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 | Euronext  |
| Activity | Trading Venues, CSDs, CCPs  |
| Are you representing an association? |[ ]
| Country / Region | Europe |

# 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>

Euronext provides a wide range of market infrastructure services, including 7 trading venues, 4 CSDs and CCPs across 8 European countries (Italy, France, Ireland, Belgium, Norway, Portugal, Denmark and the Netherlands). In this context, Euronext has conducted a preliminary assessment of the impacts on its operational model deriving from the shortening of the settlement cycle from T+2 to T+1. This assessment has been conducted with reference to its trading, clearing and settlement business operations. In parallel, Euronext has been actively contributing to industry assessment conducted by financial market associations ECSDA, FESE, EACH whose conclusions are hereby referred to.

From a technical perspective, Euronext infrastructures can support any “T+n” settlement cycles with manageable technical adaptation of their operational model. **Considering the interdependencies with the level of automation and readiness of the entire value chain, an approach which focuses on T+1 in the mid-term and on T+0 in the long run seems to be the most appropriate.**

As regards the migration to T+1, low impacts in terms of implementation cost and no major technical challenges are expected for trading, clearing and settlement services offered by Euronext.

**Overall, the reduction of the settlement cycle involves the compression of the time for the performance of some operational processes both by the market operator (e.g. handling of errors and cancellation of trades) and by the participants (e.g. reconciliations and controls in the transition of operations from the front to back office).** This may require a review and enhancement of processes both by the market operator, but also by traders and post-trading infrastructures, to be able to support T+1 settlement with reduced timelines at all levels of the chain.

**Major adjustments are likely to be required at the level of settlement services, including:** (i) the rescheduling of the T2S operating day, in particular the night-time starting phase; (ii) the rescheduling of local settlement platform batches.

**With reference to clearing, no major changes would be required to the operational model.** A move to T+1 would also result in a reduction of the open positions over time if settlement actually occurs on the intended settlement date (ISD), thus leading to lower funding cost of margins related to open position. The margin levels per se would not decrease, just the time period across which exposures are within the system.

With reference to legislative or regulatory actions, we believe that the industry should decide whether or not to move and if the answer is positive by when and the relevant milestone planning. From a regulatory perspective we would welcome supervisory authorities to set expectations and deliver guidance to ensure that the moving to T+1 would occur at the same time across EU to avoid that a fragmented migration increase operational risks.

In addition, we support the review of settlement penalty framework that would differentiate the penalty rate applied according to the maturity of the fail, in particular for ETFs.

<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>

From a ETD market perspective, the balancing of positions would be ensured as long as there is alignment between the settlement cycle of the underlying and related derivatives position. We do not, therefore, expect an increase of pre-hedging practices under T+1 .

<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>

Euronext Markets allows for STP model supporting an effective reconciliation across trading and post-trade layer and therefore could ensure smooth implementation of a T+1 settlement cycle.

<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>

For trading activities, no major technical challenge is expected from the migration to T+1, although direct impact on liquidity and settlement efficiency should be carefully monitored by asset class and by post-trade set-up (e.g., cleared vs. non cleared) to identify potential mitigation arrangements where needed. A move to T+1 could lead to a reduction of trading activities where liquidity providers face higher inventory risk (i.e., SMEs) or where, more generally, the downstream processes for the provision of securities is not fully automated to support a T+1 timeframe.<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>

It is estimated that the move to T+1 will have a low impact in terms of cost and technology changes.

From a market participant perspective, investments required up front for the implementation and costs to staff the extra working hours required in the evening of T+0 are almost certain.

Considering the interdependencies with the level of automation and readiness of the entire value chain, a phased approach which focuses on T+1 in the mid-term seems to be the most appropriate.

As regards a T+0 environment, the analysis has not yet been carried out and therefore expressing an opinion on the point would be premature and current challenges regarding T+1 should be solved before considering a move to T+0.

<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>

Settlement fails are likely to increase under T+1 as a consequence of the settlement window shortening. The increase in fails potentially affects asset classes with a lower level of settlement efficiency and a more complex post-trade structure, i.e., ETFs.

The increase of settlement fails would be inversely related to market readiness for T+1 in terms of automation of processes along the intermediaries’ chain and mainly to inventory management.

The underlying root causes for the lack of inventory are complex and related to the securities allocation process in the chain of intermediaries. The process for ensuring inventory is available at the required time for settlement is highly differentiated across asset classes and transaction types. In addition, the compressed timeline reduces the opportunity to complete securities lending transactions to cover short positions, which could potentially lead to increased settlement fails.

<ESMA\_QUESTION\_SETT\_6>

1. : In your opinion, would the increase in settlement fails/cash penalties remain permanent or would you expect settlement efficiency to come back to higher rates with time? Please elaborate.

<ESMA\_QUESTION\_SETT\_7>

Please refer to answer to Q6.

<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>

No comments.

<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>

A shortening of the settlement cycle to T+1 would contribute to increase European capital markets efficiency and competitiveness.

In particular, migration to T+1 would push for the modernisation of the financial industry as it would require market players to increase their own level of automation and work on further harmonisation and standardisation of processes.

Provided it is properly organised with the involvement of all stakeholders, the shortening of the settlement cycle would create the conditions to increase efficiency in the management of collateral, margins, and funding and in general increasing financial stability. However, the actual size of those benefits for European market could be further measured after implementation.

As regard T+0 environment, the cost/benefit analysis has not yet been carried out and therefore expressing an opinion on the point would be premature, considering that challenges, would be wider than the one foreseen with reference to T+1.

<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>

A move to T+1 would result in a reduction of funding cost of margins thus leading to a more efficient management of capital resources required to cover open positions. The margin levels per se are not expected to decrease.

<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>

No comments.

<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 could lead to a reduction of liquidity, in particular for securities where liquidity providers face higher inventory risk (i.e., SMEs) that might be exacerbated in T+1 environment. A successful transition would require proper time to allow the re-engineering of front and back offices processes by the entire value chain to allow a smooth compression of the settlement timelines, without detrimental impacts in terms of market liquidity and settlement efficiency.

A move to T+1 in the short-term may force some market participants to move their activities into the OTC space due to the impossibility of adapting their processes to the compressed timeframe, thus resulting in a shift of trading activity from multilateral to bilateral venues.

Therefore, appropriate planning, testing and coordination across the industry is required. In addition, impacts on liquidity and settlement efficiency would need to be carefully monitored by asset class also after the migration to T+1.

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

We have identified no significant benefits for retail clients deriving from shortening of settlement cycle.

<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>

Euronext will be ready to migrate to T+1 as soon as the market is ready. The biggest impacts of a T+1 migration lie not with market infrastructures (trading venues, CCPs, CSDs) but with market participants. Migration to T+1 would require them to increase their own level of automation and work on further harmonisation and standardisation of processes. This transition would require a proper time to allow the re-engineering of front and back offices processes by the entire value chain to allow a smooth compression of the settlement timelines, without detrimental impacts in terms of market liquidity and settlement efficiency. Therefore, appropriate planning, testing and coordination across the industry would be required.

In terms of coordination, a T+1 migration would need to be synchronized across all EU/EEA countries to preserve and support Capital Markets Union.

In terms of planning, the transition should be planned in the mid-term and the target date should be determined having regard primarily to mitigation of operational risk and to the actual efficiency of EU markets. As regard the move of other jurisdictions, we believe that EU and UK should cooperate to identify a common migration timeline.

The detailed planning and milestone could be defined only after a detailed business and operational impact assessment has been completed.

<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>

Please refer to our response to Q15.

<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>

The T+1 migration needs to be synchronized across all EU/EEA countries to preserve and support Capital Markets Union. Market participants and market infrastructures in Europe can hardly manage different cycles in different EU/EEA countries.

Direct impact on liquidity and settlement efficiency needs to be carefully assessed by asset class and by post-trade set-up (e.g. cleared vs. non cleared).

<ESMA\_QUESTION\_SETT\_18>

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

<ESMA\_QUESTION\_SETT\_19>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_19>

1. : Do you think that the settlement cycle for transactions currently excluded by Article 5 of CSDR should be regulated? If you think that the settlement cycle of some or all of these transactions should be regulated, what would be in your view an appropriate length for their settlement cycle?

<ESMA\_QUESTION\_SETT\_20>

With reference to repo transactions, it is worth noting that when financial markets moved from T+3 to T+2 on 6th October 2014, the spot leg of repo trades was unintentionally covered. CSDR was never intended to apply to the start date of repo transactions and the ability to trade with a start date of T+3 or further forward. We believe that any regulatory requirement to move to T+1 only covers cash trading (i.e., buy and sell), excluding repo trading.

Repo spot leg is currently subject to T+2 mandatory settlement cycle according to CSDR. We believe that T+1 settlement cycle should not apply to Repo transactions.

<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>

Although the impact on some asset classes leads to reflection on an alignment in the settlement cycle with other jurisdictions that are moving to T+1, no significant operative and market impacts have been identified to justify a decision of the EU move to T+1 or to affect the timing of the moving implementation.

With refence to the US migration, there is no clear evidence of a potential shift of trading on US securities from the EU to the US. However, there is need to closely monitor liquidity on US securities traded on European markets and, in particular, on ETFs with US underlying.

From an operational standpoint, the main adaptation which has been identified is related to corporate actions: in the US, ex-date and record date will be aligned, whereas we either have to keep ex-date = record date minus one business day or move the record date one business day after the US. Impacts on trading deriving from this situation would need to be assessed by the industry to establish a common practice where possible.

With reference to the UK move, the impact of this migration is in general similar to the one of the US. However, most market participants consider the UK and the EU should migrate to T+1 at the same time as the operational chains used for the UK and the EU market are more integrated and also considering the overlap of trading activity between the UK and the EU.

<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>

No

<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 harmonisation of settlement cycles across jurisdictions could lead to benefits in terms of competitiveness at international level. However, the actual decision to move to T+1 and the related timeframe should be based having regard to the specificities of EU markets and the related efficiency impacts.

<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>

Yes. Previously, there was a misalignment between the US (T+3) and the EU (T+2) without any real effect on volumes or liquidity in the EU vs the US. Market participants in general do not expect a shift of business.

The market also experienced a misalignment between Germany (T+2) and the rest of the EU (T+3) before CSDR.

<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>