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:

1. respond to the question stated;
2. indicate the specific question to which the comment relates;
3. contain a clear rationale; and
4. 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.

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**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 | Italian Banking Association |
| Activity | Associations, professional bodies, industry representatives |
| Are you representing an association? |[x]
| Country / Region | Italy |

# 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>

As an **initial and general consideration**, being absent an introductory question, we find it appropriate to express under this first question that ABI is glad for the comprehensive content and the considerations reported in this Call for Evidence, as many of them demonstrate the awareness and acknowledgement by ESMA of a number of issues that also ABI found out and it has been discussing with its members (across the 2nd and 3rd quarter of 2023), prior to the publication of the CFE. This consideration applies, in general terms, throughout the CFE paper, and more specifically in the case of the **potential shortening of the securities settlement cycle (SSC) in the Union from T+2 to T+1** (or even T+0), i.e. the core content of this Section 3.1 which Q1 refers to.

Indeed, starting from this topic, we agree with ESMA’s consideration under paragraph 16 that “*Further shortening the intended settlement date to (..) T+1* (in the Union) *would significantly reduce the time available for (…) post-trade processes, which most likely would have to be finalised by T+0 (..). The reduction of time available for post-trade processes would be even more acute if the settlement cycle were reduced to T+0 (i.e. the day on which trading takes place)*”. In fact, as confirmed by our members, initial and indicative yet comprehensive estimates show that the time available to run a number of post-trade activities would **a)** essentially be halved or more for the settlement of securities issued in the EU*,* whilst **b)** it would be reduced by much more than 50% for those securities issued and listed in the US, traded in the EU (as underlying transactions by EU-based market operators) for a number of reasons which (in the latter case) are essentially acknowledged and expanded on in Section 3.4., and subject to our considerations from Q.21 onward.

Moving to the core part of Q.1., we present our considerations as split into two parts: the impacts of a potential migration to T+1 and those deriving from a potential migration to T+0.

As it regards the foreseeable impacts of a potential migration to T+1, we envisage the following:

1. **Generation and matching of settlement instructions** would be one of the most affected activities by a potential shortening of the securities settlement cycle (SSC). Indeed, a move to T+1 would remove the only business day currently available (in T+2) between the trading (in T) and the completion of the settlement activities by the *intended settlement date* (in T+2). Such buffer is currently essential to process a number of activities with no particular rush, and is vital for **manual and late bookings** (in case of issues to ICT systems or exceptional circumstances), not to mention the management and resolution of **mismatches** with the relevant counterparties (i.e. time needed for interactions). In a context of a shorter SSC, such time buffer would basically minimise and cease to exist. Indeed, it would be compressed in a few hours the timeframe available for any banks to **run the processes of trade matching** of orders details (trading level) for both sides of a given transaction, for the following **confirmation and allocation of the relevant securities/cash**, for the following activities of **post-trade / back-office units**. This is even more challenging for smaller banks, as the time available to **compute the actual EOD liquidity needs** in any given currency (i.e. treasury and liquidity management units) would be compressed. Such processes, probably, would have to be finalised **i)** by mid-morning in T+1 (EU time zones) for transactions in Euros, or **ii)** by the night in T+0 for transactions in USD, other international and other Euro-zone currencies.

Such foreseeable significant need for more time would make it more compelling for ESMA to find solutions and incentives for a **widespread adoption of systems for automatic matching** of transactions details, which however would require (by any market operator) correct / error-proof initial transaction bookings, and a **standardised data enrichment process** **at post-trade pre-settlement level** (essentially, at *middle-office* level), prior to sending the relevant instructions to the back-office. As there is not a single solution to such challenge, ESMA should also work (with the industry) to assess the viability of **a postponement to 22:00 PM of the start of night settlement cycle in T2S** (currently set at 20:00 GMT+1), so that an **indicative 4-to-6 hour buffer** would be available since the closing time of financial markets[[1]](#footnote-2) to run the post-trading activities which, in any case, will still be subject to a sensible time compression, notwithstanding those trades that are currently executed later in the (business) that would be “particularly vulnerable” in this context;

1. **Positioning of securities** and **availability of relevant securities in the correct CSD Account** is key (trivially) to ensuring the timely completion of the settlement process. Under this scope, major implications of a shortening of the SSC would be on,
	1. **Securities lending**, which is essential per sè and for for market making and hedging). It represents an important market mechanism to ease trade settlement through so-called “*fails coverage programmes*”. Based on feedback from our members, despite the availability of some automated tools, a lot of securities lending is still unfortunately executed and instructed in a non-STP process. Hence, **the compressed timeframe** associated to the (potential) migration to T+1 will substantially shorten the time available to identify and cover short positions and, as a consequence, **could result in** **i)** an increase in settlement fails and a potential increase of cash penalties (all other things being equal) and **ii)** in the longer term, in a behavioural change with a related reduction of liquidity from the market;
	2. **holding of securities across multiple CSDs**, on which it is fair to presume the need of more frequent realignments by Participants in a shorter time frame in order to ensure a punctual visibility of securities’ location. In this context, Participants would be under the pressure to further optimize process(es) for the securities’ inventories management, essential to ensure a **timely delivery of securities**. More in detail, to facilitate settlement, any relevant security must be available for delivery in the correct CSD account. As securities’ positions can be held across multiple CSDs, there may need to be a realignment. Realignment transactions become critical under a compressed timeframe and market participants will need to improve data enrichment process (i.e. PSET, parties validation, increase on parties level, etc ) to be able to cope with it. Additionally, specific bookings – such as ‘recalls’ or ‘realignments’ – are to be full filled in sufficient time to avoid impeding settlement of the underlying transaction.
2. **Positioning of cash** by a buyer **in the correct currency**, particularly important for large cross-currency transactions. In the context of a potential shortening of the SSC to T+1, foreign currencies (FX) trades would have to be either booked on the very same date (transaction by transaction, and so no longer at the end of day - EOD - net basis) or be pre-funded, which would require the parties to confirm the transaction in T+0. Hence, the reduced time frame available to access liquidity in FX markets would lead to: **i)** higher costs to settle FX transactions and **ii)** a decrease in the volume of FX transactions settled payment vs payment (PVP) through the Continuous Linked Settlement (CLS) platform[[2]](#footnote-3) in those cases where instructions are not entered prior to the CLS cut-off, **iii)** the increase of settlement risk in FX transaction as a whole;
3. **Management of Corporate Actions (CAs)**. Key dates and market practices on CAs will have to be re-assessed and reviewed where appropriate (despite the current not full compliance in the Union notwithstanding T+2). More in detail, in the context of a shorter SSC, the **Ex-Date[[3]](#footnote-4) would overlap and coincide with the Record-Date[[4]](#footnote-5)**, hence making it more likely for “Reverse Market Claims” to occur[[5]](#footnote-6), which require a specific management.
4. **Product-specific considerations.** The impact of a shorter SSC will be, in all likelihood, asymmetrical as some asset classes will be affected to a more material extent than other ones. This is the case ETFs securities-based derivatives.

As it regards ETFs, partly as a consequence of **a)** the global composition of many ETFs (which include underlying securities from a plurality of jurisdictions) and of **b)** the misalignment between the primary market (creation-redemption required by authorized participants) and the secondary market, it is acknowledged that **ETFs are characterized by settlement rates which fall below market averages.** Since settlement of newly created units is conditional upon the settlement of the underlying constituents, this leads in many occasions to settlement delays in the current T+2 cycle, due to a) time zone differences b) market closures-holidays and c) cross-border settlement complexity. Such flaws on the inefficiency of ETFs settlement are likely to worsen in a T+1 scenarios.

A special mention deserves to be made to those “multi-steps” hedge funds, i.e. those hedge funds which typically i) pass over huge orders ii) perform the NAV when they receive the execution price and iii) communicate the allocation on each single fund. Currently, these activities are carried out during the “T+1” (during the day which follows T, and prior to the settlement in T+2). This implies that a potential migration to a shorter SSC would force these hedge funds to adopt automatic tools for the allocation and presumably this will have implications down the chain on institutional clients.

Coming to **securities-based derivatives,** challenges will be there for those entities seeking synthetic exposure to an underlying security, through a swap arranged with a prime broker. With a view to avoiding the so-called basis risk, it is likely to envisage that such swap contract will also follow a T+1 settlement, consistently to the underlying security. Further assessment would be needed to identify implications on the swap lifecycle, specifically margins calculation and collection.

**As for the second part of the question** (i.e. potential **migration to T+0**), the same considerations as those reported above for T+1 would apply. But further to that, and pragmatically, our members consider it genuinely **premature to investigate** now on the potential issues born by a move to T+0, even just for the two following reasons:

1. as ESMA stated under paragraph 17 “it seems that the level of readiness (in the Union) for a settlement cycle shorter than T+2 is uneven. The closer the market player is to the actual settlement, the readier and less impacted it would be and vice versa”. Hence, we consider it more appropriate to prioritise any work allowing the achievement of the same level of readiness across the Union (regardless the extent of the potential shortening of the settlement cycle) and, later on, to deepen the analysis for the actual migration of the Union to a given settlement cycle (reasonably, T+1, for technological reasons);
2. in all likelihood, a proper consideration and eventual achievement of a “*same-day* settlement cycle” (T+0) **could be possible only once i)** the market infrastructures in the Union (CCP, CSD, T2S, etc), **ii)** every EU-based market player (be it banks, investment firm, and other entities in the roles of trading parties, asset managers, custodians, settlement agents, etc.) **and** **iii)** the relevant supervisory authorities in the Union **1)** will be using the very same criteria for the **data enrichment processes** necessary at **trade matching level** and for the **communication standards** across the settlement chain when orders and settlement instructions are to be forwarded; **2)** will be complying to an enhanced regulatory framework mandating the very same **criteria for settlement efficiency measures** to every CSD and market infrastructures (vis-a-vis the great dis-homogeneity witnessed nowadays); **3)** will have achieved a uniform technological seniority of systems and processes so that (for instance) no single entity will have issues in running appropriately and correctly the process for data enrichment and cause delays to other entities further down the custody and settlement chain by missing or incorrect data feeds.

We believe that these considerations are consistent to ESMA’s statement under paragraph 16 (referred to T+1, not even to T+0) where it mentions that significant reduction of the time available for post-trade processes by an EU migration to the shorter cycle of T+1 for EU-based settlement systems’ participants would require to finalise every process by the night on T+0.

**The shortening of SSC is not impossible per sè**. It requires concertation of many stakeholders around a table and a number of necessary and unavoidable internal assessments, interventions and implementations by all market participants (infrastructures, banks with their different roles across the intermediation chain, and especially by other financial institutions which liaise and do business with the former ones), also for **potential shifts in the working time(s) of some specific units**[[6]](#footnote-7). All the above requires centralised coordination, extensive time, and a proper system of incentives.

Eventually, as it regards the final part of Q.1. (i.e. whether are there **any legislative actions that would help address the problems**), we would suggest intervening on L2 Implementing Regulations:

1. first and foremost, ensuring that **every necessary qualitative and quantitative information**, which is necessary for the settlement of a transaction in a security, be provided for, and timely sent through the relevant electronic systems, **at the date on which the trade has taken place**;
2. **completing allocation and confirmation processes at trade date** and (essential) making the field “*Place of Settlement*” (PSET) a mandatory matching field to compile during the allocation and confirmation phases. Considering the number of actors involved, ESMA should note that currently no single entity is able (this is a fact) to have a clear view end-to-end of a particular transaction to determine whether there was a manual intervention at any point in the transaction lifecycle. Further to this, currently there can be (business) reasons why a particular actor might not be able to allow the *straight-through processing* of an information, as it is the PSET or other pieces of information we mentioned above, necessary for a good pre-settlement. Such reasons, at times, are even simply related to the software of the service provider, in use by the firm/participant, which does not allow for any flexibility and no addition of such information.
3. finding appropriate means to incentivise the exchange of Standard Settlement Instructions (SSI);
4. in order to ensure that every transaction be sent down the post-trading chain in a timely fashion, and with all the relevant and accurate information in it, depositary banks / custodians and settlement agents should be invited to send settlement instructions to the relevant market set -up “on hold” status, so that their relevant counterparty (or its agent) would have the time to verify it adequately and run the matching phase without causing issues, compared to what done nowadays i.e. awaiting the availability of the relevant securities prior to send the relevant instructions (which causes issues as late matching and fails);
5. increasing the use of **partial settlements by CSDs** and the concurrent increase in the use of **partial release** (whose use appears decisive on the basis of the feedback received). Indeed, partial settlement “*per se*” may not be sufficient as by merely keeping “on hold” settlement instructions and it does not automatically prompt an increase in terms of settlement rate(s). Moreover, it is also worth underlining that the procedures governing the way the “Hold & Release” functionality is managed should not be modified with regards to “third-parties” since eventual changes in this this would otherwise raise the need to open segregated accounts and drive upwards the operational costs for Participants. Such specific suggestion could be implemented by deleting Article 12 of Commission Delegated Regulation (EU) 2018/1229 on settlement discipline, which provides for a derogation for certain CSDs from the requirements to provide a partial settlement and hold and release mechanism. Having said this, it would however be crucial to **provide for some exemption** **from partial settlement** application i.e. for stock lending operations, and for some specific types of instructions such as, for instance, portfolio transfers, primary market issuances, “mark-up/mark-downs” and claims-transformations;
6. in Target2-Securities, the “deposit account number” and the “Buyer/Seller” field (so-called Party 2) should be qualified as additionally mandatory matching fields, in order to reduce the likelihood of mis-matchings;
7. eventually, the provision of a public centralised information source on securities and settlement in the Union, by the means of a centralised database operated by ESMA that includes all securities information necessary for CSDR cash penalties computation.

In the end, ABI suggest ESMA to closely work with Trading Venues, CSDs, Custodian Banks, asset manages and smaller banks representatives to identify an **appropriate, stable and unique (set of) measures** (or quantitative-mathematical variables) **to quantify settlement efficiency in the Union**. Only starting from such an “Expert Group Think Tank” tasked with this goal, we believe it will be possible to identify the current sources of settlement **in**efficiencies in the Union on a **by-entity, by-process, by-product basis**. Moving from that achievement, it will then be feasible to:

1. identify the measures to resolve the identified issues,
2. quantify and allow for the necessary time to change or make processes more automated and leaner (at the entities where this is considered necessary)
3. move the entire Union in a coordinated way toward a SSC equal to T+1 or even T+0.

<ESMA\_QUESTION\_SETT\_1>

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

<ESMA\_QUESTION\_SETT\_2>

We have not gathered specific feedback on the possible consequences of a move to a shorter settlement cycle for hedging practices and for transactions with an FX component. However, on the basis of our analysis, it seems **plausible to expect an increase** (in relative terms) of the economic terms and conditions (i.e. pricing) **a)** to pre-hedge transactions, as well as **b)** to procure and increase the levels of foreign currency “reserves” which any market operator – in the context of the shorter time frame available for the post-trade activities – would have to set aside to ensure a smooth and timely operation.

<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>

As a banking association, we are not in a position to provide ESMA with a STP percentage level with solid representativeness, given the variety of banks and of their respective roles across the settlement intermediation chain. Hence, we’ll leave this aspect to the answers provided by single banks and other market operators. However, as it regards the final part of Q3 (challenges for the STP by the shortening of the settlement cycle, and its rate increase) on the basis of the discussions with our members, it appears that the “*straight-through-processing*” rate per sè would not face specific issues. More challenging, instead, it does appear a) making the STP a more common and widespread practice across market operators active post-trading, especially for smaller entities. The latter, though, reasonable ponder over the cost-benefit profile of investing resources in further developing their internal and external STP functionalities in consideration of their actual volumes and roles across the post-trade intermediation chain.

<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>

As it regards the impacts that the shortening of the SSC might have beyond post-trade processes, an area that it could be affected would be **Securities Lending** (SL) given its broadly recognised and effective role in easing market activities. Prior to mentioning the actual issues to the SL activity, we consider it important to recall that:

1. for **illiquid and less-liquid instruments**, market makers play an essential role in providing liquidity. In doing so, they often offer two-way pricing of securities that it may happen they do not hold within their inventories, due to the capital constraints they have to withstand;
2. in the EU, securities financing transactions **(SFTs) are typically collateralised by other securities** (non-cash assets) and often via tri-party agents.

On the basis of this premise, the impacts that are likely to materialize in relation to SL by the shortening of the SSC could be described as follows:

1. compression of the time available to source any securities on which market makers execute a sale. This could consequently prompt **i)** an **increase in the bid-offer spreads** they would require on less liquid securities or even **ii)** an outright **removal from their offering** and, as a final outcome, make the securities lending markets less liquid, less deep and less efficient – due to the fact that lending would be required to be finalized on the same day of the related transaction and that, for this reason, it could be extremely challenging to find counterparties having the required securities – especially in occasion of sudden market tensions/stress. This would reduce their ability to support the liquidity and the efficiency of EU capital markets as a whole;
2. compression of the time available for collateral processes bearing consequent additional frictions in these processes, forcing trading parties to post excess collateral and, as a final outcome, reduction in capital efficiency.

Further to the above, as mentioned in other answers, the potential shortening of the SSC will certainly imply the **reorganization of the timetable of post-trading, back-office and treasury/liquidity management units, especially at smaller banks and entities**, which will occur also in presence of a technology enhancements, given the very significant reduction of time available to run post-trade processes between T+0 and T+1.

As it regards the second part of the question, we are not in a position to provide more specific feedback on implications for the “*access of retail investors to financial markets*” by the shortening of the SSC.

<ESMA\_QUESTION\_SETT\_4>

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

<ESMA\_QUESTION\_SETT\_5>

As a banking association, representing an extensive number of banks acting with different roles and volumes in post-trading, we are not in a position to provide ESMA with an estimate of the costs that our members would incur into for implementing the technology and the operational changes (yet, enhancements) to work in a T+1 environment, given the great variety of internal systems evolution. Certainly, in a potential scenario of SSC reduction to T+1, a strengthening and widespread diffusion of STP will become a pre-condition for the whole post-trade industry to work smoothly and efficiently. Indeed, as a general instance, in a simplified world with more intermediaries (e.g., 3 banks) involved in the post-trade processing of a transaction, it would be sufficient that the first bank on the chain does not run efficient and timely data enrichment STP processes at trade level to cause delays and reconciliation issues to the other banks along the chain (even though entities along such chain have prime rated ICT systems). Hence, appropriately developed and run trade-level matching and data enrichment process, and STP, are able to bear positive or negative externalities for the entire Union settlement system. Yet, because of this, any eventual decision to migrate to a shorter SSC will have to be based on the analysis of a specific task force, as suggested at the end of our answer to Q.1. Peculiar consideration will have to give to **smaller entities** to define their budget needs for the relevant systems enhancements and potential working time shifts reorganizations.

<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>

We are not in a position to provide ESMA with an estimate of the potential increase of settlement fails should T+1 be required in future in any of the 3 different scenarios mentioned in the question (short-, medium- and long-term period). Certainly, in order to have the relevant conditions in place across the Union in the medium-to-long term, ESMA should provide the Commission with all the relevant issues gathered by this Call for Evidence and divide them up into tranches or bucket of initiatives to be implemented gradually in the Union, so that any market operator will be guided through the necessary steps to let a shorter SSC be achieved in the medium-to-longer term, with the least possible side effects, especially in terms of Union-wide settlement efficiency.

As a final consideration, though, we would suggest incentivising and / or introducing some sort of mandatory system for **pre-matching**, given the positive externality it would bear to the entire system, despite the awareness of the challenges the implementation of such measure would bear in the EU, given the peculiarities of its post-trading landscape and, more broadly, the heterogeneity (hence complexity) of Member states’ legal, tax and regulatory frameworks, and related number of regulatory and supervisory bodies, and market infrastructures entities.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_7>

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

<ESMA\_QUESTION\_SETT\_8>

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>

We are aware of - and on a theoretical basis we could even agree with ESMA on - the generic description of the benefits mentioned under paragraph 31 (i.e. T+1 would contribute to reduced counterparty risk, lower collateral requirement, additional adoption of STP technologies, and we would add reduced market and credit risk). However, any of the potentially identifiable benefits would come at a very high expense, even more for smaller entities, **if** ESMA and the Commission would limit data gathering only to this current *Call for Evidence* and would not engage in future market participants, market infrastructures and other constituencies in an appropriate experts-based Task Force(s), as it was the case (for instance and by analogy) for when the Commission founded the EPTF Forum to tackle barriers in post-trading. Assessing the potential migration to a reduced SSC in the Union (given its fragmentation in terms of Trading Venues, CSDs, local legislation and data standards) does require an equal high standing Task Force.

Further to this, we do not agree with ESMA when, still under in par. 31, it mentions “*elimination of issues associated with unharmonized settlement cycles*” as a potential benefit deriving from a migration to T+1 in the Union as, on the basis of the feedback we have gathered, the issues related to *unharmonized settlement cycles* would currently be “confined” to a subset of securities and entities, should the Union (temporarily or permanently) decide to remain on the T+2 cycle.

Those benefits will be achievable only in the very long term and only if that is preceded by a profound harmonisation process across the Union to address and tackle the current varied sources of inefficiency.

Some of our members, though, in an effort to adequately answer this question on “benefits”, have highlighted the following.

1) Potential Reduction of Costs

Thanks to the reduction of the open exposures of firms over the (shorter) settlement period, it would likely materialized a **reduction in margin requirements**, thus improving the ability of market participants to manage capital and liquidity risk. Savings associated to CCP collateral requirements are likely to occur and this, on its turn, **could free up capital for other purposes** and improve ROI *Return-on-Investments* metrics.

That said, as the flip of a coin, these savings should be balanced (and potentially vanished) by the impact of the changes which would occur to Securities Lending processes, that may arise as an outcome of posting excess margins, thereby jeopardizing the uplifts in terms of capital efficiency.

2) Modernization of Capital Markets

As a consequence of the adoption of T+1, the industry at wide could have the occasion to removing dependencies on manual processes and to embracing automation, as well as optimizing inventory management.

<ESMA\_QUESTION\_SETT\_9>

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

<ESMA\_QUESTION\_SETT\_10>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_10>

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

<ESMA\_QUESTION\_SETT\_11>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_11>

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

<ESMA\_QUESTION\_SETT\_12>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

In term of benefits for retail clients, we have not gathered much feedback at this stage and the following considerations must be read as partial preliminary feedback, susceptible of future adjustments or changes.

The shortening of the settlement cycle could bring some benefits to customers and could constitute an element of further attractiveness towards investments in the sector. Indeed, retail clients should be in a position to benefit a shorter settlement cycle since they would be in the position to buy securities at day “D” and sell them at D+1 (while, at present, they have to wait for “D+2” in order to sell securities bought in “D”).

The current “contractualization” of retail clients at the current status embeds that a customer is always granted the so-called "contractual regulation” or “contractual settlement” (the reception of a given security is guaranteed by the relevant bank/intermediary). In a potential future scenario where settlement in T+1 embeds (in the initial phase) a higher "settlement risk” (due to any emerging potential issue), such increased risk would not get to the final retail client (all considerations are preliminary and to be further investigated).

<ESMA\_QUESTION\_SETT\_13>

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

<ESMA\_QUESTION\_SETT\_14>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_14>

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

<ESMA\_QUESTION\_SETT\_15>

As mentioned at the end of our answer to Q.1., ABI believes that the main initial step to take is for the Union, and ESMA in particular, to work closely and on a regular basis with Trading Venues, CSDs, Custodian Banks, asset manages and smaller banks representatives **to identify an** **appropriate, stable and unique (set of) measures** (or quantitative-mathematical variables) **to quantify settlement efficiency in the Union**. Only starting from such an “Expert Group Think Tank” tasked with this goal, we believe it will be possible to **identify the current sources** of settlement **inefficiencies** in the Union, broken-down **by entity categories, process and product(s)**. Only once such issues will have been clearly identified, it will then be feasible to:

* define the measures to tackle and resolve the identified issues,
* adequately quantify and allow for the necessary time to change some post-trade processes, or make them more automated and leaner (at the entities where this is considered necessary);
* let the entire Union move forward in a coordinated way towards a SSC equal to T+1 or even T+0

Further, any compression of the current settlement cycle should be decided and implemented only after the changes and the adaptations required by CSDR Review (due to the be published soon on the OJEU) will be put into operation. Otherwise, it would be extremely problematic to manage i) the changes and the adaptations required by CSDR and ii) concurrently, the impacts due to arise from the change-over to T+1 or T+0 in the EU.

In terms of regulatory changes, the European post-trade industry has undergone major regulatory changes throughout recent years: 1st) the CSDR settlement discipline (Commission Delegated Regulation (EU) 2018/1229) entered into force on February 1st, 2022. Originally, the initial date of entry into force of the RTS on settlement discipline was 13 September 2020; afterwards, the entry into force of Delegated Regulation (EU) 2018/1229 was deferred until 1 February 2021 according to Delegated Regulation (EU) 2020/12122; 2nd) the CSDR Regulation (Regulation (EU) 909/2014) which is about to be published in the OJEU and it carries with it a relevant number RTS to be issued or reviewed in the 12-to-24 months following its entry into force.

In term of specific amendments, the potential move to T+1 would require amending L1 and L2 regulations. Specifically, we have identified the following:

1) Amendments to CSDR

Article 5(2) of CSDR prescribes that the “*intended settlement date shall be no later than on the second business day after the trading takes place*”. From a legal point of view, the above-mentioned provision is not inconsistent with the reduction to T+1 of the settlement cycle (as also mentioned by ESMA during the Open Hearing held in early October and then in early December). However, should it ever be decided to migrate to T+1, it would be advisable to update to this provision in order to ensure that the change is adopted and implemented by every market participant in scope, in a harmonized way across the entire Union.

2) Amendments to the Settlement Discipline RTS

* Article 2 (Measures concerning professional clients). The **timings** set forth in this Article should **probably be amended** with reference to the allocation/confirmation process in order to ensure its conclusion on T+0. In addition to that, further requirements should be considered with a view to ensuring that the method used to exchange this information enables *straight-through-processing*;
* Article 10 (Partial Settlement). An update to mandate the provision of **partial release functionality** by CSDs should be introduced, and derogation from such requirement should be removed, to ensure that all CSDs provide a consistent service;
* Article 11.4 (Additional Facilities and Information). An amendment would be required to mandate the provision of *real-time gross settlement* (RTGS) for all settlement instructions, including partials, in all CSDs.

Coordination between EU and non-EU jurisdictions. Due to the global nature of post-trade activities and, more broadly, of capital markets, initiatives aimed at enhancing the degree of coordination between EU and non-EU jurisdictions would be appreciated in order to steer a smooth path towards any potential reduction of settlement cycle in the EU.

<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>

At the current stage, it seems premature to make forecasts as to the time span needed to adapt to the new settlement cycle both in the case of T+1 and in the case of a T+0 scenario.

1) EU move to T+1/T+0 vs EU move to T+2

It seems fair to recall that the depth and the breadth of a move to T+1 or to T+0 would create considerably higher number of dauting challenges than the move from T+3 to T+2 that took place in EU markets in October 2014 in order to fulfil the prescriptions of Article 5 CSDR[[7]](#footnote-8). In this respect, it must be recalled that the success of that move to T+2 was the outcome of a significant effort undertaken by all market participants, the outcome of many years of planning, testing and coordination.

Therefore, it is fair to conclude the time span that will be required for market participants to adapt to an EU decision to move to T+1 or T+0 will have to be necessarily longer than the one envisaged on the occasion of the move to T+2.

2) EU move vs other jurisdictions to T+1/T+0 in the light of the structural uniqueness of the EU

The structural differences which exist, on the one hand, between the US, Canada, China or India (all of them constitute single national markets) and, on the other hand, the European region (which includes the Union, the EEA jurisdictions, the UK and Swiss national markets) make adoption of T+1 in Europe extremely more complex task for the above-mentioned single national markets.

European capital markets stand out for their considerable i) heterogeneity ii) complexity of their legal, tax and regulatory frameworks iii) number of regulatory and supervisory bodies as well as market infrastructures entities (for trading, clearing and settlement) and other stakeholders.

3) US vs EU comparison

Even narrowing the comparison only to the US, it is quite evident that the US market structure features a remarkably higher degree of concentration, with fewer market infrastructures for trading, clearing, and settlement. Typically, post-trade operations are centralized and integrated through a single CCP (i.e., the NSCC) and CSD (i.e., the DTC), both operated by the Depository Trust and Clearing Corporation (DTCC).

In addition, the US post-trade ecosystem and related regulatory framework 1) includes the process of affirmation which allows settlement activity between executing brokers and prime brokers to be matched and net settled via the CCP (a concept still nascent in the EU), 2) provides for mechanisms to encourage settlement discipline, 3) but does not have the equivalent of the EU CSDR cash penalties mechanism applied to market participants responsible for the late settlement of a transaction.

In the light of that, it is fair to draw at least two conclusions:

* “all other things being equal”, the shift to T+1 in the US might reveal much easier to accomplish than any potential similar shift by the EU;
* due to the inherent complexities of the European capital markets that are unknown to other jurisdictions, the time span that will be required for market participants to adapt to an EU decision to move to T+1 or T+0 will have to be necessarily longer.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_18>

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

<ESMA\_QUESTION\_SETT\_19>

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<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>

A reduction of the settlement cycle in other jurisdictions (assuming that the EU remains on a T+2 cycle and the absence of global coordination) will make it necessary to modify the operational processes and the technology systems used by financial institutions that connect to those markets, including EU-based firms.

Seven key areas deserve to be considered when addressing the issue of the potential impact that the transition to T+1 in extra-EU jurisdictions will have assuming the EU remains on a T+2 cycle, as explained below.

1) Time zones

Operating across various time zones raises communication and coordination challenges for and between EU and other global/non-EU market participants. In the current operational setting (T+2), the one-day window between trade date (T) and settlement date (T+2) makes it feasible to solve any issues that impede timely settlement. Insofar, as extra-EU jurisdictions shift to T+1, this window is likely to disappear, as also elaborated in our answer to Q.1.

The exchange of trade details on timely basis and the completion of associated processes, such as those on FX, will require efficient coordination across a plurality of different time zones: achieving this goal might turn out to be very challenging, considering the limited overlapping working hours, and could likely lead some major market plays to amend the working time shift for some business units. This would instead be too challenging and not viable for EU-based smaller entities which nowadays (in T+2 environment) are capable to manage on the their own for the provision of the relevant currency (be it even USD or other ones) thanks to the day available between T and T+2.

2).Allocation and affirmations

Tighter deadlines will have to be faced by firms for trade allocation and affirmation in extra-EU jurisdictions with reduced settlement cycles. As a consequence, firms will be forced to ensure i) efficient and timely allocation of trades ii) confirmations with counterparties and iii) submission of trade details to the corresponding systems and platforms. Pressure on the adequate staffing of operations may arise.

3) Foreign exchange, funding and liquidity management

A reduced timeframe for settlement in extra-EU jurisdictions will require a review of the timing of the FX trade in relation to the security trade, and of the settlement process for both the FX and the security trades considered as a whole. Firms will need to be aware i) of local currency cut-off times, public holidays and currency controls as well as ii) of custodial and commercial bank currency cut-off times for same day FX transactions.

4) Securities financing

European market participants engaged in US securities lending and repo will have a tighter timeframe to initiate and complete transactions. As indicated in answer to Q.1. above, this is likely to jeopardize their ability to find suitable counterparties on appropriate terms and finalize settlement on time. In short, a compression in the settlement cycle for the cash market is likely to generate additional pressure on these activities, or make them no longer viable as too costly.

5) Exchange-Traded Funds (ETFs)

As indicated in answer to Q.1. above, a reduction in the settlement cycle for a portion or the entirety of the ETF portfolio is likely to further diminish the settlement efficiency rate features by ETFs (that falls under market average).

6) Corporate actions

The window for receiving instructions on voluntary events when trading into a position right before a corporate action-related deadline will reduce. This adds to the burden of timeliness and accuracy of trade bookings and client instructions which becomes more strained for investors outside the US time zone.

7) Operational resilience

Tighter controls and monitoring mechanisms will have to be designed and implemented by EU firms in order to identify and mitigate the operational risks that might emerge in other extra-EU jurisdictions that shift to a shorter settlement cycle.

<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>

ESMA could consider the introduction of some sort of incentive for EU firms to affirm their trades on T+0, despite the fact that there would be no ability for them (in any case) to clear/net transactions through the US clearing house (NSCC). In fact, at the current state NSCC is not admitting any EU firms as clearing members because of the EU EMIR Temporary Recognition Regime i) will last until December 31, 2023 and ii) is only renewable by the EU authorities on a periodic basis.

The Union could assist EU firms in preparing for US T+1 by: i) granting a permanent equivalence, ii) extending its renewal period or iii) providing more certainty to NSCC that the equivalence will be renewed each time. Such an approach could mitigate adverse effects of US T+1 on EU firms, making a harmonized transition and more efficient settlement feasible.

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

Certainly, in an ideal world, there would be benefits in such harmonization. However and pragmatically, sensible time zone differences and a long list of in-house issues to be tackled and resolved in the Union make such an harmonization a longer term goal, which will not be achievable without the accomplishment of a number of interventions we have suggested across the preceding responses.

<ESMA\_QUESTION\_SETT\_23>

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

<ESMA\_QUESTION\_SETT\_24>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_24>

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

<ESMA\_QUESTION\_SETT\_25>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_25>

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

<ESMA\_QUESTION\_SETT\_26>

It is worth recalling that a misalignment between the EU and the US has occurred in the past, since 2014 until 2017, as the shortening of the US settlement cycle from T+3 to T+2 took place in March 2017[[8]](#footnote-9). Based on the feedback gathered, that misalignment lasting 3 years was well managed, without specific and recurring disruptions. That said and in line with what indicated in answer to question Q.16. above, it cannot be ignored that a “T+2 vs T+3 misalignment” cannot be compared to a “T+1 vs T+2 misalignment”.

Hence, as mentioned in a previous answer above, we would support the T+2 SSC permanence in the Union, as far as allow the issue described in this paper are resolved. Some problems and time compression related issues deriving from the misalignments of the US settlement cycle with the Union T+2 cycle will certainly arise but these will be confined to those entities active in US securities that are in scope for a move the T+1 SSC, which is a narrower subset of securities on which bearing the onus of a shorter SSC compared to a concurrent migration of the entire set of UE securities to T+1.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_27>

1. In this final regard, a further level of complexity is provided by some equity securities being listed for After Hour Trading (AHT), where negotiations are due to end at 20:30 CET, i.e. when the cycle of night settlement has already started. [↑](#footnote-ref-2)
2. **CLS is a bank-owned institution** established in the United States and supervised by the Federal Reserve Bank of New York. It is also subject to cooperative oversight by the central banks that issue the various currencies traded. In the “CLS Oversight Committee” the Eurosystem is represented by the central banks of the G10 countries that promoted the establishment and launch of the CLS in 2002, including the Bank of Italy.

CLS **settles multicurrency interbank payments** in 17 currencies, the bulk of which are in euro/USD currency pair.

The settlement is made on a gross basis according to a “payment-versus-payment” mechanism (PvP), whereby participants pay the amounts owed within the settlement windows for each currency (pay-ins) after which CLS makes pay-outs to the participants with long positions.

**Settlement is made through** movements in the accounts CLS holds with each of the central banks whose currencies it handles. In this way credit risk, and therefore settlement risk, is greatly reduced.

CLS has 63 direct settlement members (all banks with large volumes of FX trades) and about 10,000 indirect participants, including several central counterparties.

The large volume of trades handled, and its links to the real time gross settlement (RTGS) systems that process FX transactions, make CLS a Financial Market Utility (FMU) of systemic importance to the US and global financial markets. Therefore, it must comply with the recommendations of the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI).

**Source of this information: Bank of Italy,** [**https://www.bancaditalia.it/compiti/sispaga-mercati/cls/index.html**](https://www.bancaditalia.it/compiti/sispaga-mercati/cls/index.html)**.** [↑](#footnote-ref-3)
3. The Ex Date is the date from which a security is traded without the corporate action entitlement attached thereto. [↑](#footnote-ref-4)
4. The Record Date is the the last date in which shareholders are eligible to receive a dividend or distribution. [↑](#footnote-ref-5)
5. Under the current settlement time frame of T+2, each key date is mapped to a specific business day and the sequences is Ex Date > Record Date > Pay Date, and this has made rarely occur “reverse market claims” by shareholders. [↑](#footnote-ref-6)
6. In addition, a move to T+1 would imply changes and innovations’ costs for the current IT capacity, including re-scheduling process(es) from night-time batch(es) to intra-day batch(es) and resiliency’s enhancements. All of this would also have to be factored in any decision-making and technical standards to be adopted by firms and EU’s FMIs. [↑](#footnote-ref-7)
7. At the time, with the exception of Germany, which had a settlement period of T+2, EU markets (in particular, equity) had a settlement period of T+3. The 29 markets that moved to T+2 on 6 October 2014 were: AT, BE, CY, CZ, DK, EE, EL, ES (for bonds), FI, FR, HR, HU, IS, IE, IT, NL, LI, LT, LU, LV, MT, NO, PL, PT, RO, SK, SE, CH, and UK. BG, DE and SI were already settling on a T+2 basis. [↑](#footnote-ref-8)
8. <https://www.sec.gov/news/press-release/2017-68-0>

. [↑](#footnote-ref-9)