The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE
Washington, DC // Brussels // London // www.ici.org

14 April 2025

European Securities and Markets Authority
201-203 rue de Bercy – CS90910
Paris, France 755889

Re: ESMA74-219945925-2117 Consultation Paper on the Amendments to the RTS on Settlement Discipline

Submitted electronically

The Investment Company Institute[1] is submitting its views on the European Securities and Markets Authority's (ESMA) consultation paper on amendments to the Regulatory Technical Standards (RTS) on Settlement Discipline.[2] As the trade association representing regulated funds globally, we have a strong interest in promoting efficient capital markets for the benefit of long-term individual investors.

We have provided detailed answers to the questions posed in the Consultation and would like to highlight our general support for amendments to the RTS that will facilitate the acceleration of the settlement cycle to one day after the transaction date (T+1), a transition that will enhance market efficiency and liquidity, deliver significant benefits to investors, and facilitate the growth and competitiveness of the EU capital markets.

In addition, we appreciate the approach in the Consultation which only makes the changes at this time that are necessary to support T+1. Migration to T+1 involves major changes to market structure that significantly impact all market participants. Implementing changes to the existing approach that are not prerequisite to the move to T+1 and creating new regulatory obligations increases the technological and operational complexities, which in turn increases the risk of market disruptions and other unintended consequences. For areas where adjustments to the RTS are not necessary at this time, we recommend that ESMA support industry efforts to further enhance settlement efficiency.

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[1] The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in Europe, North America and Asia and manage fund assets of $48.4 trillion, including UCITS, mutual funds, exchange-traded funds (ETFs), closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Brussels, London, and Washington, DC.

[2] ESMA, Consultation Paper on the Amendments to the RTS on Settlement Discipline (13 February 2025) (the Consultation).

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We appreciate your consideration of ICI's comments. If you have any questions or would like to further discuss our comments, please do not hesitate to contact me at tracey.wingate@ici.org, Kirsten Robbins, Associate Chief Counsel, at kirsten.robbins@ici.org, or RJ Rondini, Director, Securities Operations, at rj.rondini@ici.org.

Sincerely,

/s/ Tracey Wingate
Tracey Wingate
Head of Global Affairs
Investment Company Institute

Attachment: Investment Company Institute Response to ESMA74-219945925-2117 Consultation Paper on the Amendments to the RTS on Settlement Discipline

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Investment Company Institute Response to ESMA74-219945925-2117 Consultation Paper on the Amendments to the RTS on Settlement Discipline

14 April 2025

Submitted by electronic form

Q1: Do you agree with the proposed amendments to Articles 2(2) and 3 of CDR 2018/1229?

We support the proposed amendments to change the settlement deadlines in Articles 2(2) and (3) of CDR 2018/1229.

Q2: Would you see merit in introducing an obligation for investment firms to notify their professional clients the execution details of their orders as soon as these orders are fulfilled (in a way that allows STP)? If yes, should it be cumulative to the proposed amendments to Articles 2(2) and 3 of CDR 2018/1229?

We generally support amendments to the Regulatory Technical Standards (RTS) that will support the acceleration of the settlement cycle to one day after the transaction date (T+1). We appreciate ESMA's approach which only makes the changes that are necessary to support T+1 at this time and will consider further adjustments to the RTS at a later date. Migration to T+1 involves major changes to market structure that significantly impact all market participants. Implementing changes to the existing approach that are not prerequisite to the move to T+1 and creating new regulatory obligations increases the technological and operational complexities, which in turn increases the risk of market disruptions and other unintended consequences.

Therefore, while we support the proposed revisions to Article 2 of CDR to move forward the deadlines for the receipt of allocations and written confirmations, we do not recommend that ESMA introduce an obligation to notify their professional clients of the execution details of their orders as soon as the orders are fulfilled. We recommend that ESMA support the use of such notifications as best market practice as the industry prepares for the migration to T+1, when an order is fully filled or will face no further updates before the end of the day. We particularly do not recommend an obligation to provide notifications when trades are partially filled because of the increased potential for confusion.

Q3: If you support an obligation for investment firms to notify their professional clients the execution as soon as the orders are fulfilled, do you think that clients should be allowed a maximum number of business hours for the allocations and confirmations from the moment of notification by investment firms, instead of having fixed deadlines? If yes, how many hours would be necessary for that?

Please see the response to Q2.

Q4: Should CDR 2018/1229 further specify the term 'close of business' for the purpose of Article 2(2)? If yes, how should this take into account the business day at CSD level?

We recommend that that ESMA adopt a more specific definition of the term 'close of business,' taking into account practice in the UK and Switzerland, to ensure consistent practice and understanding across EU market participants.

Q5: Should the 10:00 CET deadline for professional clients in different time zones and retail clients be brought forward to 07:00 CET on T+1, to be aligned with the UK deadline?

We support the proposed amendments to change the settlement deadline in Articles 2(2) and (3) of CDR 2018/1229. We do not recommend that the 10:00 CET deadline for professional clients in different time zones and retail clients be brought forward to 7:00 CET on T+1. Moving the deadline to 7:00 CET would involve moving the deadline outside of business hours, to a time where there is more limited support to address issues and thus increase the likelihood of settlement failures.

Q7: Do you agree to make the use of electronic and machine-readable format that allow for STP mandatory for written allocations?

We support the proposed amendments to require the use of electronic and machine-readable format that allows for straight through processing (STP), as this would promote settlement efficiency and the transition to T+1. We recommend that ESMA provide a clear definition of "electronic and machine-readable format," aligning implementation with existing industry standards and global best practices to avoid fragmentation.

However, it is important to preserve, without penalty, the ability to use non-electronic means if the automated mechanism becomes unavailable, such as during an outage, for a unique security type, or other unusual circumstances.

Q8: Would you see merit in introducing optionality for investment firms to set deadlines based on whether an electronic, machine-readable format of the communication is used? In such case, do you agree that an earlier deadline could be set for non-machine readable formats, so clients are disincentivised to use them? Which should be such deadline?

As noted in our response to Q1, we recommend that ESMA support, but not require, best practices that are not prerequisite to the migration to T+1.

While we agree that setting an earlier deadline for the use of non-machine-readable formats would help disincentivise their use, we do not find that such deadlines are a

prerequisite to the move to T+1. Therefore, we recommend that ESMA support the use of earlier deadlines market practice as the industry prepares for the migration to T+1.

Q12: Do you agree with the proposed amendment to Article 2 of CDR 2018/1229?

We support the proposed amendment to Article 2 of CDR 2019/1229 which would require the use of international open communication procedures for written allocation and confirmations.

However, it is important to preserve, without penalty, the ability to use non-electronic means of communication if the automated mechanism becomes unavailable, such as during an outage, for a unique security type, or other unusual circumstances.

Q13: Do you agree that settlement efficiency would improve if all parties in the transaction and settlement chain used the latest international standards, such as the ISO 20022 messaging standards, in particular whenever A2A messages and data are exchanged? If not, please elaborate. How long would it take for all parties to adapt to ISO20022?

While we agree that settlement efficiency would improve with all parties in the transaction and settlement chain using similar communication protocols, such as those that would be consistent with ISO20022 messaging standards, we do not find that such deadlines are a prerequisite to the move to T+1. Therefore, we recommend that ESMA support the use of earlier deadlines market practice as the industry prepares for the migration to T+1. We further note that SWIFT is setting deadlines for and monitoring the industry adoption of ISO20022.

Q15: Do you agree with the proposal of the EU Industry Task Force whereby allocation requirements should be aligned with CSD-level matching requirements? If not, please elaborate.

We recommend that ESMA adopt a single standard for allocation requirements that are applicable to all EU Central Securities Depositories (CSDs). Using a single standard would reduce transaction costs for market participants and improve efficiency, making it easier to interact with multiple CSDs within the EU. To the extent that allocation requirements are aligned to varying CSD-level matching requirements, the fragmentation will degrade those benefits. Transactions costs will increase and efficiency will decrease, as market participants ensure compliance with differing allocation requirements.

Q17: Do you agree with the proposed regulatory change to introduce an obligation for investment firms to collect the data necessary to settle a trade from professional clients during their onboarding and to keep it updated? If not, please explain.

We agree that holding static data for settlement in advance will improve settlement efficiency and facilitate settlement within the T+1 timeframe. While as noted in response to Q1, we generally do not support adopting regulatory changes that are not prerequisite to the transition at this time, we do support the proposed revisions to Article 2 to introduce the obligation to collect static settlement data during onboarding and keep it

updated. In our view, the proposed amendments codify existing best market practice and would reduce rather than increase the risk of market disruptions and other unintended consequences.

Q19: Do you agree with the proposed amendment to Article 10 of CDR 2018/1229? If not, please elaborate.

We support the proposed amendment to Article 10 of CDR 2018/1220, which would expand the availability of partial settlement.

Q20: Do you agree with the deletion of Article 12 of CDR 2018/1229? If not, please elaborate.

We support the proposed deletion of Article 12 of CDR 2018/1229, which support the expanded availability of partial settlement.

Q37: Do you agree that the use of UTI should not be made mandatory through a regulatory change?

We agree that industry adoption of Unique Transaction Identifiers (UTI) could help identify and resolve mismatched trades, which would improve settlement efficiency. However, we do not find that using UTIs is a pre-requisite to the migration to T+1. We therefore recommend that ESMA support the industry's exploration of the adoption of UTIs, as individual firms consider the costs and benefits.

Q38: What are your views on the use of UTI in general and in the case of netted transactions specifically?

Please see the response to Q37.

Q39: Should the market standards for the storage and exchange of SSIs be left to the industry or is regulatory action at EU level necessary?

We agree that market standards for the storage and exchange of securities settlement instructions (SSIs) would facilitate settlement efficiency. We find that increasing automation and decreasing manual processes with regards to SSIs leads to a reduction in settlement failures. However, we do not find that market standards for the storage and exchange of SSIs are a prerequisite to the migration to T+1. We therefore recommend that ESMA support industry efforts to continue to evolve market standards in this area.

Q41: Do you agree that the PSET should not be made a mandatory field of written allocations under Article 2(1) of CDR 2018/1229? If you have a different view, please elaborate.

In general, we find that harmonisation and standardisation of written allocations support settlement efficiency and reduce settlement failures. We agree with the Consultation that PSET should not be made a mandatory field of written allocations, as this is not a pre-requisite to the move to T+1. We recommend that ESMA support industry efforts to continue to develop best market practices, including to use PSET more consistently across the market.

Q42: Do you agree that the decision to use the PSAF and the PSET in the settlement instructions should be left to the industry?

We agree that the decision to use PSAF and PSET in the settlement instructions should be left to the industry. Please see the response to Q41.

Q44: Do you agree that the transaction type should not become a mandatory matching field under Article 5(4) of CDR 2018/1229?

We agree that standardising the use of transaction type in SSIs would facilitate settlement efficiency and reduce settlement fails. We further agree that such standardisation is not a prerequisite to the move to T+1 and that Article 5(4) of CDR 2018/1229 should not be revised to mandate the inclusion of transaction type. We recommend that ESMA support industry efforts to continue to evolve market standards in this area.

Q45: Do you think the lists mentioned in Article 2(1)(a) and Article 5(4) of CDR 2018/1229 should be updated? If yes, please specify.

In our view, the lists of transactions in Article 2(1)(a) and Article 5(4) do not need to be updated at this time.

Q46: What are your views on whether market participants should send settlement instructions intra-day rather than in bulk at the end of the day?

We agree with the recommendation that market participants send settlement instructions on an intraday basis, where it is possible and efficient to do so, rather than wait to send instructions in bulk at the end of the day. We further agree that introducing a deadline for submitting settlement instructions is not a prerequisite to the move to T+1 and that no regulatory change is necessary. We recommend that ESMA support industry efforts to continue to evolve market standards in this area.

Q47: Do you consider it necessary to introduce a deadline for the submission of settlement instructions through a regulatory amendment to CDR 2018/1229? If yes, what should be such a deadline? Please provide arguments to justify your answers.

No. Please see the response to Q46.