Reply Form

Consultation Paper on the Amendments to the RTS on Settlement Discipline

Responding to this Consultation Paper

ESMA invites comments on all matters in this Consultation 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 **14 April 2025.**

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\_CSDC\_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\_ CSDC\_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_CP1\_ CSDC\_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**

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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, credit institutions, 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 | The International Securities Lending Association (ISLA) |
| Activity | Other |
| Are you representing an association? |  |
| Country / Region | Europe |

# Questions

**3.1.1 Timing of allocations and confirmations**

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

<ESMA\_QUESTION\_CSDC\_1>

ISLA does not agree with the proposed amendments to Article 2(2) and 3 of the Commission Delegated Regulation 2018/1229 as we believe that the EU should look to seek global alignment where possible. In its final report, the UK's Accelerated Settlement Taskforce recommended a single deadline of 23:59 on T for allocations and confirmations. A similar approach has also been adopted in the US whereby there is a single deadline on T. ISLA members however agree with the proposal to delete the exemption for orders executed after 16.00 CET. ISLA recommends that the EU should maintain a similar approach as bifurcations of deadlines across jurisdictions will be more difficult for industry participants to manage and plus a single deadline on T would be more appropriate in a T+1 environment. To further support synchronisation of market practices, this requirement should come into effect concurrently with the T+1 requirement.

<ESMA\_QUESTION\_CSDC\_1>

1. 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?

<ESMA\_QUESTION\_CSDC\_2>

ISLA notes that Article 59 of the MiFID II Delegated Regulation (EU) 2017/565 already sets out a requirement for investment firms to provide clients with essential information on the execution of their orders as soon as possible, but no later than the next business day after execution. Therefore, we do not consider that it is necessary to incorporate any additional mandate in CSDR.

<ESMA\_QUESTION\_CSDC\_2>

1. 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?

<ESMA\_QUESTION\_CSDC\_3>

As noted in response to Question 2, ISLA members consider that the requirements outlined in MiFID II is sufficient.

<ESMA\_QUESTION\_CSDC\_3>

1. 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?

<ESMA\_QUESTION\_CSDC\_4>

ISLA does not deem it necessary to specify the term ‘close of business’ for the purposes of Article 2(2), particularly in relation to securities lending practices, which are typically governed by Master Agreements and established best practices.

Instead, ISLA advocates for market-driven initiatives to guide operational practices, thereby providing the necessary flexibility to accommodate new technological developments.

<ESMA\_QUESTION\_CSDC\_4>

1. 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?

<ESMA\_QUESTION\_CSDC\_5>

ISLA would like to note that the UK suggested a single deadline for processing allocations and confirmations no later than 23:59 on trade date however, the deadline that ESMA refers to is with regards to the deadline for settlement instructions, which is 5:59 UK Time (6:59 CET), hence moving the deadline to 10:00 CET would not achieve alignment. As referred to in our response to question 1, ISLA would propose a single deadline for allocations and conformations at 23.59 on Trade Date.

We do not support the introduction of the proposed regulatory deadline and refer to our answer to Q1, highlighting that notification timelines and recognition of local business day are well catered for in Best Practices and the governing GMSLA.

<ESMA\_QUESTION\_CSDC\_5>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate

<ESMA\_QUESTION\_CSDC\_6>

ISLA does not suggest any additional regulatory requirements; however, it should be noted that best practice recommendations under the EU T+1 Industry Committee are currently working on a set of recommendations that should be read in conjunction with the RTS.

<ESMA\_QUESTION\_CSDC\_6>

**3.1.2 Means for sending allocations and confirmations**

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

<ESMA\_QUESTION\_CSDC\_7>

ISLA supports the mandatory adoption of ‘electronic and machine-readable’ formats that allow STP for the communication of allocations and confirmations. ISLA would however request that ESMA review the definition of ‘machine-readable’ as we do not believe that, for example, Bloomberg Chat and Email should be considered in this category. ISLA would propose this is confirmed by ESMA in Level 3 guidance, to include communication via standardised formats such as CSV, JSON, and XML as an example.

Furthermore, ISLA would like to make ESMA aware that we are currently developing, in conjunction with ISDA and ICMA, a Common Domain Model (CDM) that is designed to standardise communication amongst market participants as well as unify a series of actions, life cycle events and product definitions though the development of a single language or code. The CDM provides a standardised, machine-readable, and machine-executable model that represents financial products and their lifecycle events. This standardisation is crucial for ensuring consistency in how data is exchanged between different parties. By establishing a common language and structure, adoption of the CDM would reduce ambiguities and discrepancies that often lead to errors and delays in allocation and confirmation processes.

A key goal of the CDM is to improve interoperability between different systems and platforms used by market participants. This is particularly relevant for allocations and confirmations, which often involve the exchange of data between multiple parties and systems. Standardisation through the CDM would facilitate seamless data exchange, reducing the need for manual reconciliation and improving straight-through processing. It also significantly reduces operational risk.

Adoption of the CDM market standards would ensure that allocations are communicated in a standardised, electronic format. For more information on the ISLA, ICMA and ISDA Common Domain Model, please click [here](https://www.islaemea.org/common-domain-model/).

<ESMA\_QUESTION\_CSDC\_7>

1. 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?

<ESMA\_QUESTION\_CSDC\_8>

ISLA does not support the introduction of optionality for investment firms to set deadlines based on whether an electronic, or machine-readable format of communication is used. This would introduce unnecessary fragmentation of processes which could ultimately lead to inefficiencies in the settlement process.

<ESMA\_QUESTION\_CSDC\_8>

1. Please provide quantitative evidence regarding the use of non-machine readable formats for written allocations and confirmations.

<ESMA\_QUESTION\_CSDC\_9>

Although ISLA members acknowledge that use of non-machine-readable formats for communication exist today, we would recommend that to allow for STP, it is necessary to promote the use of machine-readable formats of communication. ISLA members discussed the possibility of gathering estimations and volumes of allocations and confirmations received in these formats however, the time required to collate this information exceeded the available duration of this consultation. ISLA will continue to work with members to gather evidence on volumes.

<ESMA\_QUESTION\_CSDC\_9>

1. Would it be necessary to introduce a similar obligation in other steps of the settlement chain? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_10>

* No. ISLA notes that its Best Practices, being a representative consensus of our members, support the adoption of automation throughout the lifecycle of a transaction. It is acknowledged that the industry must move to a standard if it is to evolve and adopt interoperability and digitisation. The majority of post trade processes are already largely automated and further best practices will be outlined in the recommendations of the EU T+1 industry committee.

<ESMA\_QUESTION\_CSDC\_10>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate

<ESMA\_QUESTION\_CSDC\_11>

Further to previous answer, ISLA believes that industry-led initiatives and the continued adoption of best practices in automation and standardisation should be the primary drivers of efficiency and have historically published details regarding data format standards. More recently, in partnership with other associations, we now also publish an open-source data model via Fintech Open-Source Foundation (FINOS). This Common Domain Model (CDM) represents the entire lifecycle of a securities lending transaction, from negotiation to final settlement.

We believe that such a common standard is one solution to many ongoing challenges, with some believing that its adoption is the only viable solution.

ISLA have also noted the use of the CDM proof-of-concept project run by various regulatory and supervisory bodies that has concluded that the adoption of such a machine-readable format would support the introduction of natural language regulation, with implied cost saving and efficiency for both regulators and market participants.

<ESMA\_QUESTION\_CSDC\_11>

**3.1.3 The use of international open communication procedures and standards for messaging and reference data to exchange allocations and confirmations**

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

<ESMA\_QUESTION\_CSDC\_12>

Although broadly agreeing with the sentiment, ISLA does not agree with the proposed change of wording, whereby investment firms would be specifically mandated by regulation to require their professional clients to send written allocations and confirmation messages using international communication procedures and standards.

A change such as this, in the time scale implied by this regulation, would place an additional burden on investment firms by imposing a prescriptive approach to communication that may not be necessary or suitable for all client relationships.

We believe that the decision on how investment firms receive allocation and confirmation messages should remain a matter of agreement between the firm and its clients, provided that the chosen method ensures Straight-Through-Processing (STP) and is sent in a machine-readable format.

<ESMA\_QUESTION\_CSDC\_12>

1. 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?

<ESMA\_QUESTION\_CSDC\_13>

Whilst recognising the benefit of standards such as ISO2022, we would instead recommend that rather than mandating a specific messaging standard, the first priority would be to define key data fields that are exchanged.

This consideration raises how, despite using an ISO standard, we see the same data fields populated today with different information. For example, in relation to SFTR Article 4 reporting, firms are required to populate fields with data that is not a mirror reflection of their books and records, and this would not be beneficial in some A2A messages.

Instead, we believe that the standard represented by ISO 20022 be a guiding template and that where required, other standard data models may be adopted.

Enforcing ISO 20022 could potentially have unintended consequences, particularly where that standard does not have sufficient clarity to represent some market activity.

<ESMA\_QUESTION\_CSDC\_13>

1. Can you provide figures (by number and type of financial entities, jurisdictions) regarding the current use of international open communication procedures and standards such as: a) ISO 20022, b) ISO 15022, c) others (please specify)?

<ESMA\_QUESTION\_CSDC\_14>

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<ESMA\_QUESTION\_CSDC\_14>

1. 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.

<ESMA\_QUESTION\_CSDC\_15>

In line with the views expressed by the EU T+1 Industry Task Force, we believe that information provided early in the Post Trade process should remain constant to ensure consistency throughout the settlement flow. Therefore, we support allocation requirements to be aligned with the matching criteria at CSD level.

Indeed, paragraph 47 in the consultation paper, elaborated in ‘footnote 22’ references ‘existing requirements in the current RTS’ and demonstrates significant overlap between the fields in allocations and settlement instructions. Including (h) the total amount of cash to be delivered or received which would be improved by referencing the need for this to align with the tolerances expressed in Article 6 of the RTS and (j) and (k) the identifier and entity where the securities and cash are held. Feedback from members suggests that this is not adhered to creating issues ‘downstream’ at the settlement level.

We therefore recognise and support the benefits of synchronising allocation requirements with CSD-level matching to improve settlement efficiency. However, we note that there are complexities around monitoring and enforcing such alignment across different market participants and infrastructures, therefore we believe that a requirement in the RTS for industry best practices to support the existing regulatory mandate in Article 6 of CDR 2018/1229 would offer a more practical approach to ensure there is adherence to this important requirement.

<ESMA\_QUESTION\_CSDC\_15>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_16>

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<ESMA\_QUESTION\_CSDC\_16>

**3.1.4 Onboarding of new clients**

1. 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.

<ESMA\_QUESTION\_CSDC\_17>

ISLA does not support mandating that investment firms solely rely on the collection of trade settlement data during onboarding, as it may become outdated by the time the first trade is executed. The KYC and onboarding processes often occur well before any trading activity which could lead to potential inaccuracies in client data at the point of trade.

We would like to highlight that ISLA Best Practices support and recommend the sharing of all relevant KYC information. This should be carried out through recognised mechanisms and be done in a manner that ensures information captured by firm’s systems remain up-to-date. This should include periodic data reviews or trigger-based updates where client information is refreshed at key milestones (e.g., before the execution of the first trade or when significant changes occur in the client’s profile) or at the point of the trade’s lifecycle event, when new or extra information are required.

The use of electronic SSI repositories, adhering to an agreed formatting standard, should also be encouraged for ongoing immediacy and accuracy.

Therefore, we recommend the adoption of standards be developed through market practice rather than regulation.

<ESMA\_QUESTION\_CSDC\_17>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_18>

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<ESMA\_QUESTION\_CSDC\_18>

**3.1.6 Partial settlement**

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

<ESMA\_QUESTION\_CSDC\_19>

It is essential to acknowledge the inherent complexity of securities lending activities, particularly concerning those transactions arranged between a borrower and a lending agent. Such transactions are typically represented by a single parent transaction between borrower and agent, with a significant multiple of child instructions representing the underlying beneficial owners.

‘Beneficial owners’ is a collective term used to describe institutional investors such as pension funds, mutual funds, insurance companies, and other large asset managers, otherwise known as the buy-side community.

Whilst the sell-side/borrower community may broadly support the adoption of auto-partial, the buy-side community whose securities lending transactions are arranged by agent lenders, raise significant concerns related to any mandated auto-partial functionality.

The transaction(s) between a borrower and lending agent are typically represented by a single parent transaction backed by a significant number of child transactions for each underlying beneficial owner that is party to the trade. This creates many unique challenges when considering the use of auto-partial, where the parent transaction may partially auto-settle, but the child transaction may not settle. The link between the parent and child transaction could break down and create further challenges in allocation, fair distribution, billing, and accounting in the context of a securities lending transaction.

It is for this reason that ISLA best practice takes a layered approach to auto-partial, with parties having a one-to-one or non-parent/child transaction using auto-partial. However, where the use of such functionality would disadvantage one/both parties, the option must exist to opt out of auto-partial, which is the CSD process today.

This approach has been successfully employed since the auto-partial functionality was put in place, with lending agents then manually processing partial settlements, where onward delivery of a closing loan is required. For example, where a loan return recall notice is issued due to the beneficial owner selling the related security.

The above is largely related to closing securities lending transactions (returns). New loan(s) arranged by lending agents are less problematic, as an agent may only raise instructions on a full and correct position. I.e., an instruction only exists if the full position is available, and so use of partial settlement is unnecessary. This dynamic explains the higher rate of new loan settlement success ISLA observes, with average settlement success rate for 2024 New Loans being approximately 97%.

Although ISLA does support the availability of auto-partial functionality across CSDs and the adoption of such in other markets, we do not support mandated auto partial that removes the current opt-out optionality by one party. This is particularly important as we understand that many borrowers may default all instructions to auto-partial to the determinant of agent lenders supporting complex beneficial owner transactions.

<ESMA\_QUESTION\_CSDC\_19>

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

<ESMA\_QUESTION\_CSDC\_20>

Yes. ISLA supports standardisation of hold/release functionality across CSDs.

<ESMA\_QUESTION\_CSDC\_20>

1. Do you have other suggestions to incentivise partial settlement? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_21>

As it relates to securities lending, ISLA does not believe any additional incentives need to be introduced at a regulatory level. Instead, we believe securities lending participants will be sufficiently incentivised by the commercial and practical impact of T+1, which will of course compress securities lending activity to a timescale within that standard settlement cycle.

<ESMA\_QUESTION\_CSDC\_21>

1. Do you think that some types of transactions should not be subject to partial settlement? If yes, could you provide a list and the supporting reasoning?

<ESMA\_QUESTION\_CSDC\_22>

Further to our response to Q19 which requests that optionality for complex securities lending transactions be retained with the option for one party to opt out, we would ask that this functionality includes related collateral movements.

<ESMA\_QUESTION\_CSDC\_22>

**3.1.7. Auto-collateralisation**

1. Do you agree with the introduction of an obligation for CSDs to facilitate the provision of intraday cash credit secured with collateral via an auto-collateralisation facility? If not, please elaborate.

<ESMA\_QUESTION\_CSDC\_23>

ISLA support the proposed amendment of Article 11 to incorporate the mandate for CSDs to facilitate intraday cash credit via an auto-collateralisation facility.

We note that auto-collateralisation represents an efficient way to create additional intra-day liquidity, thereby supporting overall market stability and efficiency. Furthermore, in T2S markets auto-collateralisation is a well-established mechanism that helps participants meet their intraday liquidity needs in a streamlined manner, therefore extending this as a broader obligation would assist with driving consistency across CSDs.

In this respect, we note that T2S CSDs could leverage the existing T2S functionality, whilst CSDs outside of T2S should align by having a similar mechanism in place in central bank money. We recommend that sufficient time is provided so CSDs would be able to implement such mechanisms.

<ESMA\_QUESTION\_CSDC\_23>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_24>

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<ESMA\_QUESTION\_CSDC\_24>

**3.1.8 Real-time gross settlement versus batches**

1. Should CDR 2018/1229 be amended to require all CSDs to offer real-time gross settlement for a minimum window of time of each business day as well as a minimum number of settlement batches? Please provide arguments to justify your answer.

<ESMA\_QUESTION\_CSDC\_25>

We support introducing a regulatory requirement for all CSDs to offer real-time gross settlement (RTGS) for a minimum period of time each business day, alongside a minimum number of settlement batches. This would further enable market participants to settle high priority transactions in real time, thus reducing liquidity and counterparty risks. Moreover, having a structured mix of RTGS and batch settlement cycles would ensure that settlement risks (e.g., bottlenecks during periods of high activity) are minimised, thus improving overall market stability.

We recommend that all CSDs in T2S should have the same time period for RTGS and should offer the same number of settlement batches. Non-T2S CSDs should also be required to operate a RTGS and a minimum number of settlement batches with CSDs interoperating with T2S and providing sufficiently aligned batches to ensure that cross-border settlement is optimal and maximises the flow of inventory.

<ESMA\_QUESTION\_CSDC\_25>

1. What should be the length of the minimum window of time of each business day for real-time gross settlement and the minimum number of settlement batches that should be offered, per business day? Please provide arguments to justify your answer.

<ESMA\_QUESTION\_CSDC\_26>

This topic is currently under discussion by the EU T+1 Taskforce with the goal of providing detailed proposals in a mid-year report.

<ESMA\_QUESTION\_CSDC\_26>

1. Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_27>

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<ESMA\_QUESTION\_CSDC\_27>

**3.1.9 Reporting top failing participants**

1. Do you agree with the proposed amendments to Table 1 of Annex I of CDR 2018/1229? If not, please elaborate.

<ESMA\_QUESTION\_CSDC\_28>

ISLA are generally supportive of increased transparency regarding settlement failures, which may include a ranking mechanism. However, we are mindful that such data may not represent a complete picture, for instance where it either does not reflect the end party i.e., an intermediary, or where the outcome of a settlement instruction is reliant on dependencies outside the view of a CSD.

<ESMA\_QUESTION\_CSDC\_28>

1. Should top 10 failing participants be reported both in absolute terms (current approach) and in relative terms (according to the proposed amendments to Table 1 of Annex I of CDR 2018/1229)?

<ESMA\_QUESTION\_CSDC\_29>

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<ESMA\_QUESTION\_CSDC\_29>

1. Do you have additional suggestions regarding the requirements for CSDs to report settlement fails data specified in Annex I and Annex II of CDR 2018/1229? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_30>

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<ESMA\_QUESTION\_CSDC\_30>

**3.1.10 Reporting the reasons for settlement fails**

1. Do you agree with the proposed amendments to Article 13(1)(a) of CDR 2018/1229? Or can you suggest alternative options so that CSDs have visibility of the root causes of settlement fails at participants level?

<ESMA\_QUESTION\_CSDC\_31>

ISLA does not endorse the proposed changes that mandate CSD participants to provide information on the root causes of settlement fails without adequate visibility from the CSD.

We believe this requirement would impose an undue burden on CSD participants, who may not always have a comprehensive insight into the reasons behind settlement fails.

Examples related to securities lending include the dependency of collateral on the settlement of a transaction.

<ESMA\_QUESTION\_CSDC\_31>

1. Based on the experience since the implementation of the settlement discipline regime under CSDR, please describe the main root causes of settlement fails identified so far. Please specify the relevant categories in more granular terms, going beyond “lack of securities”, “lack of cash” and “instructions put on hold”.

<ESMA\_QUESTION\_CSDC\_32>

Since in the inception of the CSDR settlement discipline regime we have observed a gradual and sustained improvement in securities lending settlement rates from ~92% success to ~97%.

In our 2019 white paper on the cause of settlement failure in securities lending, the main cause of settlement failure was the complexity of Standard Settlement Instruction (SSI).

Great progress has been made on this to date and, whilst still a driver of some settlement failures, many firms report that fail chains are the main challenge. This aligns with a wider view that the interdependence and complexity of financial markets will, by its nature, create chains of failing instructions that impact downstream trades.

As this question relates to Q28, we believe that improved analysis of the impact of a settlement fail will be useful in identifying dependant root causes.

<ESMA\_QUESTION\_CSDC\_32>

1. According to Article 13(2) of the CDR, CSDs shall establish working arrangements with their top failing participants to analyse the main reasons for settlement fails. Do you believe that this provision has proven useful in analysing the root causes of fails and in preventing them? Do you have suggestions on other actions which CSDs could take with respect to top failing participants?

<ESMA\_QUESTION\_CSDC\_33>

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<ESMA\_QUESTION\_CSDC\_33>

**3.1.11 CSDs’ public disclosure on settlement fails**

1. Do you agree with the proposed amendments to Table 1 of Annex III of CDR 2018/1229 to include information on the breakdown of the settlement fails per asset class? If not, please elaborate.

<ESMA\_QUESTION\_CSDC\_34>

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<ESMA\_QUESTION\_CSDC\_34>

1. Do you think that CSDs should publish additional information on settlement fails? If yes, please specify.

<ESMA\_QUESTION\_CSDC\_35>

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<ESMA\_QUESTION\_CSDC\_35>

1. Should the frequency of publication of settlement fails data by CSDs increase? Which should be the right frequency?

<ESMA\_QUESTION\_CSDC\_36>

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**3.2.1 Unique transaction identifier (UTI)**

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

<ESMA\_QUESTION\_CSDC\_37>

ISLA supports the use of Unique Trade Transaction Identifiers (UTIs) in regulatory reporting, as it provides valuable transparency and traceability. However, we do not believe UTIs should be mandated for use at the CSD level at this time. There are significant challenges in ensuring consistency across the trading and settlement chain, as all actors—including CCPs and CSDs would need to support and pass on the UTI. ​

In the securities lending market, UTIs are typically applied at the allocation (child) level rather than the settlement level (parent), which makes their use in settlement instructions particularly complex. ​

While we recognise the potential benefits of UTIs in the future, we recommend that ESMA conduct workshops and technical assessments to explore their broader application. ​ For now, UTIs should remain limited to regulatory reporting with further industry engagement to determine their feasibility for settlement processes.

<ESMA\_QUESTION\_CSDC\_37>

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

<ESMA\_QUESTION\_CSDC\_38>

ISLA believes that Unique Trade Transaction Identifiers (UTIs) have significant potential to enhance transparency and efficiency in the settlement process, but their broader application requires careful consideration. At this stage, we do not support mandating UTIs for settlement instructions, as the industry is not yet prepared for such a change.

The securities lending market in particular, faces challenges with UTIs due to their application at the allocation level rather than the settlement level, which complicates their use in settlement workflows. ​ To address these challenges, we recommend that ESMA lead industry workshops and technical assessments to explore the feasibility of extending UTIs beyond regulatory reporting. ​

While UTIs should not be mandated for settlement at this time, we encourage further collaboration across the industry to align practices and assess the potential benefits of UTIs in the future.

<ESMA\_QUESTION\_CSDC\_38>

**3.2.2 SSIs format**

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

<ESMA\_QUESTION\_CSDC\_39>

ISLA does not believe that regulatory changes are required at this time to mandate the use of standard settlement instructions (SSIs). While SSIs are a critical component of efficient settlement processes, the industry is already incentivised to improve their accuracy and usage to reduce settlement fails.

We support ongoing industry efforts to enhance the exchange and validation of SSIs, including through pre-matching processes and best practices. For example, initiatives such as those led by FMSB, and other industry bodies are already working to address challenges related to SSIs.

Additionally, the T+1 task force should be encouraged to provide recommendations on the use of SSIs as part of its broader settlement efficiency initiatives.

<ESMA\_QUESTION\_CSDC\_39>

**3.2.3 Place of settlement (PSET) as mandatory field of written allocations**

1. How can the PSET contribute to improve settlement efficiency and reduce settlement fails? Do you have suggestions on how to make the use of PSET more consistent across the market? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_40>

We believe that the Place of Settlement (PSET) field plays an important role in improving settlement efficiency and reducing settlement fails. Encouraging its consistent use across the market is a positive step however, we do not believe that regulatory mandates are necessary at this stage. ​ Instead, we recommend that the industry focus on developing and adopting best practices to ensure the effective use of PSET.

<ESMA\_QUESTION\_CSDC\_40>

1. 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.

<ESMA\_QUESTION\_CSDC\_41>

ISLA agrees that the Place of Safekeeping (PSAF) field can contribute to improved settlement efficiency and reduced settlement fails however, similar to our stance on the Place of Settlement (PSET) field, we believe that the adoption of PSAF should be driven by industry best practices rather than regulatory mandates.

<ESMA\_QUESTION\_CSDC\_41>

**3.2.4 Place of safe keeping (PSAF) and place of settlement (PSET) as mandatory fields of settlement instructions**

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

<ESMA\_QUESTION\_CSDC\_42>

ISLA agrees that the decision to use the Place of Safekeeping (PSAF) and Place of Settlement (PSET) fields in settlement instructions should be left to the industry. ​ Mandating these fields through regulatory amendments may not be necessary at this stage and could impose undue burdens on market participants.

<ESMA\_QUESTION\_CSDC\_42>

1. What are the current market practices regarding the use of PSAF and PSET, in particular in the case of netting along the trading and settlement chain?

<ESMA\_QUESTION\_CSDC\_43>

Current market practices regarding the use of Place of Safekeeping (PSAF) and Place of Settlement (PSET) in the securities lending industry vary across different participants. While PSET is widely recognized and used in pre-matching and allocation processes to ensure securities are settled in the correct location, PSAF is less commonly utilised and less familiar to some market participants.

Market participants are studying the use of these fields in relation to T+1 work, and ISLA will participate in those to incorporate the proposals into best practices.

<ESMA\_QUESTION\_CSDC\_43>

**3.2.5 Transaction type**

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

<ESMA\_QUESTION\_CSDC\_44>

ISLA does not believe that transaction types should become a mandatory matching criterion under Article 21a at this time. ​ While transaction types can provide useful information for certain processes, there remain some significant challenges and limitations that must be addressed before considering such a mandate.

We note that the current use and interpretation of transaction types are not harmonised across market participants, systems, and Central Securities Depositories (CSDs). This lack of standardisation creates inconsistencies that could lead to operational inefficiencies and settlement delays if transaction types were made a mandatory matching field.

In the securities lending market, transaction types such as SECL (loan) and SECB (borrow) are already used in settlement instructions however, mandating them as matching criteria may create challenges related to the interpretation that may then increase mismatches and settlement fails. ​Adding matching fields prior to a shorter settlement cycle could then compound settlement failure rates.

While we do not support making transaction types a mandatory matching field at this time, we recognize that there may be potential benefits in the future. ​ For example, transaction types could help identify specific transactions that are exempt for a given regulation or have different treatment under the CSDR settlement discipline. ​

We therefore recommend that transaction types not be made a mandatory matching criterion under Article 21a at this stage. Instead, we would welcome an analysis by ESMA on harmonised transaction type definitions that could be used across the industry. This would allow for potential future benefits without introducing unnecessary complexity or operational risk in the short term.

<ESMA\_QUESTION\_CSDC\_44>

1. 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.

<ESMA\_QUESTION\_CSDC\_45>

As noted in our response to question 44, we believe the lists should be updated and that ESMA lead on improving harmonisation.

<ESMA\_QUESTION\_CSDC\_45>

**3.2.6 Timing for sending settlement instructions to the securities settlement system (SSS)**

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

<ESMA\_QUESTION\_CSDC\_46>

In the securities lending market, it is common practice to send settlement instructions throughout the day as transactions are booked. This ensures that instructions are processed promptly and aligns with the operational workflows of market participants.

Regarding new loans, settlement instructions are typically sent once collateral has been received, which naturally occurs throughout the day. ​ Regarding returns, instructions are sent as soon as the return request/notification is received and processed. This intraday submission helps to ensure timely settlement and reduces the risk of settlement fails.

ISLA therefore supports the practice of sending settlement instructions intraday rather than in bulk at the end of the day. ​This approach enhances settlement efficiency, aligns with current industry practices, and supports the transition to T+1 settlement cycles. While flexibility should be allowed for participants with operational constraints, the overall goal should be to promote timely submission of settlement instructions to reduce settlement fails and improve market efficiency.

<ESMA\_QUESTION\_CSDC\_46>

1. 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.

<ESMA\_QUESTION\_CSDC\_47>

While this will be a key topic in the EU T+1- Industry Committee discussions, and we anticipate clear recommendations, ISLA advocates for an industry-led approach through best practices. A rigid regulatory requirement may be counterproductive, particularly if it prevents firms from sending settlement instructions after a specified time due to errors.

<ESMA\_QUESTION\_CSDC\_47>

**3.2.7 Alignment of CSDs’ opening hours, real-time/night-time settlement and cut-off times**

1. Do you agree that CSDs’ business day schedule should be left to the industry? If not, please elaborate.

<ESMA\_QUESTION\_CSDC\_48>

ISLA agrees that the CSD business day schedule should be left to the industry, which will be expressed through the work of the EU T+1 taskforce.

<ESMA\_QUESTION\_CSDC\_48>

1. What would be, in your view, the ideal business day schedule for CSDs taking also into account real-time settlement, night-time settlement and cut-off times? Should they be aligned? Please provide arguments.

<ESMA\_QUESTION\_CSDC\_49>

As with our answer to Q48, ISLA believes this is best discussed through the EU T+1 Taskforce.

<ESMA\_QUESTION\_CSDC\_49>

**3.2.8 Shaping**

1. Do you agree that shaping should be adopted as best practice? If you do not agree and believe that it should be adopted as regulatory change, please indicate which should be the most adequate size to shape transactions per type of financial instrument.

<ESMA\_QUESTION\_CSDC\_50>

ISLA supports the adoption of shaping as a best practice rather than a regulatory requirement. The securities lending market has already implemented effective measures to manage settlement risks associated with large transactions, and shaping is not a significant issue in this sector. Maintaining flexibility through best practices ensures that market participants can continue to operate efficiently while addressing settlement risks.

<ESMA\_QUESTION\_CSDC\_50>

**3.2.9 Automated securities lending**

1. Do you see the need for a regulatory action in this area? If yes, please elaborate.

<ESMA\_QUESTION\_CSDC\_51>

ISLA does not see a need for regulatory action to mandate automated securities lending. The securities lending market has effective processes in place and the decision to use CSD auto-borrow facilities should be left to the discretion of market participants, recognising the associated cost and/or balance sheet implications. Regulatory intervention in this area could create unnecessary burdens and disrupt the current balance in the market.

<ESMA\_QUESTION\_CSDC\_51>

**3.2.10 Other proposals regarding settlement discipline measures and tools to improve settlement efficiency**

1. Do you have other proposals regarding settlement discipline measures and tools to improve settlement efficiency in areas not covered in the previous sections? Please give examples and provide arguments and data where available. If relevant, please also include the specific proposed amendments to CDR 2018/1229.

<ESMA\_QUESTION\_CSDC\_52>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CSDC\_52>

**3.2.11 Costs and Benefits**

1. For all the topics covered in this CP please provide your input on the envisaged costs and benefits using the table below. Please include any operational challenges and the time it may take to implement the proposed requirements. Where relevant, additional tables, graphs and information may be included in order to support the arguments or calculations presented in the table below.

|  |  |  |
| --- | --- | --- |
| **ESMA or respondent’s proposal** |  | |
|  | **Qualitative description** | **Quantitative description/ Data** |
| **Benefits** |  |  |
| **Compliance costs:**  **- One-off**  **- On-going** |  |  |
| **Costs to other stakeholders** |  |  |
| **Indirect costs** |  |  |

<ESMA\_QUESTION\_CSDC\_53>

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<ESMA\_QUESTION\_CSDC\_53>