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FIA EPTA response to the ESMA Call for Evidence on shortening the settlement cycle

ESMA74-2119945925-1616

Introduction	The European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk-transfer for markets and end-investors across Europe. FIA EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe. The FIA EPTA welcomes the opportunity to respond to ESMA's Call for Evidence on shortening the settlement cycle. Our responses set out below are in the context of the potential impact of a move to T+1 settlement. In relation to a potential move to T0 settlement, FIA EPTA support the position set out by the European T+1 Industry Taskforce in their High Level Remarks and we attach a copy of those to this submission in Appendix 1. In particular, as independent market makers we highlight the fundamental impact any move to so called "atomic settlement" would have on our members' existing business models which involves continuous market making and liquidity provision. Our members actively hold themselves out as being willing to deal on own account to buy and sell financial instruments (including short selling) continuously throughout the day with the ability to handle inventory management after trading has occurred. A number of different methods are used to handle inventory management including buying in the secondary markets, creating in the primary market and relying on borrow markets to facilitate provision of risk transfer and risk management on an ongoing basis. Atomic settlement would require all trades to be pre-funded/pre-positioned which would not be economically viable for market makers who stand ready to buy and sell a wide range of financial instruments across varying market conditions.

	If EU authorities decide that moving to a shorter settlement cycle is indeed the right step, then some changes are needed to improve post-trade efficiency and reduce post-trade complexity in order to mitigate risk and reduce settlement failures. In our view, these steps are necessary to reduce cost and complexity in Europe more broadly and would ideally be taken regardless of whether the EU decides to reduce settlement cycles. We stress the importance of ensuring the timetable for transitioning to shorter settlement cycle is aligned with the UK and Switzerland, if they choose to reduce settlement cycles in their own markets. Furthermore, if the UK chooses to move to a T+1 settlement cycle it is imperative that the EU also do the same, adopting a similar timetable, to prevent regional dislocation. We urge ongoing regional coordination on this issue.

ESMA Questions:

Question:	**FIA EPTA Response:**
1. 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.	A feature of US markets which has facilitated the transition to a T+1 settlement cycle is the standardized electronic affirmation process for matching and allocating trades via DTCC. Currently in Europe, whilst the majority of market participants use CTM, Swift or FIX messaging for allocation instructions, a significant number of market participants still use email or Bloomberg Messenger to convey this information. Requiring all EU market participants to adopt electronic messaging systems for allocation instructions would disproportionately impact smaller firms given the relative cost burden of taking on new technology infrastructure. However, in the absence of a standardized electronic system for matching and allocations, we expect a higher rate of failed trades in a T+1 environment as there will be far less time for brokers and counterparties to consume and process manual instructions. Also, as manual instructions are subject to human error this continues to be a sub-optimal way of conveying allocation details and prone to causing delays in the settlement process. That said, we would recommend mandating a requirement for confirmation and allocations to be communicated electronically. In order to reduce the burden associated with processing manual instructions, we recommend that the EU either mandate or minimize the number of fields that brokers are required to populate. In particular, we recommend that "Place of Settlement" is made a mandatory field. The current inconsistency in systems used by market participants results in field population data (essential and, at times, non-essential) being mismatched which results in delays or failed trades. Mandating or minimizing fields would improve post-trade efficiency across the market. We understand that "Match to Prime", a product developed by DTCC to

	Where relevant please explain if these are general or asset class/instrument/ trade specific. (ii) Identify processes, operations or types of transaction or financial instrument class that would be severely impacted or no longer doable in a T+1 and in a T+0 environment. Please, suggest if there are legislative or regulatory actions that would help address the problems. Where relevant please explain if these are general or asset class/instrument/ trade specific.	support the US transition to T+1, will aid in harmonizing data for matching between client, executing broker and prime broker. However, this product is still in a nascent phase of development and it is not clear it alone would be full or flawless solution. Another factor which currently slows down settlement processes is the relatively large number of counterparties who do not allow partial settlement of trades. This is primarily in the context of transactions where the counterparty is buying securities but does not want to receive the shares until the full shape can be settled, so they have auto partial switched off. This may be because they have an onward delivery to a client who only wants to settle the trade in full and they want to settle both trades on the same day. Also, some counterparties may not have an onward delivery but still only want to settle in full for funding reasons (no funding costs incurred until full shape can be settled). They may have a standing instruction with a broker or counterparty to only settle the full trade, meaning even if on a case by case basis they were able to accept partial settlement, their counterparty would not know or pursue this. Settling as many trades as possible as soon as possible will reduce failure rates and speed up post trade processes. Thus we would recommend giving consent for partial settlement (otherwise known as enabling auto partials) be made mandatory under the CSDR. Also, some CSDs do not have the ability to facilitate partial settlement on an automated basis (auto partial functionality and partial release). Although CSDR mandated this functionality, the RTS on settlement discipline allowed for an exception from this. We would recommend that all CSDs are required to have this functionality, which would require the removal of Article 12 from the RTS on settlement discipline. It would also be beneficial to undertake a review of CSDs' settlement calendars and cut-offs (DVP and FOP) with the aim to harmonize these across the EU. Currently the DVP settlement window for the majority of (but not all) CSDs is until 16:00 CET, we would recommend that is extended until at least 17:30 CET. Also, FOP cut offs are later than DVP and so you can have a re-registration (of shares from one CSD to another) or stock loan transaction, which settles FOP, settle after the DVP cut off. This means the trade being covered by the re-registration or stock loan fails to settle even though the shares come in that day. We, also, believe it would be beneficial if all CSDs could facilitate real-time settlement (currently some settle based on a number of scheduled daily batches).
2.	What would be the consequences of a move to a shorter settlement cycle for	**Hedging Practices**

(a) hedging practices (i.e. would it lead to increase pre-hedging practices?), (b) transactions with an FX component?	FIA EPTA members do not foresee any direct impact on hedging practices as a consequence of shortening the settlement cycle to T+1. In particular, we do not see why reducing the settlement cycle would necessarily result in any increase in pre-hedging or why such increase might be justified in these circumstances, particularly in the context of a competitive quote scenario (Case (i), as outlined in the ESMA Call for Evidence on Pre-hedging (ESMA70-449-672)). Whilst we anticipate there may be an impact on availability of securities lending in respect of some financial instruments as a consequence of market participants who would typically act as lenders retaining inventory to meet their own settlement obligations, we disagree that there should be any link between this availability and Case (i) pre-hedging activity. That this behaviour might be an expected outcome from some market participants further underscores the need for detailed ESMA guidance on pre-hedging, including on appropriate use cases. **FX** We anticipate there will be an impact on transactions with an FX component which may result in an additional cost burden which is likely to be borne by end investors in the form of wider spreads. In particular, the mismatch in settlement periods between FX (T+2) and the related instrument subject to a shortened settlement cycle means market participants will be carrying risk for longer. In addition, the market will need to absorb greater demand during certain concentrated time periods during the day. These factors will likely be reflected in wider spreads. In addition, it is likely market participants' ability to trade at a favourable exchange rate will be curtailed due to the compressed timeframe for post-trade processes and established timetable for fixing in FX markets which impacts rates. As a T+1 settlement cycle for transferable securities would leave a shorter timeframe to execute the contingent FX transactions and receive the cash in currency to settle the trades, it is anticipated that prime brokers may have to hold more currency balances/buffers to fund custody cash accounts which would increase funding costs and/or may result in increased fails if there are currency shortfalls
3. Which is your current rate of straight-through processing (STP19), in percentage of the number and of the volume of transactions broken down per	A large proportion of the trading activity undertaken by many FIA EPTA members is automated and/or on exchange and thus entails a high rate of STP, although it is not possible to have full visibility of the exact proportion as much of this is dealt with by members' prime brokers. Nevertheless, given the nature and style of FIA EPTA members' trading activity it is likely that a far higher proportion is subject to STP than is the case for other categories of market participant.

	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?	Any on-exchange centrally cleared trading is subject to STP. Trading done on MTFs with non-CCP settlement, although handled in an electronic manner from the standpoint of trading on the MTF and initial reporting to a Prime Broker, within the downstream settlement systems may involve an element of manual intervention. For example, if the client elected not to settle in the default settlement location and only provided notification of this after execution (i.e., initial mismatch and update required on place of settlement). Finally, pure OTC bilateral trading (non-CCP cleared) will most likely not be STP with the potential for manual touchpoints throughout the processing cycle (including allocation instructions). Given the high daily volumes traded by FIA EPTA members, this may result in a high number of manually processed trades even if it is a small proportion of total trades undertaken by our members overall. The operational burden of handling these can be significant. In addition, if there is a trade anywhere in a linked chain of transactions which requires manual processing, this increases the risk of settlement failures for all subsequent trades in the chain due to dependencies in the chain.
4.	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.	There is likely to be a cost impact which would be reflected in increased spreads or commissions (depending on the financial instruments and means of accessing the market), particularly in the event there is a mismatch between the settlement period applicable to the product traded and its underlying or reference product(s) or instrument(s), such as ETFs referencing a basket of global shares. This cost impact is likely to be borne by the end investor and in the case of retail investors, they are less likely and/or willing to be able to absorb this cost impact, which may act as a disincentive to invest in the affected products, which at present provide a simple and cost effective means of gaining exposure to global markets through the safety of European traded, cleared and settled instruments. ETFs, including global basket ETFs, are also currently offered in a number of different currency denominations supporting investor choice and enabling retail investors to settle in their local currency. This option may be diminished or become more expensive in the event there are additional costs incurred through the value chain in dealing with complexities of settlement timetable mismatches and runs contrary to the objectives of the Retail Investment Strategy and the CMU more broadly. One key reason for these higher costs is the complexity and fragmentation of the EU post-trade environment, which is particularly acute for ETFs. Whilst an International CSD (ICSD) model operates in

	Europe, it is expensive and, although it was set up to eliminate the operational complexities of settling cross-border ETF transactions, further enhancements are needed to meet that objective. The ICSD model allows ETF issuers to use the ICSD as the single issuance location instead of issuing across multiple CSDs. Settlement and distribution happen within the ICSD simplifying inventory management. However, several key markets, including Germany and Italy, have declined to participate resulting in the ICSD not being comprehensive and leading to a number of inefficiencies in the market. For Germany, for instance, there is a requirement to transfer the shares from the ICSD to CBF via e.g., the Euroclear Bank – Clearstream Luxembourg bridge. In addition, although the UK is part of the ICSD model, there is the optionality to settle shares by default in the ICSD or via local settlement into CREST. Unfortunately, this optionality, which was implemented to provide for investor flexibility, adds complexity and confusion with settlement location mismatches and resulting settlement delays/failures. Also, it was planned that this issuance model would make it cheaper to transfer ETF shares within and to markets outside the T2S environment, but this is not the case and in fact an ICSD settlement is considerably more expensive than the domestic CSDs. Accordingly, taking steps to simplify this environment in advance of implementing a shorter settlement cycle is likely to ameliorate these impacts. Although these are existing issues, these will become more pronounced with the shortening of the settlement cycle. Moving towards CSD interoperability and/or fostering a regulatory environment amenable to competition amongst pan-European CSDs would aid in reducing cost and fragmentation. Making participation in the ICSD mandatory for all EU member states would be one obvious step that could be taken to ameliorate European post-trade fragmentation. Generally, expanding T2S so that it supports all EU currency denominations would also simplify post-trade processes and provide efficiency gains. T2S currently does not cover all European markets (for instance, the UK and Sweden declined to join), the ICSDs are not connected to T2S and, although SIX Swiss has joined, it has only made euro-denominated securities available on T2S. Ensuring regional consistency in settlement timetables would also support a reduction in post-trade complexity and aid in minimizing the cost impact associated with a reduced settlement cycle. In particular, it is imperative that the EU seek to adjust to a shorter settlement cycle in step with the rest of the region. In the event that the UK and/or Switzerland decide to introduce a shorter settlement cycle, it is crucial that the EU adopt similar (albeit sensible and well planned) timeframes for doing the same to prevent the risk of misalignment within the region. We also note it would be undesirable for Member States within the EU to move unilaterally to a shorter settlement cycle given the interconnectedness of EU markets and the additional cost and operational risk associated with this extra layer of complexity. It is important that all EU

	member states move in concert to adjust settlement timeframes, if it is decided this is the best way forward. The best way to support a harmonized move across Member States would be to amend article 5 of the CSDR to effect the change. There is also a potential impact on the market for stock lending, in the event there is an unwillingness by market participants to lend inventory, preferring instead to hold it to meet their own settlement obligations and avoid late settlement penalties. A reduction in supply for stock loans would likely have a negative impact on spreads, as the additional cost would be reflected in the prices liquidity providers are willing and able to trade at, and also on liquidity overall as there may be an unwillingness to take on a position if there is little or no certainty of being able to cover it through ready access to inventory in the stock loan market. It is not clear there is a structural solution to this problem but in the short to medium term, a settlement penalty holiday may be a means of ensuring a smooth transition to a shorter settlement cycle.
5. 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.	For larger member firms, most systems are already highly automated and are built to be customizable so will not require significant investment to upgrade in order to support more compressed settlement processes. However, this may not be the case for smaller firms which are more likely to adopt manual processes, particularly for those who do not have a global presence to support a “follow the sun” settlement processing model. In any case, we expect that the most significant cost impact will be in relation to hiring additional operations staff due to the pressure on end of day processes as a consequence of a move to T+1. The other and main costs of shortening the settlement cycle are related to financing the trading book itself, as mentioned above at question 2 and below at question 8.
6. In your view, by how much would settlement fails increase if T+1 would be required in the short, medium	There is no way of modelling the impact on settlement fails. However, we reiterate that these are more likely to occur where manual processing is required to settle a trade. Introducing the measures discussed in our response to question 1 would improve post-trade efficiency and minimize the impact on settlement

	and long term? What about T+0? Please provide estimates where possible.	fails. Currently some of our members' counterparties are still allocating and matching trades on T+1. At the very minimum, there should be a requirement for trade confirmation and allocations to occur on T. If changes are not made, we would expect a material increase in settlement fails, particularly on manual trades. We see the potential shortening of the settlement cycle to be a good opportunity to introduce EU wide efficiencies, although ideally these changes would be made regardless of whether a shorter settlement cycle is adopted.
7.	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.	Normalisation of settlement fail rates would depend on whether the changes suggested above are made. In its current state, it is expected that there would be an immediate spike in settlement fails and we would recommend that thorough planning is conducted in order to alleviate the impacts over time. We would, also, recommend some form of cash penalties holiday in order avoid further complicating matters.
8.	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.	Where the settlement period of an ETF differs from its underlyings, funding costs for market makers may increase to bridge this difference. These additional costs would likely be reflected in marginally wider spreads but are highly dependent on the context of the trade including the primary market settlement convention followed by the issuer and the positioning / inventory of the market maker themselves.
9.	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?	We view any move to a shorter settlement cycle as simply seeking to harmonise global timetables and reduce costs associated with mismatched settlement cycles. However, we don't currently see the benefits suggested in the Call for Evidence being realized in any material sense. Provided settlement is efficient, market participants may experience savings in margin and custody costs, but at this stage it is not clear those savings will be material. Also, it is possible that credit risk will decrease as market participants' exposure time on a given transaction is shorter, however, this is very difficult to quantify. Efficiency gains would not be a result of T+1 per se but market participants being forced to make automation and processing changes in to support the move.

	If there is a general trend to increasing automation in order to reduce the risk associated with a move to T+1 then this will be an overall benefit but, as above, we see this as a by-product of steps market participants need to take to meet a shorter settlement cycle rather than a benefit inherent in a shorter settlement cycle in itself.
10. 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).	It is not currently possible to quantify these savings, however we do not expect them to be material as collateral requirements will continue to roll over into new transactions settled on similar timetable.
11. 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.	As set out in our response at question 9 above, we see a general benefit in greater automation of post-trade processes and overall improvements to efficiency, but these are measures that should be taken to improve European post-trade efficiency regardless of whether there is a change to settlement timeframes.
12. 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.	Moving to a settlement cycle of T+1 may have a detrimental impact on liquidity in EU markets, at least in the short to medium term. From the independent market makers' perspective, a higher cost of borrowing (see question 4 above) will be passed on in wider spreads, making the overall cost of trading higher for market participants. If the cost of borrowing increases materially, market makers may be unwilling to provide liquidity in impacted financial instruments, which is more likely to be in relation to less liquid instruments where the cost impact will be more acute. Moving to T+0 (instantaneous settlement, as opposed to end of day) would fundamentally undermine the existing business model of most liquidity providers and registered market makers, which relies on pre-funding transactions in order to stand ready to buy and sell at a range of price points. In many markets, the requirement to pre-fund market making activity would render it no longer economically viable.

	Generally, FIA EPTA is in agreement with the position set out by the European T+1 Industry Task Force regarding T+0 settlement.
13. What would be the benefits for retail clients?	No comment
14. 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.	As discussed above, the key benefit of moving to a shorter settlement cycle is harmonisation of settlement cycles with other major markets. We do not currently see any inherent benefit in moving to a shorter settlement cycle if other major jurisdictions were not doing the same.
15. 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.	Generally, FIA EPTA members wish to emphasise the importance of a gradual, sequenced approach to any transition to a shorter settlement cycle providing market participants with ample time to make necessary systems and personnel changes. We also stress the importance of coordinating the timing of a transition with other jurisdictions that are likely to make similar changes, including the UK and Switzerland. Given the interconnectedness of the region, it is crucial there is ongoing functional cooperation between respective policymakers, regulators and infrastructure providers. Whilst we acknowledge that market participants could voluntarily choose to move to T+1 settlement cycle in the absence of a change to European regulation, we consider harmonization within the EU (and the region) to be of paramount importance. Accordingly, we consider it necessary to amend article 5 of the CSDR to effect the change to ensure EU markets and member states move in concert in order to provide certainty and mitigate risk. In addition, for any move to T+1, the time of year this takes place is important and the strong recommendation is to implement this outside of the Corporate Action season (see our response to question 27 for more detail).
16. Assuming that the EU institutions would decide to shorten the securities	It is crucial that the EU seeks to align its timetable and transition deadline with the UK and Switzerland to the extent possible to prevent regional inconsistency.

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?	
17. 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?	It is crucial that the scope of instruments subject to a shorter settlement cycle is aligned with other jurisdictions in the region, particularly the UK and Switzerland.
18. Is it feasible to have different settlement cycles across different instruments? Which are the ones that would benefit most? Which least?	Our members do not believe it would be advisable to have different settlement cycles across different instruments in Europe as this would add unnecessary complexity. For example, having equities/bonds on a different settlement cycle to ETPs with equity/bond underlyings would cause funding issues due to the settlement cycle mismatch.
19. 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.	Financial instruments that either do not derive their value from any underlying instrument or benchmark and financial instruments that derive their value from an underlying instrument or benchmark that is particular to the EU are easier to migrate to a shorter settlement period. Financial instruments that derive their value or are related to financial instruments that operate on a different settlement cycle to the EU's are much more complex. However, we would emphasise the need to ensure there is consistency in product scope and timing with other jurisdictions in the region that are also planning to move to a shorter settlement cycle. We consider regional consistency to be more important to planning than taking a phased approach with certain products, markets or assets.
20. Do you think that the settlement cycle for transactions currently excluded by Article 5 of CSDR	FIA EPTA members do not believe that the settlement cycle for transactions currently excluded by Article 5 of CSDR should be regulated. Although irregular, there is the need to be able to set the settlement date for these types of transactions longer than the standard settlement cycle and to have flexibility with regards to setting that date. Two examples of this are:

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?	1. An ETF client trade where the underlying equities of the ETF may be Asian, and therefore a final NAV isn't possible until T+3. 2. Options "flat basis" trades where firms buy or sell out of futures positions the week before expiry and have the settlement date of the stock line up with the T+2 of the future expiring.
21. 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.	We anticipate that if other countries within Europe move to T+1 and the EU remains on T+2, this will place the EU at a competitive disadvantage with respect to trading volumes in certain instruments, particularly ETFs. Accordingly, we strongly recommend that the EU seeks to make any transition in line with the UK and Switzerland (for example) to ensure any negative impact on EU markets is minimized. We also suggest that alignment of timetables for adjusting settlement cycles should form part of broader EU and UK discussions on broader financial services cooperation and in this vein, we acknowledge the positive steps made at the recent EU-UK Financial Regulatory Forum in this regard. In relation to the US transition to T+1 scheduled for May 2024, the key impact for our members will be in relation to the additional costs (primarily prolonged risk exposure) and operational risk associated with settlement mismatch between an EU ETF over a global basket of securities which includes US securities. There will be similar issues in relation to transactions with an FX component, where the settlement mismatch will create operational complexity and give market participants less choice and control over their ability to lock in favourable exchange rates. There is no clear regulatory solution to these issues however we recommend that ESMA take these factors into account when assessing the potential introduction of mandatory buy-ins under CSDR and perhaps make allowances such as disregarding fails that are a consequence of settlement timetable mismatches for affected products.
22. 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	One suggestion would be to introduce mandatory partial settlements (potentially specifically for ETFs) in line with the US move to T+1 as this would reduce the impact of dealing with settlement mismatches between the ETF and underlying US securities.

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.	
23. Do you see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions?	As discussed above, it is crucial that the EU seeks regional harmonization of settlement cycles within Europe more broadly, particularly with the UK and Switzerland. This will ameliorate operational complexity, risk and cost associated with adding an additional layer of post-trade complexity to an already fragmented and complex post-trade environment.
24. Would reducing the settlement cycle bring any other indirect benefits to the Capital Markets Union and the EU's position internationally?	To the extent that reducing the settlement cycle in the EU was a catalyst for a broader effort to simplify the post-trade environment in the EU, this would provide significant tangible benefit. For example, further harmonization of EU member state laws relating to settlement, expanding the scope of T2S so it covered all European currencies and CSDs, regulatory and supervisory support for development of a low cost and operationally efficient cross-product pan-European CSD and support for interoperability of EU CSDs would be positive steps towards a reducing fragmentation and the cost of capital in the EU, contributing to the CMU and enhancing EU global competitiveness. However, we note the concerns raised in the European T+1 Industry Task Force regarding moving to T0 settlement cycle and reiterate their conclusion that such a move would not be advisable for the EU in the near to medium term.
25. 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.	We see this could potentially be the case if the UK were to adopt a shorter settlement cycle, but we do not necessarily see the same impact of the US adoption of T+1. Primarily, settlements teams and systems will adjust to processing transactions over a concentrated time period which result in efficiencies that could facilitate the adoption of T+1 in Europe. We reiterate our concerns about a move to T+0.

26. Would different settlement cycles in the EU and other non-EU jurisdictions be a viable option?	We acknowledge that it is far easier for other jurisdictions to move to a shorter settlement cycle than it is for the EU due to the complexity and fragmentation of the post-trade environment. For example, the UK has only one CSD, far fewer CCPs and one governing law resulting in far fewer changes needing to be made to support a shorter settlement cycle.
27. 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	In addition to the issues in relation to transactions with an FX component and the impact on stock lending markets, there are likely to be complications for processing corporate actions due to compressed time periods in which to undertake complex post-trade operations. In a T+1 settlement cycle, similar to the US T+1 move, it is expected that ex-date and record date would become the same and for firms without full visibility of their ex-date position this will be difficult to manage. For example, for firms holding short put options where those options are expiring on the night before ex-date, overnight assignments would mean that the ex-date position would only be known on the morning of ex-date and ensuring same day settlement, to meet record date requirements, would be subject to very short timeframes.

Appendix 1

ESMA Call for Evidence on Shortening the Settlement Cycle: High-Level Remarks of the European T+1 Industry Task Force

The European T+1 Industry Task Force, comprising trade associations involved in European capital markets, welcomes the opportunity to respond to ESMA's call for evidence on shortening the settlement cycle in the European Union. The associations listed in Annex 1 have contributed to this joint submission.

The call for evidence requests respondents to consider the possible impacts of a T+1 and T+0 settlement cycle. Many associations have responded individually to the call for evidence, focused on addressing the questions in the context of T+1. This note sets out at a high-level our shared positions on the benefits, risks and challenges of moving to T+1, and provides further detail on why we collectively do not envisage an immediate move to T+0 as a practicable next step.

T+1

At their core, efforts to shorten settlement cycles are centred on improving efficiency and reducing risk in securities markets. Given that other major jurisdictions such as the US have confirmed moves to T+1, European markets should consider the additional driver of reinstating global harmonisation of settlement cycles. Any move to a default T+1 settlement cycle must be effected in a way that does not introduce new risks, damage the existing efficiency, liquidity and functioning of EU capital markets, create barriers to investing in the region's securities markets, or diminish access to capital markets for issuers, which would be contrary to the CMU objectives.

Task Force members collectively agree that moving to a T+1 settlement cycle will be a complex and demanding undertaking for the entire industry, but one that should be given due consideration given the planned migrations of other jurisdictions in May 2024.

- Firstly, moving to T+1 in EU markets is more challenging than the previous move to harmonise T+2 in 2014. The compression of the time available to complete post-trade and ancillary processes is more severe than previous reductions in the settlement cycle.
- Secondly, moving to T+1 in EU markets is more challenging than a similar move in other jurisdictions, such as the US. The nature and complexity of the European ecosystem creates additional complexities and specificities which must be considered.

Successful migration to T+1 settlement will require coordinated industry effort and communication between all actors operating and investing in the region's securities markets. Task Force participants support a coordinated approach across Europe, including EEA countries, Switzerland and the UK.

It will be crucial to allow an appropriate timeframe for all parties involved to make the necessary technical, operational and regulatory changes which must be based on detailed assessments and allow time for sufficient industry-wide testing with clear governance and milestones. A rushed or uncoordinated approach will likely result in increased risks, costs and inefficiencies in European capital markets. At the same time, if a decision to move to T+1 is made, it will be necessary to define an appropriate timetable that generates industry momentum and provides clarity to market participants.

We observe that the current regulatory framework and market infrastructure functionality do not prevent T+1 settlement. Should a decision be made to move to T+1, we consider that it should be effected through a regulatory change, supported by appropriate market-led initiatives, to ensure an harmonised adoption. Further, changes to the timings of core processes by market infrastructures should be considered, to help support a successful migration to T+1. However, we consider that the principal barriers to adopting T+1 at scale are related to 'upstream' operational processes that support securities settlement – including allocation and pre-settlement matching, securities financing, and FX transactions.

When considering the costs and benefits of moving to T+1, members of the Task Force have found it difficult to quantify and directly compare costs and benefits. This is an important opportunity to consider ways to create a more efficient market ecosystem that will support the growth of European markets. The implementation costs will be contingent on the roadmap, scope, technical changes and timeline that are ultimately agreed upon, but are generally expected to be accrued in the short-term. Costs will not be borne equally, and we consider that smaller, less sophisticated market participants may generally have to undertake more significant levels of preparation for T+1.

Some benefits will generally be felt immediately, as settlement cycles are realigned and funding gaps, the costs of which will be borne by European investors, are resolved. Other important benefits, such as reducing systemic risk and improving resilience, are difficult to quantify and likely to accrue over a longer time horizon. It is hoped that there will also be long-term cost savings arising from lower collateral requirements and improved efficiency in post-trade processes however it is unclear at this stage how they will be apportioned to investors. In this perspective, appropriate attention should be devoted to assessing impacts on market liquidity and stability of shortening settlement cycles, especially in times of high market volatility.

Our shared ambition is for a low-cost, efficient, safe, resilient and integrated post-trade environment which supports a globally competitive EU securities market, with high levels of automation and standardisation. Moving to T+1 does not itself achieve this ambition, but, if implemented correctly, may prove a catalyst towards delivering this objective.

T+0

As noted above, Task Force participants, when analysing the impacts of a T+1 settlement cycle in the EU, have already identified several challenges and potential issues that would arise.

It is clear that none of these points would be better addressed by a direct move to T+0, but on the contrary a direct move to T+0 would exacerbate these concerns. Indeed at their core, efforts to shorten settlement cycles are centred on reducing risk in securities markets. An immediate move to T+0 settlement would require a fundamental transformation of current pre- and post-trade processes including ancillary processes such as FX and funding which could result in the creation of new risks, rather than a reduction. Furthermore, it is reasonable to assume that T+0 would have more of a material impact to trading and liquidity which requires close attention and evaluation.

It is important to note that current technology and processes used by market infrastructures and their participants are already capable of processing transactions for same-day settlement, but are rarely used.

The key question is therefore whether a T+0 settlement cycle should be considered at a large scale as the default for significantly more transactions. Many industry participants consider that a radical transformation of the existing trading and post-trade market functioning would be required, and further analysis is required on potential effects on market liquidity. The development and adoption of new technologies such as DLT could help create a more efficient and streamlined value chain, which may help support T+0 settlement at scale – although it is not clear that this is a pre-requisite, given that T+0 is possible today using existing technology and processes.

The major challenges of a T+0 default settlement cycle do not relate to the specific process of settlement – the exchange of securities and cash – but rather to the associated processes that happen beforehand to enable settlement, and the need to ensure funding and the sourcing of inventory much earlier than is the case today. In a T+2 environment, buyers have two days to ensure funding of their purchases (including FX, where required), and sellers have 2 days to source inventory. In a T+0 environment, they no longer have this ability. While it is unclear what the actual impact of this would be, it would likely lead to a substantially reduced ability for buyers and sellers to trade on positions which have not been fully sourced at the point of execution of the trade, and thus impact market liquidity and depth, especially in stressed market conditions.

We make the distinction between different types of T+0 which vary from a real-time instant settlement (simultaneous delivery-versus-payment at point of execution), to periodic intra-day settlement batches, to an end-of-day T+0, whereby settlement takes place at a pre-determined point after close-of-business.

An end of day T+0 model does not appear to offer any advantages over T+1 settlement and has a major disadvantage. The actual time of settlement in an end of day T+0 model will be very similar to the actual time of settlement in the overnight batch for T+1 settlement. The major disadvantage for an end of day T+0 model is the lack of a back-up, namely, the lack of the ability to settle in the real-time process on T+1 without suffering a settlement fail.

Real-time, instant settlement would require that various core post-trade processes (provision of allocations and exchange of settlement information, positioning of sufficient cash by the buyer, positioning of sufficient securities by the seller) take place before trading. As noted above, this represents a fundamental transformation of the current trade lifecycle, and introduces significant frictions to the trading process.

Securities markets~~,~~ rely heavily on the liquidity provided by market-makers who, supply bid-offer quotes to support the provision of immediate liquidity. To do this, liquidity providers make markets in securities they do not hold in their inventory.

Well-functioning cash securities markets rely on deep and liquid securities financing markets behind them. Securities financing businesses would struggle to operate in a T+0 environment. Holders of securities may be less likely to make positions available on lending markets, as they would not have the flexibility to immediately sell securities which had already been lent out. In fact, if recalls need to be made intra-day, it will create a heightened risk of information leakage to the detriment of the end investor.

In EU markets in particular, holdings in the same instrument may be spread across multiple markets. This creates additional challenges in efficiently managing inventory and would require securities to be realigned before trading.

A move towards real-time, instant settlement is therefore likely to have a damaging effect on liquidity, particularly in less-liquid instruments, and reduce the speed and efficiency of trading.

From a cash perspective, transactions would have to be 'pre-funded' – i.e. the settlement amount must be available in the correct currency before trading. This represents a radically different approach to funding and treasury operations for buy- and sell-side firms, compared to today's environment. It is also likely to introduce significant additional costs and complexities.

Depending on the model used, existing CCP processing and the associated benefits could continue. DvP model 1 settlement by CSDs is consistent with CCP clearing and netting, so neither atomic settlement nor a change in CSD DvP model is required. That is, DvP model 1 refers to the settlement of individual matched settlement instructions (gross instructions) by the CSD. This does not preclude multiple trades being cleared by a CCP and netted, with a single (gross) settlement instruction being sent to a CSD. Such netting could be done as and when required on trade date, the instructions being sent and matched before the instruction cut-off. This is already the case for most CCPs in Europe who use trade date netting for clearing equity trades.

From a cross-border perspective, the limited overlap between individual market operating hours and cut-off times across different time zones severely restricts the ability to settle cross-border transactions, making T+0 settlement a significant undertaking.

We consider that any future efforts to adopt a T+0 default settlement cycle will require significant collaboration on a global basis across public and private sectors, and possibly an unprecedented globally harmonised implementation date across major markets. It is possible that market appetite for real-time, instant settlement could increase in years to come. In which case, this optionality could be offered complementarily to existing settlement regimes, and therefore applied if and where suitable, rather than as a mandatory or default option.

In conclusion, there is not yet industry consensus that default T+0 is the target 'end state' for securities markets. Within the associations who contributed to this paper, there is consensus that any change to T+0 would not be possible in the short or medium term, and would require radically different securities markets, probably supported by the introduction of new technology. Industry associations confirm their commitment to participate in any future work towards longer-term optimisation of securities markets, which might include further consideration of mandatory T+0 settlement. We emphasise that this should be coordinated on a global basis.

Any considerations around the feasibility of a default T+0 settlement cycle should not distract from the immediate challenge of shortening the settlement cycle to T+1.

Annex 1 - Members of the European T+1 Task Force who have contributed to this submission

AIMA	The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than US$2.5 trillion in hedge fund and private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage US$800 billion of private credit assets globally.
afme/ Finance for Europe	AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.
Association of Global Custodians European Focus Committee Subject to Supplemental Commentary	Established in 1996, the Association of Global Custodians (the "Association") is a group of 12 global financial institutions that each provides securities custody and asset-servicing functions primarily to institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure. The member banks are competitors, and the Association does not involve itself in member commercial activities or take positions concerning how members should conduct their custody and related businesses. The members of the Association are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company.
BVI	BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 28%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en

EACH European Association of CCP Clearing Houses	The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.
EAPB	The EAPB is the voice of the European public banking sector. It represents directly and indirectly over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality funding agencies and public commercial banks across Europe.
EBF European Banking Federation	The European Banking Federation is the voice of the European banking sector, uniting 33 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about 2,7 million people.
ECSDA European Central Securities Depositories Association	The European Central Securities Depositories Association (ECSDA) represents 39 national and international central securities depositories (CSDs) across 35 European countries. The association provides a forum for European CSDs to exchange views and take forward projects of mutual interest. It aims to promote a constructive dialogue between the CSD community, European public authorities, and other stakeholders aiming at contributing to an efficient and risk-averse infrastructure for European financial markets.
EFAMA European Fund and Asset Management Association	EFAMA is the voice of the European investment management industry, which manages over EUR 30 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors. Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book. More information is available at www.efama.org
EVIA European Venues & Intermediaries Association	The European Venues and Intermediaries Association promotes and enhances the value and competitiveness of Wholesale Market Venues, Platforms and Arranging Intermediaries by providing members with co-ordination and a common voice to foster and promote liquid, transparent and fair markets. It has built a credible reputation over 50 years, by acting as a focal point for its members when communicating with central banks, governments, policy makers, and regulators.
FESE	The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member from 30 countries. At the end of June 2023, FESE members had 7,357 companies listed on their markets, of which 19% are foreign companies contributing towards European integration and providing broad and

	liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,482 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union. FESE is registered in the European Union Transparency Register: 71488206456-23.
FIA	FIA is the leading global trade association for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from around the world as well as technology vendors, law firms and other professional service providers. FIA's mission is to: support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Learn more at www.fia.org, visit FIA, Inc. on LinkedIn or follow us on Twitter @FIAConnect.
FIA EPTA EUROPEAN PRINCIPAL TRADERS ASSOCIATION	FIA European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms. Our 24 members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe. We work constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient, high-quality financial markets.
gfma GLOBAL FINANCIAL MARKETS ASSOCIATION	The Global Financial Markets Associations (GFMAs) Global Foreign Exchange Division (GFXD) was formed in cooperation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 24 global foreign exchange (FX) market participants, collectively representing the majority of the FX inter-dealer market. Both the GFXD and its members are committed to ensuring a robust, open, and fair marketplace and welcome the opportunity for continued dialogue with global regulators.
ICMA International Capital Market Association	ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels, and Hong Kong, serving over 600 members in 66 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets. www.icmagroup.org / @ICMAgroup
ISLA®	The International Securities Lending Association (ISLA) is a leading non-profit industry association, representing the common interests of securities lending and financing market participants across Europe, Middle East and Africa. Its geographically diverse membership of over 180 firms includes institutional investors, asset managers, custodial banks, prime brokers and service providers.

ISSA International Securities Services Association	ISSA is a Swiss-domiciled association that supports the securities services industry. ISSA's members include CSDs, custodians, technology companies and other firms who are actively involved in all aspects of the securities services value chain. By connecting its members and facilitating collaboration, ISSA provides the leadership necessary to drive change in the securities services industry. The focus is on finding progressive solutions to reduce risk and improve efficiency and effectiveness – from issuer through to investor – as well as on providing broader thought-leadership to help shape the future of the industry.