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 | Citibank Europe Plc  Citibank Europe Plc is active across all of Europe (with operations in 20 of the 27 Member States and globally in 64 markets via other Citigroup vehicles) as provider of securities services to wholesale and institutional business clients.  Citi is a European financial services provider and we serve clients throughout the region. Our European bank is headquartered in Dublin, we have an investment firm in Frankfurt, and we recently increased our capabilities in other key European cities including Paris, Amsterdam and Luxembourg. Citi provides a broad range of cross-border banking, payment (including custody services) and capital market services for clients. |
| Activity | Credit institutions, CSDs, investment firms, market operators, e-money institutions, UCITS management companies, AIFs |
| 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>

**Introduction**

Citi is an active member of many European trade associations that are directly involved in post-trade securities services and has been directly contributing to the drafting of joint industry responses to this call for evidence on the shortening of settlement cycle in the EU. Specifically, we would like to refer to and endorse the responses submitted by the following associations: AFME, AGC, EBF and ICMA. Furthermore, through our market specialists in various EU countries, we have contributed to individual national responses with the general intent to provide an international view towards a harmonized and integrated functioning of the European financial markets as a whole. Lastly, we are also actively supporting the “European T+1 Industry Task Force” and we endorse the High-Level Remarks that this group of associations have jointly drafted on both T+1 and T+0 considerations.

Without repeating in full the information and commentary already provided in those responses, and in view of the limited time available to respond to this Call for Evidence, with this individual response Citi would like to highlight here below only a few general remarks. Further information on the topics mentioned in this questionnaire is being analyzed and collected (also with particular reference to the final stages of preparation for the T+1 migration in the United States) and we intend to continue our active participation and contributions to European industry discussions around these topics in the months to come.

**General remarks**

The Post-trade “Ecosystem” is a complex and multi-layered structure of actors, comprising an investment layer, a trading layer, a clearing layer, multiple intermediaries (each with multiple businesses and functions, such as middle office, treasury, repo desk, lending desk, etc.), multiple settlement agents, CSDs as operators of settlement systems, national central banks.

The post-trade settlement process starts with trade executions (on trading venues or via bilateral contracts) and then follows an intricate flow of instructions, reporting, feedback on market status, further instructions, etc. The vast majority of these flows are beyond the reach of CSDs and settlement agents, i.e. there are significant interactions and dependencies from the ‘higher’ levels that determine the successful completion of each settlement instruction (some people call this the “behaviour” of intermediaries in the chain).

A wholistic view must be taken in order to best accommodate compression of timeframes across all relevant processes: the difficulty is compounded where one process may need to complete its run before another can begin, and is further compounded if reconciliation breaks or other problems arise.

For purposes of addressing and optimizing market practices, it is necessary to assess two streams of processes that occur throughout the chain effectively in parallel: (1) settlement instruction processes and (2) resource management processes. (these processes are described in detail in the AGC response and are depicted in the Process Flow diagram, as Annex). The functioning of the settlement activities involves multiple levels of interactions and dependencies, many of which require human intervention and decisions, and are difficult to automate, such as investors decisions, operational delays, system errors, exceptions management, etc.

Due in part to the European region’s complexity and fragmentation, a large number of relevant processes are still manual or are fragmented, as well as requiring some recursive “feedback loops” where additional instructions are provided by actors to their next-level intermediary along the chain in order for any exceptions to be correctly managed. A “game theory” analytical approach might be required for tracking multilateral interactions across different actors and different business processes (‘trading chains’, realignments, funding decisions, cross-CSD and cross-market flows, etc.). All these interactions and dependencies must be addressed if the EU’s settlement cycle is shortened to T+1.

<ESMA\_QUESTION\_SETT\_1>

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

<ESMA\_QUESTION\_SETT\_2>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_2>

1. : Which is your current rate of straight-through processing (STP ), in percentage of the number and of the volume of transactions broken down per type of transaction or per instrument as relevant? In case STP is used only for certain processes/operations, please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP?

<ESMA\_QUESTION\_SETT\_3>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_3>

1. : Please describe the impacts that, in your views, the shortening of the securities settlement cycle could have beyond post-trade processes, in particular on the functioning of markets (trading) and on the access of retail investors to financial markets. If you identify any negative impact, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation…) and elaborate on possible avenues to address it.

<ESMA\_QUESTION\_SETT\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_4>

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

<ESMA\_QUESTION\_SETT\_5>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

A key objective for any move to T+1 should be to minimise degradation of settlement efficiency. Such a move will require extensive preparations involving all parties, including market infrastructure and the buy-side. Assuming such preparations are effected, and an appropriate time frame is chosen for implementation, then it will be possible to expect that any temporary reduction in settlement efficiency to be subsequently overcome.

It will also be important to learn from the U.S. and Canadian markets whether fails increase and what corrective actions are established that could also be replicated in the EU.

Considering that the initial adaptation challenges to a shorter settlement cycle might trigger an increase in settlement fails, public authorities should consider a temporary suspension of payments of cash penalties during this initial migration period.

<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>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

Any decision by public authorities to adopt a T+1 settlement cycle should be based on a detailed cost-benefit analysis and must incorporate sufficient time to observe the impacts of moves to T+1 in other jurisdictions. Authorities must also consider how to prioritise this against other competing policy objectives, noting the industry’s expectation that this would be significant resource-intensive undertaking.

We are strongly supportive of the recommendation to establish a market-wide implementation preparatory phase (with strong governance and broad industry coverage) aimed at detailed analysis and identification of working recommendations for the T+1 migration planning (including discussion about the most suitable migration date).

<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>

The implementation timeline for a T+1 migration is heavily dependent on sufficient detailed analysis and preparation across the industry. The coordinated analytical and preparatory work described under Q15 above will be a key prerequisite before establishing the most appropriate timing for such migration.

Given the complexity of the post-trade ecosystem and of the impactful changes that are expected across all levels, from the investment layer all the way down to the market infrastructures and settlement systems (as described in previous answers), it is important to ensure that all the necessary time is available to make adequate preparations and testing of the “new” processes.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_19>

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

<ESMA\_QUESTION\_SETT\_20>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_20>

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

<ESMA\_QUESTION\_SETT\_21>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

We believe it will be crucially important to focus on an alignment between the EU and the UK to ensure that any change to the settlement cycle is co-ordinated. It will be very important to have the ICSDs on the same settlement cycle as U.S. (and UK) to prevent matching issues due to ambiguity of settlement cycles. Coordination should also address concerns of liquidity shifting to UK should the UK move ahead of the EU. Coordination should also be undertaken with a goal of preventing participants in both jurisdictions from funding and managing two operationally and technically impactful market implementation programmes in potentially close succession – which would be likely to negatively impact investors in addition to settlement agents/custodians.

It is misleading to look at how the US are approaching the T+1 migration, since the EU post-trade ecosystem is much more complex, there are different practices and different legal foundations that need to be considered carefully, for the definition of a practicable migration plan.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_26>

1. : Please elaborate about any other issue in relation to the shortening of the securities settlement cycle in the EU or in third-country jurisdictions not previously addressed in the Call for Evidence.

<ESMA\_QUESTION\_SETT\_27>

The EU will need to take time upfront ahead of a move to T+1 to understand and address the root cause of settlement inefficiency, improve data methodology to monitor and analyse settlement fails and for operational solutions to be implemented to improve settlement efficiency across each all sectors of the industry. A cross-industry taskforce under ESMA’s oversight should be tasked with this objective, acting as ‘coordinator’ of the preparatory and implementation work.

In addition, the barriers to post-trade integration need to be identified and a clear path to resolve them should be devised (for example, under the ECB AMI-SeCo’s oversight), including improvements to cross border settlement, which may require FMI (and even regulatory) changes.

From an implementation point of view, the complexity of EU capital markets, in particular the post-trade environment, should not be underestimated. Twenty-seven markets with varying levels of efficiency and technical capabilities, compounded by different insolvency and securities laws and different tax regimes, will require careful assessment, scoping, planning and execution. In addition, the market cut-offs and batch times across the regions CSDs and T2S will need to be aligned and where appropriate extended, which would increase the technical complexity and testing footprint requirements – all of which will need to be factored into the timeline.

<ESMA\_QUESTION\_SETT\_27>