origin. Different settlement cycles between countries would difficult specialists´ activity and the functioning of the market as stated in Q1.
* Settlement: US settlement always follows EU settlement due to the different time zones. With T+1, securities traded in US would be available even sooner than today and this could help EU participants in their inventory management in EU with positive impacts on settlement efficiency on those assets. Funding gaps can arise for dual-listed ISINs due to the different settlement cycles in the EU and the US markets. The EU settles transactions two days after the trade date (T+2), while the US settles them one day after (T+1). This means that a trader who sells a dual-listed ISIN in the EU and buys it back in the US on the same day has to pay for the purchase before receiving the proceeds from the sale. The trader needs to finance this one-day funding gap, for example, by borrowing or using their own capital.
* Corporate actions on-stocks and on flows: please refer to the answer provided to Q1 on Corporate Actions section. Moreover, there will be repercussions, especially in the context of dual listed securities with different underlying settlement cycles. We need to investigate further with the industry how and to which extent existing standards could be adopted to find the best solution for dual listed securities.
* CCP processing of trades with different settlement cycles: SIX x-clear supports clearing of transactions from trading venues from different jurisdictions. If there would be a misalignment between them (i.e. EU in T+1 and UK/Switzerland in T+2 or vice versa), the same instruments coming from different trading venues would require distinct schedules for processing by the CCP. Therefore, a harmonization of settlement cycles between these jurisdictions would be advisable to avoid further complexity in post-trade processes.

<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>

A harmonized approach is needed across the EU for all relevant assets.

Also, harmonization of securities laws in the EU, especially with regards to the registration, financial transaction taxes and its mechanism to proceed in an identical way across EU will reduce the impact of this transition massively.

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

The harmonization of settlement cycles between jurisdictions would avoid adding further complexity to post-trade processes resulting from handling transactions on the same securities with different settlement cycles depending on the location of the trading venue where they were executed, specially between the EU, UK and Switzerland.

<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>

The reduction of counterparty settlement risk will have an impact not only on risk-related costs but also it will give an incentive to further harmonize the capital markets over the whole life cycle of issued securities. It may also increase the pressure for market participants to move away from manual processes to highly automated post-trade processes with the effect of increasing long-term settlement efficiency. However, this move is not guaranteed and ultimately depends on the actions of individual market participants.

<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>

SIX Group agrees. On one hand, the experience of shorter cycles would allow participants to adapt risk matrix and measurements that can be leveraged to other jurisdictions. On the other hand, IT solutions would be developed to cope with the shortened cycles and therefore, harmonization will lead to lower production costs.

<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>

Technically it is possible. However, harmonization of settlement cycles between jurisdictions would be advisable to avoid further complexity in post trade processes, especially between the EU, UK and Switzerland.

<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>

Market standardization of the entire life cycle of securities is key to achieving the full benefits of efficiency as all discrepancies and variations amongst different jurisdictions will lead to inefficiencies. Post trade operations would suffer due to manual interventions with the shorter resolution time, and as a result costs may rise. Dispute rules and penalty regimes need adequate attention within T+1/+0 discussions.

<ESMA\_QUESTION\_SETT\_27>

1. SICAVs at NAV are registered in the CCP when their NAV is published with Trade Date the day prior to their registration and Intended Settlement Date the day after their registration. When the NAV is published depends on whether it is a SICAV D+1, SICAV D+2 or SICAV D+3. [↑](#footnote-ref-2)