

# 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](http://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](#)'.

## **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.

## 1 General information about respondent

Name of the company / organisation	State Street Corporation
Activity	Credit institutions, CSDs, investment firms, market operators, e-money institutions, UCITS management companies, AIFs
Are you representing an association?	<input type="checkbox"/>
Country / Region	Europe

## 2 Questions

**Q1 : Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please:**

- (i) 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.
- (ii) 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>

State Street Corporation welcomes the opportunity to comment on ESMA's call for evidence on shortening the settlement cycle in the EU. In this questionnaire we offer some observations informed by our role as a global custody bank and major asset manager. Given the importance and implications for the functioning of European securities markets, ongoing consultation and involvement of the financial industry will be key. State Street will welcome the opportunity to provide more granular insights over time as the EU further considers moving to a shorter settlement cycle.

We believe that there are several benefits in moving to a faster settlement cycle, and State Street supports a carefully managed move to T+1 in the EU, minimizing as much as possible settlements gaps with other major financial jurisdictions. The move to T+1 settlement should be coordinated at the EU level and all EU jurisdictions should move to an accelerated settlement simultaneously. At the same time, we consider a move to T+0 highly premature given the magnitude of transformation of the existing trading and post-trading ecosystem that it would require.

As it is the case in the US, we would like to stress that the implementation of the of T+1 settlement is a significant undertaking that requires careful planning and coordination by market participants in conjunction with financial market infrastructures. Among the challenges that we have identified and would offer to ESMA for consideration, are changes to trade matching systems and processes, tighter deadlines for the receipt of client trade instructions and the resolution of pre-trade problems, the implications of T+1 settlement for various asset servicing functions, such as the processing of corporate action events, and the operational model for Exchange Traded Funds (“ETFs”).

At their core these challenges will remain valid also in the EU context, with the difference that moving to T+1 settlement in the EU will likely prove more challenging given the complexity of the European financial ecosystem. A further complication might arise from an uncoordinated transition to T+1 settlement with the UK and other major financial centers, with the prospect of greater fragmentation and a prolonged gap in transition times which would be particularly problematic to manage for market participants. Misalignment in settlement times across jurisdictions and markets will increase costs for the end investor and should be avoided.

Therefore, we think that moving to T+1 settlement is achievable if the industry is granted an adequate transition period. In the questions below we highlight some areas which will require particular attention from EU regulators and might necessitate legislative amendments in order to manage an orderly transition to T+1 settlement.

Because of these challenges, we would recommend that EU authorities remain focussed on the transition to T+1 settlement leaving aside considerations related to T+0 settlement.

Same-day settlement is a move that would require a fundamental overhaul of the existing clearing, payment and settlement ecosystem, most likely impossible without the introduction of new technology. T+0 would create significant funding issue for market participants and would not accommodate differences in global timezones. In any event, should this discussion become more relevant in the future, the industry would need a much stronger global coordination across jurisdictions that it was the case for T+1 settlement. For all these reasons, we consider that T+0 settlement should not be pursued at this point in time.

<ESMA\_QUESTION\_SETT\_1>

**Q2 : 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>

The implementation of T+1 settlement will also require a reassessment of existing industry processes in the foreign exchange (“FX”) market and prefunding of trade settlements may be required for FX transactions given that T+1 settlement raises the risk that transaction funding dependent on standard FX settlement cycles may not occur in time.

<ESMA\_QUESTION\_SETT\_2>

**Q3 : 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>

<ESMA\_QUESTION\_SETT\_3>

**Q4 : 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>

We believe that a move to a T+1 settlement cycle in the EU will be beneficial and can be expected to materially reduce risk in existing post-trade processes and throughout the trade lifecycle. This includes a decline in the length of exposures to trading counterparties, lower margin requirements for clearing members, and a reduction in both market and liquidity risk. Furthermore, a move to T+1 settlement in the EU would close the gap with North America, and if managed appropriately, would also avoid creating a misalignment with the UK and Switzerland, benefitting investors across jurisdictions.

Notwithstanding the considerable benefits of T+1 settlement for the securities market, the implementation of T+1 settlement remains a considerable undertaking which will require an adequate coordination by market participants and careful planning. We have identified a number of areas which will require further attention from EU policymakers and might necessitate legislative amendments in order to manage an orderly transition to T+1 settlement:

- The implementation of T+1 settlement has specific impacts on ETFs. There is a risk of a misalignment between the primary and secondary market for ETFs, as the settlement dates for the creation of ETF shares will need to be aligned with the settlement of the underlying basket of securities. Operationally, this becomes more complicated for EU ETFs holding a global basket of securities, settling at different times. The resulting liquidity mismatch will need to be covered either through pre-funding or overdrafts, which could potentially impinge on current cash restrictions imposed on UCITS and AIFs funds. This is likely to increase costs for the end investor and requires a focus on all functions that support the ETF markets. Unintended consequences in the form of perceived active breaches of UCITS cash restrictions need to be addressed through a regulatory solution and cannot be solved by operational fixes such as appointing a second custodian for the fund (to avoid breaching the 20% cash limit deposited with a single institution); this is not an economically viable nor operationally feasible solution given that the potential cash breaches might go well beyond the current regulatory limits.
- Prefunding of trade settlements may also be required for FX transactions, given that T+1 settlement raises the risk that transaction funding dependent on standard FX settlement cycles may not occur in time.
- There is a risk of potential settlement fails of instruments traded in multiple jurisdictions, especially if the EU, the UK and Switzerland end up moving to a shorter settlement cycle in an uncoordinated manner. One instrument might trade on a UK venue but settle within a EU Central Securities Depository (CSD) for example. Thus clarity will be needed on how to manage these cross-listed products and on whether exemptions under CSDR in the short term might be needed to solve frictions, avoid cash penalties and prevent costs for the end investor.

- The shorter settlement cycle will add further complexity to the securities lending business as standard processing and security recalls will operate in a much more compressed timeframe. In particular, the loan recall process will be under risk of CSDR penalties if the security cannot be recalled in time to settle. A lack of attention of EU regulators to these considerations could lead to a decline in market liquidity as investors become more reluctant to offer shares to borrowers.
- Back office and middle-office processes will need to rely on greater automation and the ability to have trades matched and affirmed sooner. More generally, tighter timeframes will affect problem resolutions, market claims and corporate action activities, such as the payment of dividends.

<ESMA\_QUESTION\_SETT\_4>

**Q5 : 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>

<ESMA\_QUESTION\_SETT\_5>

**Q6 : In your view, by how much would settlement fails increase if T+1 would be required in the short, medium and long term? What about T+0? Please provide estimates where possible.**

<ESMA\_QUESTION\_SETT\_6>

As observed in the previous responses, there is a risk of increased settlement fails in the transition to a T+1 which will require clarity as to whether exemptions under CSDR in the short

term might be needed to solve frictions, avoid cash penalties and prevent costs for the end investor.

The implementation of T+1 settlement has also bespoke and specific impacts on ETFs. Unintended consequences in the form of perceived active breaches of UCITS cash restrictions need to be addressed through a regulatory solution and cannot be solved by operational fixes such as appointing a second custodian for the fund (to avoid breaching the 20% cash limit deposited with a single institution); this is not an economically viable nor operationally feasible solution given that the potential cash breaches might go well beyond the current regulatory limits.

<ESMA\_QUESTION\_SETT\_6>

**Q7 : 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>

<ESMA\_QUESTION\_SETT\_7>

**Q8 : 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>

<ESMA\_QUESTION\_SETT\_8>

**Q9 : 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 agree with the ESMA's assessment as regards the benefits of shortening the settlement cycle to T+1 among which the reduction of counterparty risk, encouraging additional automation and settlement efficiency, lower collateral requirements. We would like to stress again that one of the main benefits will also include the harmonisation of settlement cycles across different jurisdictions, notably with the US market which will be moving to T+1 settlement in May 2024.

<ESMA\_QUESTION\_SETT\_9>

**Q10 : 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>

<ESMA\_QUESTION\_SETT\_10>

**Q11 : 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>

<ESMA\_QUESTION\_SETT\_11>

**Q12 : 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>

<ESMA\_QUESTION\_SETT\_12>

**Q13 : What would be the benefits for retail clients?**

<ESMA\_QUESTION\_SETT\_13>

<ESMA\_QUESTION\_SETT\_13>

**Q14 : How would you weigh the benefits against the costs of moving to a shorter settlement cycle? Please differentiate between a potential move to T+1 and to T+0.**

<ESMA\_QUESTION\_SETT\_14>

Please refer to our responses to question 1 and 9.

<ESMA\_QUESTION\_SETT\_14>

**Q15 : 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>

<ESMA\_QUESTION\_SETT\_15>

**Q16 : Assuming that the EU institutions would decide to shorten the securities settlement cycle in the EU, how long would you need to adapt to the new settlement cycle? And in the case of a move to T+0?**

<ESMA\_QUESTION\_SETT\_16>

We consider that the aim of EU regulators should be to as much as possible minimize the misalignment in settlement cycle between the EU and other major financial jurisdictions. In order to do that we think that a move to T+1 settlement by the EU should be announced as soon as practically feasible, in coordination if possible with UK and Swiss authorities, and with an adequate implementation period granting the industry sufficient time to manage the transition.

On the contrary, we do not see at this stage any merits in discussing a move to T+0 or same day settlement. The problems and funding challenges that a T+0 settlement arises would require a fundamental review of the clearing, settlement and payment ecosystem supported by a technological evolution which is currently not yet available to the market.

<ESMA\_QUESTION\_SETT\_16>

**Q17 : 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>

<ESMA\_QUESTION\_SETT\_17>

**Q18 : 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>

<ESMA\_QUESTION\_SETT\_18>

**Q19 : 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>

<ESMA\_QUESTION\_SETT\_19>

**Q20 : 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>

<ESMA\_QUESTION\_SETT\_20>

**Q21 : Please describe the impact(s) that the transition to T+1 in other jurisdictions has had or will have on your operations, assuming the EU remains on a T+2 cycle.**

<ESMA\_QUESTION\_SETT\_21>

We are concerned about the operational and liquidity costs that might arise from a protracted mis-alignment between the EU and other third-country jurisdictions. While a careful and well-planned transition period to T+1 settlement is needed to make sure market participants in the EU are ready and well-coordinated, this process should not be prolonged indefinitely but EU authorities should set clear timetables and milestones towards a full migration to T+1 settlement and all EU jurisdictions should move to an accelerated settlement at the same time.

<ESMA\_QUESTION\_SETT\_21>

**Q22 : 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\_QUESTION\_SETT\_22>

**Q23 : Do you see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions?**

<ESMA\_QUESTION\_SETT\_23>

As mentioned in previous answers, we would invite the EU authorities to focus at this stage on an orderly transition to T+1 settlement and to strive as much as possible to achieve coordination with the UK and Switzerland and in line with North America. This will minimize operational dislocations and trading costs for EU investors.

<ESMA\_QUESTION\_SETT\_23>

**Q24 : 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>

A move to T+1 settlement in the EU will raise the attractiveness and the liquidity of the EU markets and it is therefore consistent with the Capital Markets Union project and with recent market infrastructure reforms such as the establishment of a Consolidated Tape for bonds, equities and ETFs. A move to T+1 settlement can therefore be a catalyst for continuing the efforts to increase liquidity in EU capital markets.

<ESMA\_QUESTION\_SETT\_24>

**Q25 : 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>

<ESMA\_QUESTION\_SETT\_25>

**Q26 : Would different settlement cycles in the EU and other non-EU jurisdictions be a viable option?**

<ESMA\_QUESTION\_SETT\_26>

We strongly disagree that a permanent misalignment between EU and non-EU settlement cycles is a viable option, and while we understand the need for an orderly transition to T+1 settlement, we invite EU authorities to set a clear and feasible timetable to achieve that.

<ESMA\_QUESTION\_SETT\_26>

**Q27 : 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>

<ESMA\_QUESTION\_SETT\_27>