ECSDA answers to the ESMA Call for evidence on Shortening Settlement cycle

Introductory remarks

We thank ESMA for the possibility to contribute to the discussion by sharing our point of view in this response. Prior to providing our answers to the CfE, we would like to inform you about the following:

- *The information and views provided to most of the answers to the Call for Evidence (CfE) solely relate to the shortening of the cycle to T+1. This is because the shortening to T+0 would require a change in the market organisation and the sequencing of processes. Given the uncertainty in the model that the market would choose to enable this change, the assessment of the impact of T+0 cannot be done at this stage.*
- *Our response to the question focuses on the processes under the remit of CSD activities.*

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.

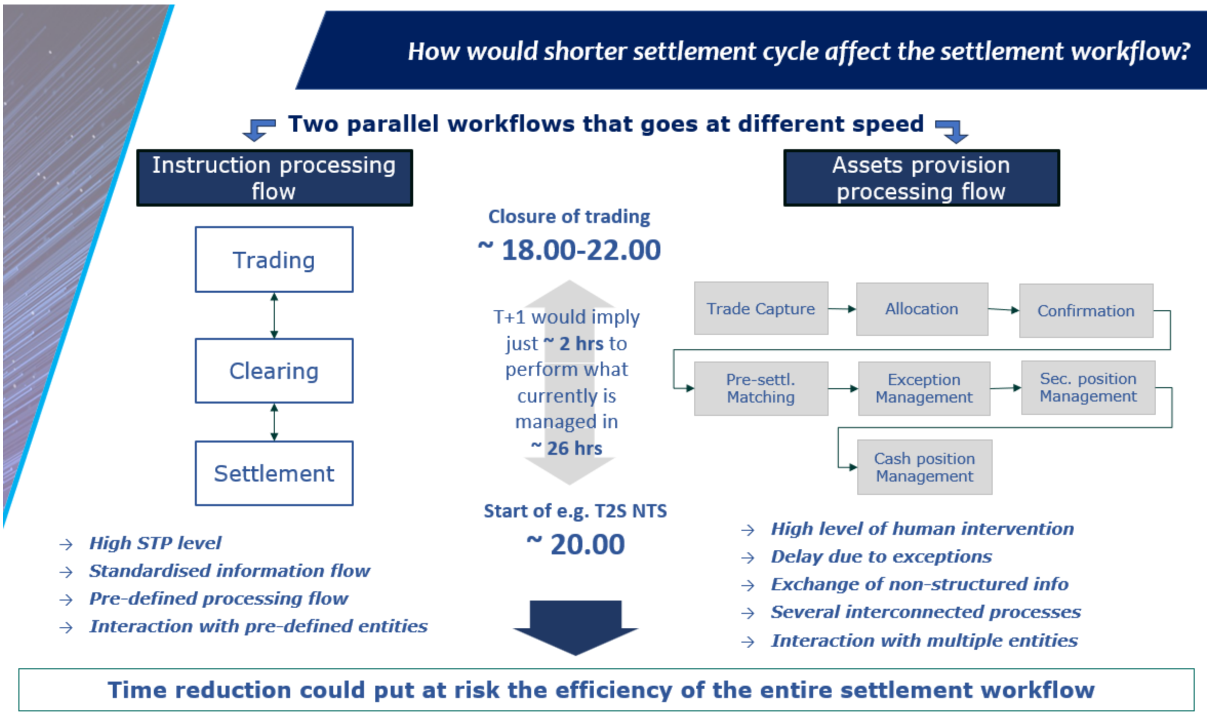
(ii) Identify processes, operations or types of transaction or financial instrument class that would be severely impacted or no longer doable in a T+1 and in a T+0 environment.

ECSDA feedback

The assessment below does not take into account the existence of showstoppers in the processes that do not relate to the CSD functions. Although we identify the following critical issues:

- **Settlement efficiency rates and corresponding penalties due to SDR**

Shortening the settlement cycle will lead to less time for the market actors to perform all the activities ahead of the settlement of an instruction, such as managing the resources (bring the necessary currency or borrow securities if needed) and solving the incidents or discrepancies that occur along the whole settlement/ custody chain.



If the trading hours remain unchanged, the corresponding reporting should be managed more efficiently to avoid a potential increase of late instructions and/or errors that would require time to resolve and to avoid an increase in matching/settlement failing rates.

As a result of the above, it is likely that not only settlement fails (SEFP) penalties, but also late matching (LMFP) penalties will increase if automation and other mitigation measures are not implemented by the CSD participants and their underlying clients.

- **Increase in operational risk due to the time pressure**

With a shorter settlement cycle, and significantly fewer hours for actions to be taken at all industry layers: from trading to clearing and, finally, to settlement, all post-trade operational processes and other activities should be performed within a shorter time, and as we anticipate the regulatory demand, with the same efficiency.

Common working hours to finalise the settlement of a transaction would be drastically reduced (not only to 50% as it may seem (from 2 days to 1) but for up to 92% (from 26 to 2 hours[1]). This would negatively impact the possibility of solving operational issues both at the CSD and participant levels.

Cash activities will be also impacted, requiring a significant improvement in the automation and coordination between the Treasury and the Securities teams of CSD participants and/or their customers.

[1] This reduction concerns all the steps in the trading process. The trading markets close in most countries at 18.00 and the NTS (at least in T2S) starts at 20.00. Therefore, in the case of T+2, you have 26 hours between the trading closing time and the start of NTS time for a given ISD, while in the case of T+1, you have just 2 hours between these 2 moments. We get therefore a 92% reduction.

Compression may mean that some T+1 instructions could miss the night cycle and move to the real-time settlement the next day. Additionally, we could also see some shift from T+1 to T+0 which would also increase activity in the daytime. We need to further assess the implications of the shift on settlement processing both in terms of timings of night-time, end-of-day cutoffs, and optimisation processes in the daytime.

- **Corporate actions**

Corporate actions will also be affected by the shortening of the settlement cycle.
In a T+2 environment, the current convention is that there are three different dates which facilitate the management of the corporate events as follows:

1. Ex-Date (D-2),
2. Record Date (D-1),
3. Payment Date (D).

In the T+1 environment, Ex-Date and the sequence of these dates would have to be reconvened. I.e. the Ex-Date and the Record Date will be on the same date (D-1, the date prior to the dividend payment), remaining Payment Date (D) on the same day. The Ex-Date would, as always, commence at the opening of D-1 and the Record Date strike at the end of the day of D-1. The sequence applied in a T+1 environment would look as follows:

1. Ex-Date (D-1),
2. Record Date (D-1),
3. Payment Date (D).

These changes will affect not only the management of corporate action on stock but also on flow.

For the multi-listed securities in two or more markets that do not apply the same settlement schedule, ECSDA is now in discussion with other industry associations/bodies to come to a common understanding and solve the problem of settlement cycle bifurcation between e.g. the US and the EU would one market apply T+1 while the other applies T+2 for what concerns Corporate Actions key dates. The ECSDA Corporate Events experts discussed the issue and identified some of the eventual options which differ depending on the way the key dates (Ex-, Record and Payment Dates) are set, given the fact that 1) the Ex-Date depends on the settlement cycle adopted and 2) there is the need to balance different impacts and stakeholder preferences.

- **Forex (FX)**

As in Europe different currencies coexist, the challenge related to the time to bring the necessary currency for the settlement of transactions is valid not only for the transactions with other regions but also for intra-EU. Currently, the FX settlement cycle is usually established on a T+2 basis.

Should the current FX cycle remain, investors operating in different currency zones may face the necessity to pre-deposit cash, which not only increases liquidity costs and risks but also adds to the complexity and potential risks of operational processes. This situation underscores the need for a harmonisation and alignment of the FX settlement cycle with the securities settlement cycle, to streamline these financial operations.

Moreover, this scenario poses a significant risk of making non-EUR markets less attractive for investments. Such a development would be counterproductive to the EU's objectives of enhancing the allure and competitiveness of its capital markets. The alignment of these cycles could therefore be a strategic move to uphold the EU's commitment to fostering a robust and accessible financial ecosystem.

- **Asset classes with Special Complexity (such as ETF) and illiquid/shallower markets**

All the above-mentioned issues affect all asset classes, but it should be acknowledged that not all of them will be impacted in the same way.

Some instruments, such as ETF, that already have a significantly lower settlement efficiency than other asset classes will be more impacted than other asset classes.

The fact that some asset classes might be more impacted by the move to T+1 than others, should be thoroughly assessed to avoid significant bottlenecks in the markets where these assets are traded, and the corresponding post-trade activities are carried out.

- **Securities Financing**

To be able to smoothen, at least partially, the problems mentioned above, the securities lending and borrowing activities should be (further) facilitated, as market actors will have less time to solve issues and may need to bring securities quickly to prevent a fail.

However, a side-effect of shortening the settlement cycle could also affect the ability to close/ recall securities loans to avoid them, which would reinforce the former and further increase the settlement failing rate.

A shorter settlement cycle may have an impact on collateral management in securities lending. Borrowers would need to ensure the timely availability of collateral to secure borrowed securities, while lenders would need to efficiently manage collateral receipts and returns within a much more compressed time frame.

Common consequences for securities lending and borrowing

Auto-collateralisation
It is important to increase the automation of this service offered by both NCBs and banks in general, to payment/settlement banks to facilitate the automatic provision of intraday cash credit, secured with collateral, to mitigate, at least during the beginning of T+1 implementation, the negative impact on liquidity availability.

Potential side effects on cross-border transactions
In a T+1 environment, cross-border activity can be more negatively affected than domestic activity as more processes are needed (e.g. realignments or management of the securities holdings moving from one market/CSD where they are held to the market/CSD where the sale is going to be settled) and larger chains of intermediaries needed to settle the trade. This impact cannot be considered residual and could affect all European markets.

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.

ECSDA feedback

Rather than legislative or regulatory action, taking into account the previously described issues, a review of processes and applicable standards would help to mitigate or absorb negative implications or effects.

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?

ECSDA feedback

As we have mentioned in our earlier answers, we may expect that investor representatives and their agents are better placed to respond to this question. Therefore, below we solely focus on the eventual impacts of the eventual change in hedging practices and FX that may have implications on the activity at the CSD level.

Consequences for cash

Prefunding practices: In a T+1 environment, as the cash leg is to be settled one day earlier compared to the T+2 cycle, the buyer, in a securities transaction, would need to have the funds (for the seller) available on the settlement date, earlier than today. Therefore, ensuring that funds are received on time and available on the accounts to meet the payment obligations is more time-sensitive than in a T+2 environment, requiring more efficient cash and liquidity management to facilitate the faster transfer of funds.

In addition, the buyer of the securities might also choose to pre-fund the transaction by ensuring that the necessary funds are available in their account prior to the settlement date. By pre-funding, the buyer ensures that the funds are readily available for settlement, eliminating the need for a cash transfer on the settlement date, but the cost of this cash management (in normal circumstances with positive interest rates, as today) is significantly higher.

Forex (FX)

As explained in the previous question, in the current cycle FX settlement is done on a T+2 basis. Should this FX cycle remain, foreign investors in different currency will have to pre-deposit cash, increasing liquidity cost and risk, far higher than the cash management costs in the same currency.

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?

ECSDA feedback

In our view, it is fair to say that CSDs´ STP rates are close to 100%. We share the view that reducing non-STP is highly relevant before instructions reach CSDs. Automation of processes along the entire custody chain will have a positive impact on the processing levels and settlement efficiency at the market level. Increasing the STP end-to-end is a key factor for the successful shortening of the settlement cycle.

These positive effects are truly relevant for stability, maintaining a high average level of settlement efficiency, especially in times of market volatility and economic uncertainty, to absorb increases in volumes or volatility, especially with a shorter settlement cycle.

To improve STP of instruction processing across the chain, a.o. we consider the following :

- To shorten the time needed for an accurate reporting of the positions and transactions statuses along the whole custody chain.
- To improve the quality of reference data management: there are relevant delays or failed transactions due to incomplete or inaccurate reference data.
- To improve inventory management by reducing fails related to the “lack of securities” issues: settlement fails resulting from the delivering party not having sufficient securities available at the proper selling counterparty account.

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.

ECSDA feedback

The shortening of the securities settlement cycle will have an impact on trading and clearing, and the related processes of market actors might also have to be shortened and, therefore, become more efficient. Most of the issues described previously (time pressure, efficiency, STP, etc.) are also part of the assessment that trading and clearing institutions do. We, therefore, refer the authorities to the responses of FESE and EACH.

In our role as CSDs, we see no immediate impacts on the access of retail investors to financial markets. In other words, in scenarios where Central Securities Depositories (CSDs) facilitate direct participation of retail clients (which does not occur frequently), the shortening of the settlement cycle is not expected to have effects on the accessibility of these markets for retail investors due to the CSD efforts to shorten the settlement cycle. This perspective considers the operational capabilities and infrastructure of CSDs are designed to efficiently handle such changes in settlement timelines without impeding retail investor participation.

Costs

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.

ECSDA feedback

T+1
Defining the costs related to the technology and operational changes depends largely on what exactly is needed (by the broader industry) to be modified in order to accommodate for a new settlement cycle (in the settlement and other processes) by the CSD industry.

We may anticipate some of their demands but have no clear and exhaustive view allowing us to provide a good estimation.

One-off costs

A detailed and technical analysis is needed to align on the need for such changes which could be significant for CSDs.

Some of the changes may include the delay of the night-time settlement, which would be starting on T+0 allowing for the securities to be settled on T+1. We referred to some other possible changes in our response to Q1.

Furthermore, the costs related to the implementation would be very different if there is a requirement for prioritisation of the related IT developments and business specifications for the change. To avoid unjustified costs for the implementation, the duration for implementation should be sufficient in order to plan and organise, and to squeeze the project into the currently known implementation roadmap without negatively impacting the costs and timing for the implementation of other foreseen projects.

Continuous costs
There may be a need for a quicker intervention in solving the IT incidents or manual intervention, which may require a higher availability of qualified employees at all levels. It is unclear to us at this stage if the change will require CSDs to provide longer operating hours or to set up operational centres in other time zones, which may not be reasonably expected from all CSDs.

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.

ECSDA feedback

The impact on the settlement fails is difficult to estimate. Temporarily, the current efficiency rates on T+1 are likely to be negatively affected. In the second stage, we understand that the rate could improve in the market running on the basis of the new cycle. On top of this, we must take into account that the processing of some financial arrangement supporting the transactions (e.g. borrowing the missing securities or returning them back into the necessary account) that need to be solved prior to the settlement of the main transaction may not be completed in the limited available time with the subsequent negative impact on settlement efficiency. A significant part of additional fails in T+1 versus T+2 may not be resumed quickly though because of the structural issues – such as different currencies and multiplicity of jurisdictions that may not be solved quickly, and otherwise would result in a higher level of risks for the financial system. Solving the operational issues that may require manual intervention that need to be taken into account, and for that not only the personnel, but also the risk premium for the higher level of occurrence of issues may need to be taken into account.

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.

ECSDA feedback
Please see our response to the previous question. As mentioned above, we believe that the level may possibly gradually increase after further efforts, but it may not get back without solving some complex structural issues. For that reason, the efficiency rate trend in the US is not the right proxy for what we could evidence in the EU.

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.

ECSDA feedback
No comment in this regard.

Benefits

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?

ECSDA feedback

The claimed benefits are expected to bring value to the market participants, not to CSDs and other infrastructures. Therefore, ECSDA is neutral and leaves the assessment of the mentioned benefits of shortening the securities settlement cycle to the market. CSDs also trust EACH and its members in their assessment of whether there would be lower CCP collateral requirements or lesser counterparty risk resulting from a shorter settlement cycle.

It is important to consider the potential positive and negative impacts on market innovation and competitiveness. It may also have the potential to privilege the firms able to deal with the global time-zone differences or those that are forced to start operating on a shorter cycle in other regions earlier, and hence be negative for local or less efficient actors.

It can also hold the potential to push for innovation and investment in upgrading legacy systems and processes. We believe that a high level of attention to settlement efficiency can also stimulate the efficiency of processes down the chain. The enhancement of system efficiency is also already planned in many cases and should not be attributed to T+1.

At the same time, it may distract the attention from the currently planned innovation. The need to innovate to accommodate for a shorter settlement cycle means that market participants would most likely slow down their investment on something else (digitalisation, new technology, etc), which could ultimately hinder the competitiveness of European firms and the attractiveness of European Capital Markets.

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 noncleared transactions subject to margin requirements).

ECSDA feedback

Quantifying the expected savings resulting from a reduction of collateral requirements due to a shorter settlement cycle (T+1) depends on a variety of factors, market conditions, and the specific risk management practices of market participants.

The mentioned benefits are expected to bring value to the market participants, not to the infrastructures like CSDs. Therefore, ECSDA leaves the assessment of these benefits to the market, EACH and its members.

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.

ECSDA feedback
For CSDs, no relevant benefits or savings are perceived.

With regard to the example proposed in the question, independently whether the policy-makers consider T+1, CSDs are in constant assessment of further tools increasing efficiency and automation of processes. The market participants also have regulatory attention to settlement efficiency, settlement fail penalties and the possibility of being suspended (should their settlement efficiency level be particularly concerning) as incentives to consider further automation.

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.

ECSDA feedback

The mentioned benefits are expected to bring value to the market participant, not to the infrastructures like CSDs. Therefore, ECSDA leaves the assessment of these benefits to the market, EACH and its members.

Although the liquidity might increase at the local level for domestic transactions, the number of fails and the global liquidity risk are likely to increase as well, hence there may be a lesser shock absorbing capacity of the global financial system. The latter results from the fact that the Central banks are not open for the timing convenient on the opposite side of the globe, which may result in settlements taking place in commercial bank money. ESMA may need to consider if there would be a possible increase in settlement internalisation.

Q13: What would be the benefits for retail clients?

ECSDA feedback
No comments from an ECSDA perspective.

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.

ECSDA feedback

Moving to T+1:

Costs:

- Initial Implementation Costs: Transitioning to T+1 involves upfront expenses for system upgrades, process adjustments, and staff training.
- Operational Costs: Maintaining a shorter settlement cycle may require ongoing investments in technology and processes.
- Resource Constraints: Smaller market participants may face difficulties adapting to the shorter cycle, leading to temporary liquidity pressures.
- At least temporally, a decrease in settlement efficiency rates.

In contemplating the benefits against the costs, regulators and market participants must carefully consider the unique characteristics of their markets and participants. While shorter settlement cycles may offer advantages, including the eventual reduced risk and enhanced liquidity that ESMA mentioned in the consultation, they also entail significant upfront and ongoing expenses both for market infrastructures and their participants. The impact on smaller market participants, in particular, should be carefully assessed to ensure a fair and equitable transition. Decisions should be guided by a thorough cost-benefit analysis and a comprehensive understanding of the specific market dynamics.

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.

ECSDA feedback

As the EU deliberates the transition to a T+1 settlement cycle, it is imperative to develop a roadmap that balances the unique aspects of European markets with the evolving dynamics in global financial markets. This roadmap should aim to position the EU neither too early nor too late in adopting this change, ensuring that the transition is well-timed and considers the broader context of market developments in other jurisdictions.

Having said that global harmonisation is a benefit and that the EU has to pursue the alignment of settlement cycles with other financially important markets, we see three conditions that have to be considered in developing the roadmap towards T+1:

1. There is a clear indication from the Regulatory Authorities that the current level of settlement efficiency must improve, though we are on T+2, a longer settlement cycle. Such improvement should not only be clearly defined and achieved but it must also be ensured in view of the introduction of a reduced settlement cycle such as T+1 which significantly compresses the time available to participants for the settlement preparation activities.

2. Consequently, the shift to T+1 requires careful consideration of the increased need for automation among CSD participants and their clients, alongside further harmonisation and standardisation of processes. This process must be executed thoughtfully to re-engineer both front and back-office processes across the value chain, with a focus on maintaining market liquidity and settlement efficiency without adverse impacts.

3. In this context, it is essential for the EU to observe and learn from the experiences of other key financial markets, particularly the upcoming transition to T+1 in the United States. However, this observation should be for learning and understanding rather than emulation.

4. Finally, the shortening of the settlement cycle should occur simultaneously for all EU markets, to avoid an increase in operational risk. It should also be considered beneficial to do this process in parallel with the UK and the Swiss markets.

Furthermore, this transition should not hinder the progress of critical ongoing projects, including ECB-led initiatives and compliance with regulatory frameworks like the Digital Operational Resilience Act, which are fundamental to strengthening the EU's financial market infrastructures.

Therefore, the approach to this transition requires comprehensive planning, testing, and industry-wide coordination. The final timeline for adopting T+1 should be carefully determined, ensuring it aligns with the EU's strategic objectives and the global financial landscape, while also considering the unique challenges and opportunities within the European context.

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?

ECSDA feedback

Please refer to our response to Q15.

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?

ECSDA feedback

In our view, the instruments included in the T+1 scope should not go beyond the ones of Article 5 of CSDR.

Q18: Is it feasible to have different settlement cycles across different instruments? Which are the ones that would benefit most? Which least?

ECSDA feedback

As mentioned in our response to Q1, some instruments would be more impacted by the implementation of a T+1 settlement cycle, fewer liquid ones and ETFs in particular, for example. Our general preference is to have a harmonised approach and avoid fragmentation across different instruments. However, we would need to perform further analysis on that matter.

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.

ECSDA feedback

Our general preference is to have a harmonised approach across instruments and transactions. However, settlement efficiency per asset classes and underlying flow's readiness to adapt to a T+1 settlement cycle must be taken into account, especially in relation to securing inventory on time for settlement.

The reduced operating window would be more challenging for certain asset classes, i.e., ETFs, where the current settlement efficiency is below average mainly due to structural aspects of the ETFs primary market process (creation and redemption) the global composition of many ETFs, which contain underlying securities from several markets. Because the availability of newly created ETF's units is connected to the subscription of new units (and thus to the settlement of the underlying instruments), this can often lead to settlement delays in a T+2 context, due to time-zone differences, market holidays and cross-border settlement challenges. Consequently, this process for creating new units can become even more critical in a T+1 settlement cycle and would significantly impact timely settlement. This may need to be taken into account for the eventual migration timeline.

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?

ECSDA feedback

As regards transaction type, we believe that both legs of repo transactions should be exempted. This is because ECSDA Members do observe repo instructions with much longer lifecycles than T+2, hence, there is a demand for flexibility in terms of the settlement cycle to be applied.

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.

ECSDA feedback

As CSDs, we see the following points of attention:

- **Settlement – participant inventory management**

Misalignment of settlement cycles can have opposite impacts on inventory management and thus on settlement efficiency. On one side, currently, both the US and the EU market actors settle on T+2, but the US settlement always follows the EU settlement due to the time-zones sequence. With T+1, securities traded in the US would be available sooner than currently and this could help the EU participants in their inventory management. On the other hand, the EU participants will also sometimes have to realign from the EU to the US, in which case they will be too late to make securities available on time (as the EU markets are already closed) with opposite effects in terms of efficiency.

- **Cross US-EU settlement for US securities – potential misalignment on securities status**

If the Record Date remains the same between the EU and the US, American securities will be exchanged CUM till Record Date between the US DTC and the EU CSDs, regardless of the settlement cycle.

- **CSDs settling both the EU (T+2) and the US (T+1) market transactions for the same security**

From the CSD perspective, the Ex-date is generally defined by the settlement cycle. The misalignment between the EU and the US market is likely to cause an issue for multi-listed securities corporate actions on flows and on stock, eventually with the impact either on pricing or on tax processing.

The impact depends on the approach that will be defined for managing the Ex-date, since the detection process for market claims involves both Record Date and Ex-date, described under Q1.

In view of the challenges outlined above, and as deep or even deeper interconnections of the EU with the UK and Switzerland, the EU should anticipate the challenges and start the preparations with these markets in advance of their eventual move, if they are not aligned with the EU.

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.

ECSDA feedback

In order to avoid additional complexity, it will be necessary to ensure a harmonized approach throughout the EU and an orderly migration (even by asset type), preventing some markets from settling T+1 and others - T+2 for the same ISIN/Asset Type.

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

ECSDA feedback

The harmonisation could simplify the potential point of attention reported in Q21.

For the challenges and risks mentioned by us in Q1, we don't immediately identify significant benefits in harmonizing settlement cycles with non-EU jurisdictions, if it is to accelerate the reduction of the cycle, disregarding the EU's own readiness level. Although, in principle, we do not foresee substantial negative impacts. On the contrary, it is important to consider the broader implications of such harmonisation. Aligning settlement cycles with key financial markets, especially with the UK given its importance as a financial centre, greatly interconnected with the EU, could greatly simplify cross-border activities for market participants. This alignment could also streamline the implementation of processes both for market participants and CSDs, facilitating smoother transactions and potentially enhancing the efficiency and attractiveness of the EU's financial markets.

Moreover, observing and learning from the experiences of these jurisdictions, particularly with regard to their transition timelines and approaches, can provide valuable insights. This is especially relevant in the context of the US moving to T+1 and the ongoing discussions in the UK.

In this light, while the direct benefits to FMIs may not be immediately evident, the overall impact on the market ecosystem, including the simplification of cross-border activities and alignment with global market trends, should be considered as potentially advantageous. Such strategic alignment could contribute to a more integrated, robust, and resilient global financial market.

Therefore, we recommend that the authorities speak with other jurisdictions about these potential benefits of harmonisation aiming to ensure that their timeline is (to the extent possible) adequate for the EU markets.

Q24: Would reducing the settlement cycle bring any other indirect benefits to the Capital Markets Union and the EU's position internationally?

ECSDA feedback

Whether the change of cycle could bring about a movement of trading volumes in or from other jurisdictions is difficult to predict.

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.

ECSDA response

Unlike for example the US, the EU capital market is distinguished by the presence of multiple different FMI entities (Trading venues, CCPs, CSDs) providing their services. In addition, it is characterised by its own regulation, procedures and practices. That is why it is difficult to judge if the adoption of T+1 in other jurisdictions (with their own characteristics) can facilitate the adaptation of EU market participants.

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

ECSDA response

Different settlement cycles between the EU and non-EU jurisdictions can be viable, but this viability depends on various factors. Historically, such differences have existed, as seen when the EU was operating on a T+2 cycle while the US was on T+3 until 2017.

As a general principle, ECSDA is in favour of as deep as possible global harmonisation of post-trade. The ultimate goal should be to move towards alignment, after conducting a comprehensive impact analysis and establishing a detailed action plan.

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.

ECSDA response

ECSDA has no other matter to report.