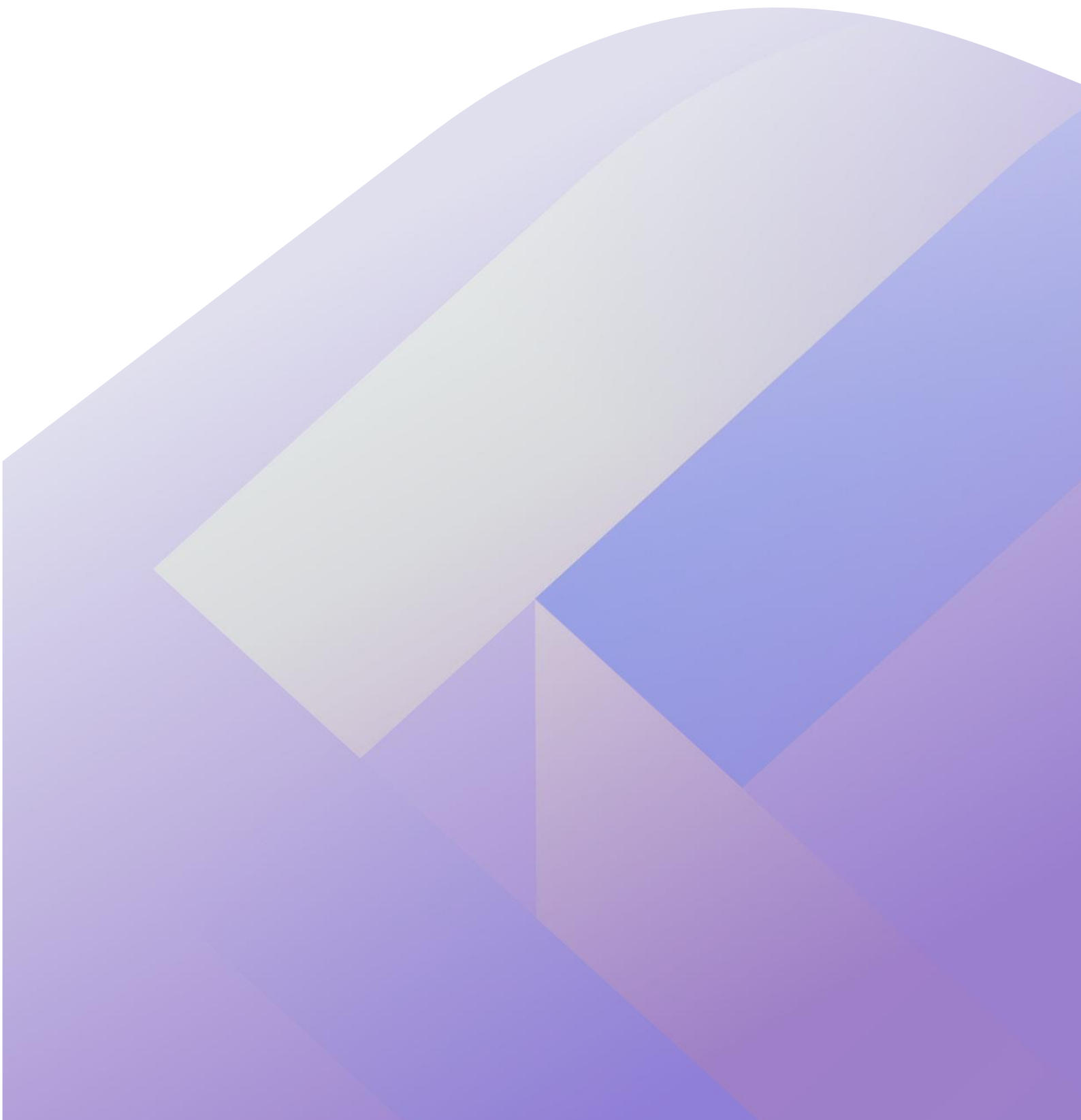


Reply form

on the call for evidence on shortening of the settlement cycle



Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- **respond to the question stated;**
- **indicate the specific question to which the comment relates;**
- **contain a clear rationale; and**
- **describe any alternatives ESMA should consider.**

ESMA will consider all comments received by **15 December 2023**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in this reply form.
- Please do not remove tags of the type < ESMA_QUESTION_SETT_0>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP1_SETT _nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA_CP1_SETT _ABCD.

- Upload the Word reply form containing your responses to ESMA's website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading '[Data protection](#)'.

Who should read this paper?

All interested stakeholders are invited to respond to this consultation paper. In particular, ESMA invites market infrastructures (CSDs, CCPs, trading venues), their members and participants, other investment firms, issuers, fund managers, retail and wholesale investors, and their representatives to provide their views to the questions asked in this paper.

1 General information about respondent

Name of the company / organisation	European Association of CCP Clearing Houses (EACH)
Activity	Associations, professional bodies, industry representatives
Are you representing an association?	<input checked="" type="checkbox"/>
Country / Region	Europe

2 Questions

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.

Please, suggest if there are legislative or regulatory actions that would help address the problems. Where relevant please explain if these are general or asset class/instrument/ trade specific.

<ESMA_QUESTION_SETT_1>

The impact on the processes and operations from compressing the intended settlement date would vary depending on whether the compression is towards T+1 or T+0. Our response below therefore considers both scenarios.

1.- Compressing the intended settlement date to T+1

1.1.- Daily timetable

CCPs generally net cash equity trades on T and instruct CSDs on the evening of T. The strong preference of CCP members is to have a single net per ISIN/Currency/CSD Account so nets are not closed until the last trades of the day are received. In principle, due to this trade date netting and instruction process there is no fundamental processing change required of CCPs to achieve T+1 settlement.

However, CCPs are standing between trading venues and settlement venues, and depend on the schedules of both worlds, trading and settlement. On the one hand, for trading venues which allow late trading, e.g. until 22:00 pm CET, CCPs perform related Trade Date Netting and send settlement instructions to CSDs only after this point. Moreover, clearing members receive CCP reporting during the night only. On the other hand, settlement processing for an intended settlement date, already starts in the eve of the actual calendar day. Furthermore, with the T2S nighttime settlement (NTS) instruction cut-off at 20:00 CET on S-1, in a T+1 scenario it is highly likely, at least currently, that in normal conditions a proportion of CCP to member instructions will not be matched in T2S by the start of the NTS.

If, as is likely the case, there is a strong benefit to having CCP transactions settle in the NTS then an increased buffer is required between a CCP's end-of-day trade processing and the T2S NTS cut-off time. So as not to impose earlier cut-offs for trading, which goes against current trends, a pushing back of the T2S NTS cut-off by several hours would seem necessary.

Even with a later NTS cut-off, in the case of any early evening IT issue with a CCP and/or its agent where used, the risk of none of that CCP's instructions getting into the NTS is significantly higher than in a T+2 scenario, with the recovery window reduced from about 24 hours to just a few hours.

However, instructions not getting into the NTS still have until 16:00 on T+1 to qualify for DvP settlement. The question requiring further analysis is how significant an impact would CCP instructions missing the NTS, particularly in bulk, have on settlement efficiency overall. The same issue also applies to any CSD participant with significant settlement volumes and values.

The question of T2S capacity to handle higher daytime settlement volume must also be considered.

Currently, the T2S daytime cycle is more expensive than the overnight cycle, and therefore more transactions missing the overnight cycle would introduce additional costs for the market.

The same arguments apply to timetables of settlement systems other than T2S.

A joint approach as to how to handle late trading, netting and start of settlement needs to be aligned between involved stakeholders from trading, clearing and settlement.

Possible solution alternatives include a changed booking-cut for trades concluded in the evening (at the cost of a higher complexity and less attractiveness of late trading), additional netting runs (at the cost of a lower netting efficiency) or a postponed start-of settlement (at the cost of reduced settlement time until DVP cut-off).

1.2. - Market impact on CCP settlement performance

Whilst CCPs will likely have lower efforts changing to a T+1 environment, they sit in the middle of the buyer and seller (i.e. CCPs interpose themselves as buyer to every seller and seller to every buyer. See ESMA <https://www.esma.europa.eu/esmas-activities/markets-and-infrastructure/central-counterparties>), so would see settlement efficiency decrease if the market participants and/or industry are not ready for a harmonised go live date when agreed. CCPs already process T+1 settlement activity within their daily processes on a much lower volume and can support the change when the market agrees on a go live date which gives sufficient time for development and a safe implementation as highlighted by various market infrastructures and sectors.

In the experience of CCPs, the main failure reason in equity markets is “Counterparty short stock”. EACH would like to highlight the key post-trade processes (allocation of securities and funding of cash) that would need streamlining by clearing members and settlement agents in order for settlement efficiency not to reduce in the CCP settlement chain in a T+1 environment:

- **Mandating partial indicators** – CCPs mandate partial indicators be used on settlement instructions across markets that offer this functionality resulting in all available liquidity being settled in each partial cycle run containing cleared activity. Most OTC activity does not use the partial process which results in increased fails due to the full nominal amount of stock having to be available in order to settle the trade. AFME has completed a paper for auto partials to be used where possible across CSDs and even though this is not supported by all sectors, CCPs would support this type of mandated action in order to work towards our joint goal to improve settlement efficiency. Please see the following link: www.afme.eu/news/press-releases/details/afme-publishes-recommendations-for-partial-settlement-under-csdr
- **Hold and Release** – Hold and Release is a process used by many participants when an omnibus account structure is in place to control stock and ensure only delivered when available (to prevent poaching of stock as different clients could be using the same account). Settlement agents normally control this process and the market is unaware to how long “settlement control” (which is the management of the process), takes to manage/release when stock is available to the CSD. Until stock is released, it will also not qualify for any partial runs which again impacts settlement efficiency. T2S built functionality to partially release trades on hold, but we understand this is not widely

used and should be promoted/mandated to use within an agreed timeframe if we want to ensure settlement efficiency remains unimpacted.

- **Liquidity controls** – Liquidity controls can also delay settlement when clients have not funded adequately resulting in settlement agents putting settlement instructions on hold or trades just failing due to the counterparty being short cash. CCPs see this on a regular basis and the concern in a T+1 environment, with a day less to arrange your liquidity, that this issue will increase and further impact the settlement chain where CCPs sit between buyers and sellers.
- **DCP set-up** – All T2S markets need to offer DCP (Direct Connected party) facilities to members as this was mandatory at the launch of T2S but has since been relaxed with some CSDs. This set up allows any members to directly connect to T2S and remove third party actors, streamlining the process and reducing the risk of latency/technical issues in the settlement chain when having to indirectly connect. In a T+1 environment we need to streamline processes and reduce risk where possible as there is minimal time if a technical issue occurs to remedy any problem.
- **OTC Matching** – OTC matching of trades has been highlighted as a large concern for the market and this needs to be streamlined and technology used in order to ensure trades are matched prior to settlement date. The concern is if this market is taking much in a T+2 environment match activity, the issue will only further impact all parties including CCPs in the settlement activity. CSDs can supply matching rates for OTC activity to support this concern.

1.3.- Less delivery time for an early exercise

Under T+1, Clearing Members will have a very short window to deliver on time when assigned from an early exercise on a derivative contract, such as an American Style equity stock option. With Clearing Members potentially notifying their underlying clients late in the day on trade date due to Clearing House EoD timings. Clearing Members sending out such notifications to their clients creates an increased settlement risk with those underlying clients not processing such notifications until T+1 itself.

1.5.- Chasing counterparties without having power of attorney

Whilst it may not be the case for all CCPs, where the CCP does not have power of attorney, there is an exception process to chase counterparts on T+1 to match settlement instructions before ISD. Virtually all are matched on ISD-1 (intended settlement day) ready for the start of settlement on ISD. Moving to T+1 would make this worse, in that there would be little to no time to chase counterparts to match ahead of the start of settlement on ISD, as in reality

settlement will start on the evening of T, or early the next morning. However, the situation could improve should market participants be able to send their matching instructions on T.

2.- Compressing the intended settlement date to T+0

There are several approaches to T+0 settlement, which could be run in parallel. It is important to understand the differences when considering a move to T+0. These are:

- **Instantaneous settlement** – Securities and cash have to be in place before trading as they are exchanged instantaneously.
- **Involve a CCP and perform gross settlement** – No netting is performed but the CCP may still be involved.
- **End-of-day netting in T+0** – It is still possible to receive trades and do Trade Date Netting (TDN) within batches or at end-of-day, that would still be T+0.

The critical point in all cases is that cash settlement for same day value can occur either at or after the end of trade execution on T. Currently, the same day value DvP cash cut-off for EUR is 16:00 in T2S, which is clearly before the end-of-trading. This timing order would need to change for T+0 to be possible.

For end-of-day netting on T+0 a batch/NTS cycle would take place around the same time as for the T+1 approach, it's just that T+0 real time settlement would be before the NTS, whereas for T+1 it is after the NTS. Therefore, there is arguably little difference in the timing of end-of-day netting and instructing into a T2S between the T+1 and T+0.

These benefits above would however be lost in an instantaneous settlement model, in particular:

- **Loss of netting benefits** - A T+0 operating under gross settlement would automatically lose netting benefits provided by CCPs and therefore increase liquidity strains on market participants due to increased prefunding requirements as well as increased operational risk due to increased settlement numbers.
- **Loss of anonymised trading** - In a T+0 world, anonymity of trading could be lost as a return to gross settlement would allow market participants to pick who they trade with, potentially discouraging and reducing trading.

In addition to the high-level arguments listed above, EACH supports the document 'High-Level Remarks of the European T+1 Industry Task Force' as shared with ESMA and the European Commission in December 2023.

<ESMA_QUESTION_SETT_1>

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?

<ESMA_QUESTION_SETT_2>

No EACH response.

<ESMA_QUESTION_SETT_2>

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?

<ESMA_QUESTION_SETT_3>

CCP systems are designed to process trades at nearly 100% STP rate for regular clearing and settlement. In general, manual intervention is only necessary if there is a technical issue or for procedures to handle settlement failures after several days. There could also be specific cases of corporate actions where manual intervention is required if they are not processed by the CSD.

<ESMA_QUESTION_SETT_3>

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.

<ESMA_QUESTION_SETT_4>

No EACH response.

<ESMA_QUESTION_SETT_4>

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.

<ESMA_QUESTION_SETT_5>

At this point in time, it is very difficult to provide any cost estimates as all CCPs would have to undergo a proper impact analysis including interdependencies to any down-stream systems that may need adjustments. The general expectation is however that there will be one-off costs and running costs due to higher operational efforts across post-trade processes.

<ESMA_QUESTION_SETT_5>

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.

<ESMA_QUESTION_SETT_6>

EACH considers that given the nearly 100% STP rate of CCPs, the potential settlement fails rate under T+1 will be entirely down to how market participants handle their post-trade processes in the future.

We note that the general industry expectation is to see a noticeable increase in settlement failures as Clearing Members have significantly less time to honour settlement instructions. This holds in particular true where realignments across settlement venues are required, the time between end-of-trading and settlement cut-off on the next day is very tight.

<ESMA_QUESTION_SETT_6>

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.

<ESMA_QUESTION_SETT_7>

The general assumption of the CCP community is that settlement fails will most likely go up as the timeframe is shortened by one business day. Key priority for market participants will be to automate and streamline their processes. This should eventually result in higher settlement efficiency, i.e. we believe that the initial increase in settlement fails/cash penalties will not remain permanent but gradually improve over time.

<ESMA_QUESTION_SETT_7>

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.

<ESMA_QUESTION_SETT_8>

No EACH response.

<ESMA_QUESTION_SETT_8>

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?

<ESMA_QUESTION_SETT_9>

EACH would like to highlight that the benefits ESMA describes may be outweighed if settlement fails increase and settlement efficiency decreases, at least in the short-term. Nevertheless, the pressure to automate may potentially increase settlement efficiency.

<ESMA_QUESTION_SETT_9>

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 non-cleared transactions subject to margin requirements).

<ESMA_QUESTION_SETT_10>

1.- US markets

On several occasions, such as the ESMA Workshop on reducing settlement cycles of 4th December 2023, references have been made to a potential figure of 41% reduction in margin from moving to T+1 as included in a DTCC document (i.e. <https://www.dtcc.com/-/media/Files/PDFs/White-Paper/DTCC-Accelerated-Settle-WP-2021.pdf>). We would like to clarify that based on that document, quoting a 41% reduction in total margins due to reducing settlement cycles from T+2 to T+1 seems to be incorrect.

While the document indeed refers to a potential reduction in margin requirements of 41% by moving to T+1 (page 2), the document clarifies that the 41% reduction is of the volatility component of the total margin, i.e. not the total margin (page 11). The volatility component accounts for 60% of the total margin, which means that **the actual expected reduction of margins when moving from T+2 to T+1 is 24.6% (i.e. 41%*60%), and not 41%.**

Based on the information included in the document, this calculation is also subject to additional limitations, such as referring to cash-equities only (i.e. other securities instruments such as fixed income do not seem to be under the scope of the calculations) and it being unclear how the actual 41% and 60% figures are estimated.

2.- EU markets

2.1.- Introduction

To hopefully provide useful input to the debate in the EU about whether to move to a T+1 settlement cycle for securities, EACH has performed a calculation to provide a high-level estimate. The calculation is detailed below and should be read in the following context and with the following caveats:

- **Estimate** - It is an **estimate** on a best-effort basis given the difficulty of having an accurate figure. This estimate should therefore be read as such, giving a ballpark figure on a best effort basis but without claiming a high degree of accuracy. Because of being

an estimate, the below figures are rounded up or down to the nearest order of magnitude.

- **Subject to time of measurement** - Any margin reduction is very dependent on inter-alia the particular transactions on the day, the netting sets within those transactions, the instruments cleared, volatility, etc.
- **Scope** – To simplify the estimation, it is calculated for cash equity instruments only, similar to the calculations performed by the DTCC in the US (see below).

In summary, EACH estimates that **the total economic cost reduction as a result of reducing settlement cycles from T+2 to T+1 in cash equities would be around EUR 41 million, equivalent to a reduction of margins for clearing members at EU CCPs of 0.5% of the current total margin levels, including cleared derivatives but excluding margins for non-cleared transactions.**

In the following sub-sections we will detail the calculation step by step.

2.2.- How margin works

With respect to forward-looking margins (initial margin), two aspects need to be differentiated:

- Assuming the employed time horizon for the liquidation period remains two business days as the minimum time horizon per Art. 26 1(b) of EMIR RTS 153/2013, the overall level of margin required for a given transaction would also remain unchanged.
- However, as the system lifetime of a transaction, i.e., the lifetime of the exposure, would be reduced (assuming positive settlement discipline), the time period for which the margin requirement is held likewise shortens.

The mentioned benefits hold if these sets are mostly directional. However, if these sets consist of mixed buy and sell instructions, the loss of netting effects between T+1 and T+2 may be a counteracting force.

The more instantaneous settlement cycles become, the less netting can take place, which might also have inverse effects on intra/inter-day liquidity needs. e.g., also refer to a similar discussion in nature in the distributed ledger space, which is exactly facing these challenges on the other extreme.

It may also be that the possible increase in settlement fails translates into margin increases which in turn means less margin savings from moving to T+1.

The margin associated with the settlement of cash transactions at the end of derivatives trades is very small compared to the margin over the life of a derivatives trades. That is, the reduction in the settlement cycle for securities settlement would result in very little percentage reduction in margin associated with securities derivatives trading overall (see calculations below).

It should be noted that CCPs will not generally achieve savings from a reduction in the settlement cycle.

2.3.- Comparability with US figures

To make it comparable with the US case included in the DTCC paper above, the EACH calculation uses as a starting point the weighting of margins components included in the DTCC paper quoted above, i.e. 60% weight for the volatility component of the margin and 40% weight for the rest of the margin. The EACH calculation also uses the DTCC proposed figure of 41% reduction of the volatility component of margins.

Table 1 – Starting assumptions

Initial margin components	Weight	Expected reduction	Weighted reduction
Volatility	60%	41%	24.6%
Other	40%	0%	0%
Total			24.6%

2.4.- Margin figures

The above parameters are applied to EU CCPs equity clearing segments by multiplying them times the initial margin held by EU CCPs for those equity clearing segments as included in the public quantitative disclosure figures published by CCPs on a quarterly basis (i.e. See <https://eachccp.eu/cpmi-iosco-public-quantitative-disclosure/>) or provided by CCPs bilaterally in a few cases.

Table 2 – Margin figures

EU CCPs cash equity margin (EUR)	EUR 3.5 billion
-----------------------------------------	-----------------

Expected reduction (EUR)	EUR 0.8 billion (i.e. EU CCPs cash equity margin x weighted reduction in Table 1 above)
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2.5.- The actual economic cost benefit

While the figure of total margin reduction is often referred to as part of the potential savings for market participants due to an eventual move from T+2 to T+1, the real savings are rather related to cost of funding those margins, given that market participants do not really have to own the funds requested in the form of margins but rather being able to fund them. To calculate the cost of funding, we have used an estimate based on clearing members charges for margin funding updated to the current interest rate environment. The estimate produced is about 4.75% funding cost.

Table 3 – Economic cost benefit

Expected reduction (EUR)	EUR 0.8 billion (i.e. EU CCPs cash equity margin x weighted reduction in Table 1 above)
Cost of funding	4.75%
Expected reduction in industry costs (EUR; annual)	EUR 41 million

2.6.- Calculation in context

Since the calculations above are performed for cash equity markets only, EACH considers it important to put them in the context of the total clearing volumes that users bring to EU CCPs for all asset classes. Considering these, it can be noted that EU cash equity clearing represent 1.9% of the total initial margin in EU CCPs and the related potential margin reduction as a result of shortening settlement cycles from T+2 to T+1 would represent a reduction of 0.5% of the total of margins provided by clearing members for all asset classes, including equity, fixed income and derivative products.

Table 4 – Calculation in context

	EUR	% of total
Equity clearing initial margin by EU CCPs	EUR 3.5 billion	1.9%
Equity clearing initial margin reduction by EU CCPs	EUR 0.8 billion	0.5%
Total margin held by EU CCPs	EUR 185 billion	100%

<ESMA_QUESTION_SETT_10>

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.

<ESMA_QUESTION_SETT_11>

It is hard to estimate the opportunity costs if EU continues to follow a T+2 settlement cycle, while other jurisdictions move to T+1 as the effect on the cleared volume is not predictable. There might be benefits for other market participants, such as the benefit of increased automation to be able to deal with a T+1 environment.

<ESMA_QUESTION_SETT_11>

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.

<ESMA_QUESTION_SETT_12>

No EACH response.

<ESMA_QUESTION_SETT_12>

Q13 : What would be the benefits for retail clients?

<ESMA_QUESTION_SETT_13>

No EACH response.

<ESMA_QUESTION_SETT_13>

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.

<ESMA_QUESTION_SETT_14>

Overall, CCPs calculate one-time costs for adjusting IT systems and procedures to T+1 plus the expected increased running costs due to higher operational efforts to process potentially more settlement fails and buy-ins, at least until further automation is applied by market participants. For the time being it is not possible to weigh the benefits against the costs. This would require a thorough impact analysis.

<ESMA_QUESTION_SETT_14>

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.

<ESMA_QUESTION_SETT_15>

The milestones needed towards a successful move to shorter settlement cycles may be divided into two different types: 1) Industry milestones; 2) Market participant-specific milestones (in this case we include the ones for CCPs). We details them below:

1.- Industry milestones

- **Proposal by authorities** – Authorities propose settlement cycle, product scope and timeline for implementation. EACB would urge regulators to provide the industry with sufficient lead time, at least a minimum of 18 to 24 months after its respective changes have been formally agreed, reflected in Art. 5 of CSDR and published in the Official Journal of the EU.
- **Operational readiness**
 - **Agreement on industry milestones** – Industry agreement on milestones to achieve a successful move.
 - **Post-trade timelines** – Industry aligns on potential adaptations to timelines for start times and deadlines, e.g. start-of settlement for Intended Settlement Day in T2S.
 - **T2S alignment** – Eventual adaptations of T2S, such as moving back the start of the overnight settlement cycle, to allow for CCPs to include all their trades in a net to settle and send them for the overnight process. It may be necessary for T2S move back the start of the overnight settlement cycle, to allow for CCPs to include all their trades in a net to settle and send them for the overnight process. CCPs begin reconciliation after their last respective trading venue shuts – this is currently 8:00pm CET for most CCPs, the same time the T2S overnight cycle starts, meaning CCPs miss the start of the overnight cycle as they share their trades with CSDs later than this time. Other CCPs send their trades to CSDs on T+1 before their trading venues shut to be able to be on time for the start of T2S overnight cycle, meaning that in a T+1 cycle, trades registered afterwards would also miss the start. Whilst this does not prevent T+1, allowing a large number of trades to remain unsettled overnight into the next day could increase costs and pose a risk to settlement efficiency due to less liquidity being in the market as a result of less trades being settled.
 - **Interconnection alignment** - Market participants will have to upgrade/replace their existing systems and adapt their processes considering the changes of other market participants (e.g. clearing members adapting to CCPs adaptations).
 - **Readiness of each market participant** (See 'CCP specific milestones' below).
- **Simulation/testing phase** – Performance of simulation and testing phase.
- **Readiness** – Readiness statement by all market participants.

- **Go-live** – Implementation of shortened settlement cycle T+1.

2.- CCP specific milestones

- **Analysis**
 - **Requirements** – It takes into account the requirements of Clearing Members and settlement schedule.
 - **Procedure and IT systems** - Assessment of impacts on procedures and IT systems.
- **Adaptations**
 - **Clearing process** - Streamline the clearing processing between end-of-trading and start-of-settlement (if required by Clearing Members).
 - **Target schedule alignment** - Alignment of target schedule with trading venues, Clearing Members and CSDs.
 - **IT processes** - CCPs would have to adjust their IT infrastructures from T+2 to T+1 and streamline the clearing processing between end-of-trading and start-of-settlement.
 - **Operations & risk management** - Changes must follow on the operational and risk management level, amending ongoing procedures and manuals accordingly, as well as related changes in delivery management and risk / risk related procedures. These may include:
 - **Margin calculations methodologies** - Potentially adapt methodologies for margin calculations. A move to T+1 will require to review the impacts on pricing/valuation e.g. due to the impact on cum/ex determination that in turn has an impact on risk calculations and margining. This impacts securities as well as any derivatives that list them as reference instrument. Note that if subject to an approval by authorities the whole process may take longer than the 18 to 24 months as indicated above.
 - **Reporting** - Revise the timeline of reporting of pending transactions to their Clearing Members.
 - **Processes** - Implement changes to operational processes.

- **Legal documentation** - It will be necessary to adjust all legal documents (e.g. clearing conditions) once T+1 enters into force.
- **Legacy systems of market participants** - Market participants will have to upgrade/replace their existing systems and adapt their processes. However, the road to automation is complicated by legacy systems and cumbersome and customized processes. Sufficient time will be required for the industry to get ready. The move is also more complex than previous moves from T+3 to T+2. Manual processes will need to be fully automated. Processing corporate actions manually will no longer be feasible with T+1. Reporting cycles and business day schedules may need to be adapted. Ensuring functioning technological set-up where several intermediaries are engaged in particular for cross-border transactions.
- **Testing (both within CCP and with other market participants)** - Testing, internal and end-to-end with trading venues, Clearing Members and all settlement venues (e.g. T2S platform trading hours changed, see answer to Q1 for more detail).

<ESMA_QUESTION_SETT_15>

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?

<ESMA_QUESTION_SETT_16>

In the case of shortening the settlement cycle to T+1, CCPs believe that a minimum of 18 to 24 months is required after respective changes have been formally agreed and communicated to public authorities and industry participants. A move to T+0 would likely require longer and the actual timing depend on the type of T+0 (see our response under question 15).

<ESMA_QUESTION_SETT_16>

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?

<ESMA_QUESTION_SETT_17>

CCPs understand, that for future products on fixed-income securities, clearing participants would prefer it if the settlement date of allocated physical deliveries in government bonds would not move to 1 business day after the last trading date of the fixed-income futures. The time for notification/allocation and settlement deadlines is already tight for timely bond settlement also given their sizes.

<ESMA_QUESTION_SETT_17>

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

<ESMA_QUESTION_SETT_18>

For CCPs it is possible to handle different settlement cycles across different instruments. From a technical point of view the settlement cycle is defined by trading venues. The impact on CCPs for the processing on the trade day evening would follow the instruments with the shorter settlement cycle, i.e. T+1. Therefore, a staggered approach per instrument or instrument type is from a CCP perspective not beneficial. Different settlement cycles would likely complicate the processing in respect of handling of settlement failures and corporate actions.

<ESMA_QUESTION_SETT_18>

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.

<ESMA_QUESTION_SETT_19>

See our response to question 18.

<ESMA_QUESTION_SETT_19>

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?

<ESMA_QUESTION_SETT_20>

EACH is neutral on the question if the settlement cycle should be regulated for transactions currently excluded by Article 5 of CSDR or not. Overall, EACH members support a harmonized approach for a settlement cycle for complexity reasons.

<ESMA_QUESTION_SETT_20>

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.

<ESMA_QUESTION_SETT_21>

EACH members believe that it is difficult to consider such impact until it effectively takes place.

<ESMA_QUESTION_SETT_21>

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.

<ESMA_QUESTION_SETT_22>

From an EACH perspective industry alignment would be required for a) any potential changes of T2S schedules and b) alignment on migration times between EU and UK to avoid any additional complexity arising out of non-harmonised settlement cycles.

<ESMA_QUESTION_SETT_22>

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

<ESMA_QUESTION_SETT_23>

Transactions relying on physical deliveries

For CCPs which clear a significant number of transactions in physical deliveries resulting from options and futures on EU and Swiss instruments and offer settlement of choice (in or outside Switzerland) a discrepancy in settlement cycles for EU and Switzerland would have significant impacts on IT systems and operational processes.

Cleared trades on securities also traded in other international markets with different settlement cycles may be negatively impacted by a T+1 settlement cycle in Europe.

For one CCP, this is the case for its international market for Latin American securities (LATIBEX) operated by the Spanish Exchange, given the arbitrage work that Specialists or Market Makers perform to guarantee liquidity. These brokers buy or sell in Spain and perform the opposite operation in the Latin American market of origin, which also settles on a T+2 settlement cycle. Although these securities are exempt from the penalty regime under CSDR, the change to T+1 in Europe, with the Latin American market of origin remaining at T+2, would increase the difference in settlement cycles between the two markets, which could contribute to an increase in fails in this type of securities, which currently already presents certain difficulties due to the time difference and different holidays.

EACH considers it beneficial to have a coordinated approach across Europe, including EEA countries, Switzerland and the UK such as having consistent processing and cut-off times – as today, consistent processing of settlement and corporate action processing. Otherwise with unaligned settlement cycles the complexity of post-trading processes would increase especially for cross-border transactions. Most likely also the number of operational issues would increase.

<ESMA_QUESTION_SETT_23>

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

<ESMA_QUESTION_SETT_24>

From an EACH perspective it may increase the pressure for market participants to move away from manual processes and to move to highly automated post-trade processes with the effect of increasing long-term settlement efficiency.

<ESMA_QUESTION_SETT_24>

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.

<ESMA_QUESTION_SETT_25>

EACH is convinced that it will certainly increase the pressure to adopt T+1 in order to avoid misalignments between settlement cycles. Any misalignment between settlement cycles in Europe would only lead to more complexity in an already highly complex post-trade ecosystem.

<ESMA_QUESTION_SETT_25>

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

<ESMA_QUESTION_SETT_26>

Technically, different settlement cycles in the EU and other non-EU jurisdictions are a viable option. This was already the case from 2014 until 2017 where the EU was on T+2 and the US on T+3. However, as mentioned in our response to question 23 above, **EACH considers it**

beneficial to have a coordinated approach across Europe, including EEA countries, Switzerland and the UK such as having consistent processing and cut-off times – as today, consistent processing of settlement and corporate action processing. Otherwise with unaligned settlement cycles the complexity of post-trading processes would increase especially for cross-border transactions. Most likely also the number of operational issues would increase.

<ESMA_QUESTION_SETT_26>

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.

<ESMA_QUESTION_SETT_27>

No EACH response.

<ESMA_QUESTION_SETT_27>