ESMA
European Securities and Markets Authority

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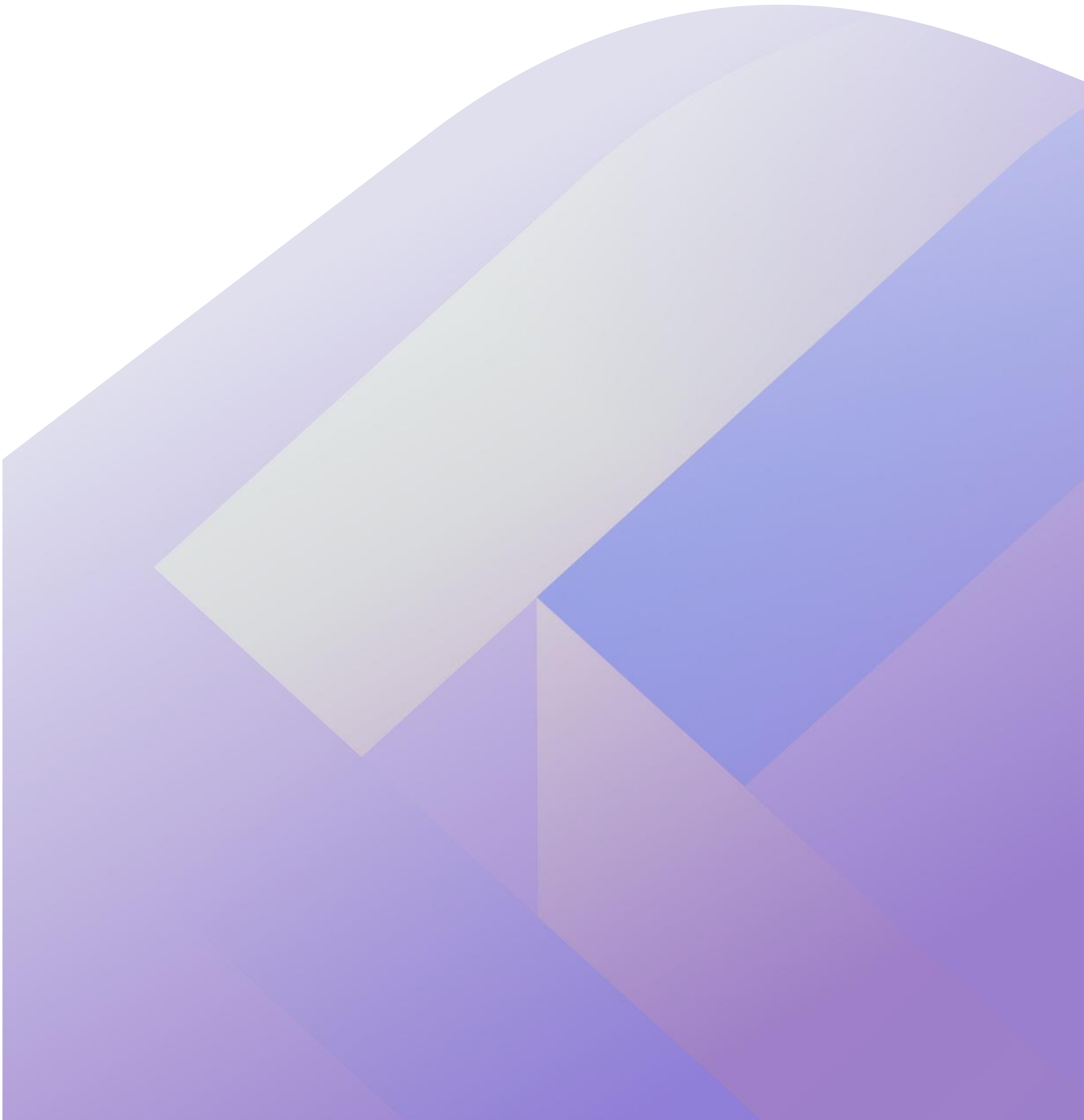
Feedback statement

Call for evidence on shortening the settlement cycle



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1 Executive Summary

Reasons for publication

Regulation (EU) 2023/2845 (CSDR Refit)[1], mandates ESMA to submit to the European Commission by 17 January 2025 a report including:

(a) an assessment of the appropriateness of shortening the settlement cycle and the potential impact of such shortening on CSDs, trading venues and other market participants;

(b) an assessment of the costs and benefits of shortening the settlement cycle in the Union, differentiating, where appropriate, between different financial instruments and categories of transactions;

(c) a detailed outline of how to move to a shorter settlement cycle, differentiating, where appropriate, between different financial instruments and categories of transactions;

(d) an overview of international developments on settlement cycles and their impact on the Union's capital markets.

On 5 October 2023, ESMA launched a "Call for evidence on shortening the settlement cycle". The objective of that call for evidence was to collect stakeholders' views as well as quantitative evidence to form a better understanding of the possibility for the EU to shorten the settlement cycle.

Taking into consideration the feedback received to the Call for evidence, and before publishing the above-mentioned report, ESMA is publishing this feedback statement. It includes the main considerations that a total of 81 respondents shared with ESMA, ESMA's preliminary views and the next steps.

Contents

Following the background and the introduction, the fourth section of the feedback statement includes a detailed summary of the feedback received to the Call for evidence on shortening the settlement cycle as well as ESMA's preliminary assessment. This section is divided into the four main areas of ESMA's assessment: (1) the impact that the reduction of the securities settlement cycle would have on the operations of market players; (2) the benefits and the costs that a shorter securities settlement cycle would bring; (3) how and when a shorter

settlement cycle could be achieved in the EU; and, (4) the impacts on the EU's capital markets resulting from international developments related to securities settlement.

The last section of this feedback statement provides the next steps.

Next Steps

ESMA will prepare the report as mandated by CSDR Refit taking into consideration the feedback received so far, further input as required and upcoming international developments. The Report should be published in Q3/Q4 2024.

[1] Regulation (EU) 2023/2845 of the European Parliament and of the Council of 13 December 2023 amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories and amending Regulation (EU) No 236/2012

2 Background

1. Central Securities Depositories (CSDs) are systemically important institutions for financial markets. Among other tasks, they operate securities settlement systems, enabling the settlement of trades, i.e., the exchange of the security against cash. Until the adoption of the Central Securities Depositories Regulation[2] (CSDR) in 2014, the length of the securities settlement cycle (the time between trade and settlement) was not harmonised in the EU.

2. This lack of harmonisation was identified by the European Commission as a risk for safe cross-border settlement. For this reason, in 2014, CSDR introduced for the first time in the EU a requirement for all transactions in transferable securities which are executed on trading venues to be settled by no later than the second business day after the trading takes place[3]. This requirement is commonly referred to as a “T+2” settlement cycle.

3. In the course of 2022, ESMA started discussing with NCAs and industry representatives in its Consultative Working Groups about the shortening of the settlement cycle. Based on these discussions, ESMA published in October 2023 a Call for evidence on shortening the settlement cycle.

4. On 27 December 2023, the Regulation (EU) 2023/2845 (CSDR Refit) was published in the Official Journal of the European Union. This Regulation mandates ESMA to produce a report including:

   a) an assessment of the possibility to shorten the settlement cycle and the potential impact of such shortening on CSDs, trading venues and other market participants;

   b) an assessment of the costs and benefits of shortening the settlement cycle in the Union, differentiating where appropriate between different financial instruments and categories of transactions;

   c) a detailed outline of how to move to a shorter settlement cycle, differentiating, where appropriate, between different financial instruments and categories of transactions;

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[2] Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories

[3] Article 5 of CSDR.

d) an overview of international developments on settlement cycles and their impact on the Union's capital markets.

3 Introduction

5. Ten years have gone by since Article 5(2) of CSDR entered into force and harmonised the securities settlement cycle in the EU at T+2. Since then, financial markets and technology have continued to evolve. Outside the EU, some jurisdictions have decided to shorten their settlement cycles to T+1 (or even T+0) these last years or consider doing so. For instance, in the US market events (“meme stock phenomenon”, GameStop[4]) in the past years have prompted the industry to shorten their settlement cycles to T+1 (or even T+0) in order to reduce counterparty risk (and thus collateral requirements) and the risks linked to excessive volatility between trade and settlement. On the technological side, improvements over the past ten years in IT solutions also mean that shorter settlement cycles can be envisaged in traditional post trade system architectures. Furthermore, distributed ledger technology (DLT) could open up opportunities for efficiency improvements in the entire trading and post-trading life-cycle, including potentially instantaneous settlement.

6. In this context, it seems to be the right moment to assess in the EU whether the length of the settlement cycle (T+2) is still adequate, or whether it should also evolve to foster the functioning of safe, resilient, and competitive EU markets. On 5 October 2023 ESMA launched a Call for evidence on shortening the settlement cycle. Through this call for evidence ESMA was seeking feedback from stakeholders to form a better view on (a) whether it is possible to shorten the settlement cycle in the EU and what would be the operational impacts, (b) what could be the costs and the benefits of such a change, (c) how and by when it could be done, and (d) what would be the impacts on EU markets and market players of the evolution of settlement cycles in other jurisdictions.

7. ESMA received a total of 81 responses to its Call for evidence. The list of non-confidential respondents can be found in the Annex.

8. Respondents have provided rich feedback which is summarised in the following section of this report. In its Call for evidence ESMA was seeking feedback on both T+1 and T+0. Before going into the detailed summary of the feedback received it is worth noting that respondents have been almost unanimous regarding T+0 and have suggested ESMA focusing its assessment on T+1. Several respondents have indicated that T+0 should have been defined, as it can refer to several different processes, including mainly: atomic

[4] https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf

settlement (which would require the securities and the cash to be always ready to be exchanged instantaneously) or settlement in batches throughout the trading day or at the end of the trading day (with all settlement processes occurring in a very compressed process). The majority of respondents have indicated that whichever definition of T+0 would be given, the costs of such move would largely outweigh the benefits. According to many respondents, T+0 would not be achievable in the short or medium term, it would require radical changes to the way markets operate and would likely involve new technologies which are not yet deployed at sufficient scale in financial markets. Furthermore, T+0, in particular in its atomic settlement form, would induce a loss of benefits provided by netting of positions and could create pressure on liquidity due to the need to have all transactions pre-funded. Other disadvantages of T+0 have also been suggested by some respondents (such as a potential loss of anonymity in trading). A few respondents however have suggested that the discussion on T+0 should not be entirely excluded and could be continued as a longer-term strategic discussion after T+1 would have been achieved in the EU.

9. ESMA agrees with the feedback received on T+0. As such, ESMA will focus its work on shortening the settlement cycle on T+1. Therefore, the feedback presented in this feedback statement as well as the future work to come on the Report mandated by CSDR Refit will only deal with T+1. For further information on respondents' views on T+0, readers are kindly invited to consult the public responses to the call for evidence[5].

[5] https://www.esma.europa.eu/press-news/consultations/call-evidence-shortening-settlement-cycle

4 Detailed summary of the feedback received

4.1 Impact of the reduction of the securities settlement cycle on the operations of market players

10. The first section of the Call for evidence included four questions around the operational impacts that would result from shortening the settlement cycle. The objective of these questions was to gain a better understanding of what it would imply for EU stakeholders to operate with shorter settlement cycles.

4.1.1 Feedback received

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.

11. 64 respondents have provided their views on the impact that the shortening of settlement cycles would have in their operations and in the EU financial market. This first question of the Call for evidence has been the one which has received the most feedback in terms of volume. While there are areas in which there is a fair degree of consensus (e.g. thinking of a potential move to T+0 might be premature; T+1 should be possible from a technical perspective; major changes to the way in which markets operate would be needed to achieve T+1; independently of the decision to move towards T+1 or not, there needs to be improvements in post-trade processes), views on whether T+1 should be pursued are rather mixed. Also, when it comes to the costs and the benefits of T+1 there is not always

a consensus among respondents. However, feedback on this last point is presented in more detail in the corresponding section of this feedback statement (cf. section 4.2).

12. The feedback presented here is divided into the main areas where operational impacts have been identified by respondents to the Call for evidence.

a) General implications of shortening the settlement cycle

13. Operational impacts highlighted by respondents result from the need to conclude most of the post-trade processes the same day in which the transaction is executed (i.e., this date will be referred to as "T" in this feedback statement). Considering that trading hours depend on the different trading venues and some of them can remain open to trading until 20:00 or even 22:00, most of the respondents acknowledge that the time remaining for post-trade processes in some cases would be very short. In this context, several associations and a number of individual respondents have even questioned extended trading hours, and one of the associations has highlighted that there would be an advantage if there was an earlier official closing time for EU exchanges. On the contrary, another association warns that if trading hours were to be shortened, the window in which European and American markets would remain open simultaneously (currently 15:30 to 17:30, depending on EU trading closing) would be greatly reduced. This association has also indicated that EU market volumes are significantly higher during the window where American markets are also open.

14. Several respondents have provided their views on how much the post trade window would be reduced as a result of a potential move to T+1. Probably because of the lack of standardised closing of trading and some post-trade processes, the feedback is mixed on the exact proportion of the reduction.

15. One association has calculated that the available time for post trade processes in a T+1 environment would be reduced by 82%, from 12 hours to two hours. Another association sees the reduction of the "common working hours" available to finalise the settlement of a transaction drastically reduced up to 92% (from 26 hours to two hours). Despite these divergent views, many respondents agree on the need to delay the start of T2S nighttime settlement (NTS) currently starting at 20:00CET.

16. Some other respondents have also suggested that T+1 will require the range of working hours in a day to be extended to allow operational teams to provide coverage on T to solve issues which would impede timely T+1 settlement. One association has further elaborated on this process, indicating that before sending the instruction received from the investor, the custodian applies a number of mandatory controls (e.g., provision, cash, inventory, anti-money laundering). These controls are to be done at every level of the custody chain. When controlling the provision, if the client does not hold the quantity in its account, an

error notification is sent to the client who, in a T+1 environment, would have to handle it and fix the issue immediately for the instruction to be part of the NTS process. Some of these respondents have warned against the increase of operational risks due to the time pressure.

17. In agreement with what ESMA already indicated in its Call for evidence, some respondents have suggested that the impact will also be different depending on the size of the entity and its positioning in the settlement chain. Smaller entities are likely to be more impacted by T+1. Also, entities far away from settlement will be more impacted than market infrastructures (such as T2S, CSDs and CCPs) and their participants. A limited number of respondents (mainly buy-side) have simply indicated that T+1 might make pre-matching even impossible for them or that they will not be able to afford the extra cost on human resources to get sufficient operational coverage over the trading day to ensure T+1 settlement. Finally, some respondents have suggested that instead of extending working hours, T+1 might result in some entities relocating teams outside Europe. One national association has even suggested that the transition to a shorter settlement cycle may result in market operators no longer offering national investors access to non-EU markets as the increased costs of the extended opening hours that such activities would require may make the entire operation unprofitable.

18. Furthermore, some respondents have indicated that the portion of settlement happening through T2S NTS and Real Time Settlement (RTS) would change drastically. According to this feedback, approximately half of the total volumes settled today on intended settlement date are in the NTS, while the other half are in RTS. The reduction of the time available to do all the post-trade processes might result in more settlement through RTS, which, according to this respondent do not benefit from T2S technical netting and would thus come at higher costs[6]. This feedback also suggests that the reduction of the post trade window might result in less transactions settling on intended settlement date, meaning that settlement fails would be higher with the associated costs of CSDR cash penalties.

19. Many respondents have also indicated that the move to T+1 in the EU would be more difficult than in other regions of the world due to the complex and fragmented nature of EU financial markets. They have highlighted not only the high number of market infrastructures but also other issues such as the unharmonized national securities laws.

[6] Technical netting is a T2S optimisation feature allowing to reduce needs in terms both of cash and securities. During RTS, gross settlement is attempted first and if it fails, technical netting is applied. During NTS, technical netting is used by default. So netting effects are smaller in RTS than in NTS. In addition, a surcharge applies for RTS compared to NTS (with the exemption of the last two hours of RTS).

20. Some respondents have warned also about the fact that in a T+1 environment solving settlement issues will become more challenging in situations of market volatility or other situations where market infrastructures or major participants experience system outages.

21. ESMA has been encouraged to give due consideration in particular to investors in the Asia-Pacific (APAC) region. One respondent has highlighted that the close of markets in Europe around 4PM CET translates to 11 PM Singapore/Hong Kong time, leading to challenges for Asia investors to accommodate for any manual processes within different markets.

22. One respondent has indicated that ESMA should look at examples of jurisdictions moving to T+1 and switching back to T+2 to stop foreign investors from exiting their market. In particular, this respondent indicated that this has happened in Taiwan. ESMA has been encouraged to learn lessons from the US move to T+1 including the views of international investors in the US.

b) Allocation and confirmation

23. According to the majority of respondents, allocation and confirmation will have to happen on T. One respondent has clearly suggested that ESMA mandates confirmation, allocation and matching process to happen on T, inspired from the US SEC rules.

24. Considering the short time left between the end of trading and the beginning of T2S NST (20:00), in order to achieve a satisfactory degree of allocation and confirmation on T, higher automation will be required. Some respondents have indicated that highly structured and highly centralised activity and settlement of transactions on behalf of retail clients will be less impacted than some types of wholesale market activity, as the former benefit from a higher degree of automation. Indeed, some respondents suggest that current delays in the allocation and confirmation process often stem from the lack of automation and use of manual processes, as there seems to be market participants who still use email or voice communication for the transmission of allocation and confirmation details.

25. According to several respondents, when it comes to confirmation, the lack of data standards, the inaccuracy of the economic information and even local settlement specificities in some EU markets might nowadays hamper efficient confirmation. Some respondents have indicated that further standardisation will be key. Market standards for confirmation and even a matching platform would help in getting these key pre-trade processes completed on T. One respondent has indicated that, on average, over 90% of all EMEA cash securities transactions utilizing electronic platforms/mechanisms are fully allocated and matched on execution date. Other respondents however highlight that the use of a central matching platform might come at too high a cost for smaller market players. Some of these, while recognising the disproportionate costs for smaller firms, highlight that

the absence of a standardised electronic system for matching and allocations will result in higher settlement fails. Several respondents (including individual respondents and associations) have suggested including additional settlement data and information on the matching and allocation, such as Place of Settlement (PSET).

26. One response highlighted that software and platforms used for allocation/confirmation automation are all from foreign providers and that no such software exists in Europe exposing European companies to dependency to foreign actors.

27. One respondent suggested that standard settlement instructions (SSI) should be mandated by ESMA and that a centralised SSI repository would be critical to allow T+1. According to this respondent, a central SSI repository would also bring standardisation to Foreign Exchange (FX) SSI distribution, which would have a positive effect on FX settlement. This respondent also suggests further adoption of unique transaction identifier (UTI) as a way to enhance transparency and automation in the post-trade process across the EU. Other respondents, although they have not provided concrete examples, suggest that further standardised data will be required also at trading level, prior to sending the relevant instructions to the back office.

28. Some other respondents however have indicated that industry tools for SSI accuracy exist but are not used by market players at a sufficient scale.

c) Availability of securities and of cash to settle the transaction

29. In order for a transaction to settle on time, the securities and cash should be available for delivery versus payment. The time between the execution of the transaction and the settlement is used to ensure that securities and cash (in the correct currency) can be delivered against each other. Feedback from several stakeholders suggests different important challenges in this area and types of impacts on treasury and inventory management processes resulting from T+1. These stakeholders have put a particular emphasis on currency trading, or FX and on securities lending recalls.

30. Concerning the sourcing of securities, some respondents have highlighted that T+1 might have negative impacts on securities lending. When a security which has to be settled is lent out, the lender (e.g., a fund) has to recall and receive the security on time for the main transaction to settle. If entities lending out securities fear not being able to receive securities which have been lent on time to ensure the settlement of a transaction, liquidity in securities lending markets could potentially decrease. The risk of not receiving the securities lent out on time results from the limited window to recall them. Recalling securities on T+0 for a transaction to settle on T+1, given the current manual processes, would represent according to these respondents a significant challenge. One association

has indicated that this would imply that every instruction from a client would have to be accompanied by a recall order for the instrument traded.

31. Furthermore, securities might be held across multiple CSDs and might need to be realigned for them to be settled on time. Some respondents have highlighted that there might be misalignments of CSD batch times adding at least one business day to cross-border settlement.

32. As far as cash is concerned, a number of respondents have indicated that T+1 might be challenging in situations where FX bookings are required, in particular for less liquid currencies (which can be the case within the EU for BGN, CZK and HUF) but also for investors in different time zones. Concerning less liquid currencies in the EU, one respondent has highlighted that these have earlier cut-offs on Value Date than more liquid currencies.

33. Many respondents have highlighted that the current FX market settles in T+2 and therefore, a misalignment with the securities settlement cycle would impact the functioning of markets. More concretely one respondent has indicated that this would increase liquidity costs and risks and also add to the complexity and potential risks of operational processes.

34. When talking about FX, almost all respondents have referred to Continuous Linked Settlement (CLS), a private financial infrastructure which operates a global central multicurrency cash settlement system[7]. The use of CLS and the Payment versus Payment solution provided by CLS for foreign currency trading reduces settlement risk (the risk that one of the counterparties do not receive the required currency on time). Several respondents have provided their views that missing the CLS cut-off of 00.00, midnight CET, would result in increased settlement risk of the FX transaction. Some respondents have highlighted that the CLS deadline will need to be changed in order to continue to channel FX settlement through CLS. One of these respondents has also indicated that central banks will have to extend opening hours for CLS settlement to remain relevant in a T+1 environment globally. CLS, having responded to the Call for evidence, has highlighted the importance for asset managers and funds to be able to finalise the FX transaction at a time of the day when the FX market offers liquidity, alongside being able to conduct post trade processes including confirmation and matching in CLS prior to existing custodian cut-off times and in turn the CLS deadline (i.e., 00.00 CET). Furthermore, CLS has also indicated being currently undergoing a feasibility study internally and with members to understand

[7] *Nota bene*; the Continuous Linked Settlement (CLS) system is used to settle foreign exchange transactions on a PvP basis, currently in 18 eligible currencies. CLS offsets positions in different currencies against each other and completes the final stage of foreign exchange transactions. The CLS system is subject to cooperative oversight governed by an agreement between a number of central banks, including those of the G10 countries, together with other central banks whose currencies are processed by CLS. The Federal Reserve, as the lead overseer, coordinates this oversight.

what is possible to support a shift in CLS's deadline (up to a maximum 90 minutes) to assist the market on the back of challenges raised by the FX community as a response to the proposed move of US securities to T+1.

35. One association has further indicated that the narrow window within which repo market will have to fund most cash transactions will imply that a substantial part of the repo market will move to overnight or even same day settlement. According to this respondent, this represents a major challenge as nowadays the majority of the European repo market still settles on a T+2 basis. Quantitative evidence provided on a confidential basis shows that in the interdealer repo market for general collateral 25% of repo activity happens on a T+0 basis and 52% on T+1. In the case of dealer-to-client, only 6% happens on a T+1 basis and 68% on T+2. This respondent has suggested that this will also shift repo settlement from night-time into real-time. For this respondent, this shift would imply a decrease in settlement efficiency.

36. Several other respondents have highlighted the need for collateral to be carefully managed in shorter periods. According to one of these respondents, securities may need to be moved between one of the numerous EU CSDs or one of the six triparty agents[8] used by the EU securities lending and borrowing markets. Currently, in T+2, collateral is agreed between 8:30 and 13:00 CET on settlement date allowing settlement of borrows to facilitate onward deliveries. In a T+1 environment, any new borrows would need to be calculated and arranged on T which may delay collateral agreement processes that would then start on settlement date 10:30 through to 15:00 CET. Borrowing transactions would need to be processed by 14:00 on T to facilitate onward deliveries/market liquidity. This has been highlighted as a substantial challenge.

d) Clearing

37. Some respondents highlighted that the timing of processes by market infrastructures and their members should probably be reviewed, as there will be less time for managing post trade activities. Some examples have been provided, including the need for clearing members to reconcile the trade date nettings sent by the CCP in a much shorter timeframe and for CCPs to adapt the collection of margins.

38. One CCP has indicated that in order for them to be able to net the majority of trades happening on T, they would need to exclude trades from late trading hours, providing a deadline (e.g. 18:00CET) for netting most trades on T. For trades concluded after that

[8] https://www.ecb.europa.eu/paym/coll/coll/triparty/html/index.en.html#:~:text=Triparty%20collateral%20management%20services%20%28TCMS%29%20provided%20by%20triparty,secured%20loans%20and%20exposures%20arising%20from%20over-the-counter%20transactions%29.

deadline, a different netting process would be performed. These trades would enter the settlement process later. A separate CCP reporting would be required, which could be provided to participants during the night. According to this CCP, such a change would however lower netting efficiency and would increase the load in the settlement systems of CSDs, as the trades before and after the given deadline would be provided separately.

39. Concerning margin calculation, one respondent has indicated that CCPs calculate their margins on the evening of T, for collection on the morning of the following business day. This allows to cover trades settling on T+2. However, if trades are to settle on T+1, and some of the trades would have settled during the overnight window, the timing for the collection of margins by CCPs might have to be reviewed. Furthermore, some other respondents (associations and individual entities) suggested that if margin collection was to happen during the evening of T, they would most probably be done after ECB cut-off time, preventing participants to pay those margin calls. As such, it has been suggested that the ECB Euro payments cut-off would also need to be reconsidered.

40. In relation to government bonds, one CCP has indicated that the quarterly notification/allocation of their fixed income futures will be a big challenge for clearing members to fund and allocate in one day due to the very high volumes.

41. One CCP has further added that the move to T+1 will require modifying the CCP's general business rules, amending clearing and settlement deadlines, modifying default management process rules and deadlines, organisation of the "go-live" date including trades with same settlement date according to T+2 and T+1 would be settled on the same settlement date, modification of related external procedures and internal rules.

e) Settlement

42. One respondent has suggested that matching and settlement at the level of CSDs should be done on a "near-continuous" basis rather than in fixed batches. According to this respondent, batches add latency in the matching and settlement process, reducing time available for remedial action and restricting the flow of inventory.

43. When it comes to the actual settlement of transactions, respondents have also highlighted impacts affecting settlement through T2S which is the platform used by most EU CSDs for settlement. Several respondents have suggested that the start of T2S NTS should be delayed. One respondent has indicated that today, among the 24 CSDs connected to T2S[9], auto-partial is only used by 14 CSDs and partial release by 11 CSDs. According to this respondent, the lack of use of these T2S functionalities add manual processes, adding

[9] https://www.ecb.europa.eu/paym/target/t2s/profuse/shared/pdf/List_of_CSDs_connected_to_T2S.pdf

latency to time sensitive processes. Other respondents agree on the need to use more partial settlement, suggesting even to mandate it through CSDR.

44. One respondent has further indicated that in case of an end-client based in a different time zone, in a T+1 settlement cycle, the processing window will be very limited. If a mismatch occurs, there will be limited or no time for correction.

45. Several respondents have indicated that cross-border settlement is often slower than standard settlement in a CSD, due in part to different batch-processing times and market cut-offs, but also to longer intermediary chains. One of them has even questioned whether it is realistic to settle such type of transaction in a T+1 environment. Another respondent has suggested that the rescheduling of local settlement platform batches will be required.

f) Corporate actions

46. Several respondents have indicated that the current European standards applicable in the case of corporate actions would have to be adapted. Respondents have differentiated the impacts of T+1 on the different types of corporate actions:

- For mandatory events without options (cash and stock distributions as well as mandatory reorganisations) current EU market standards mandate that the gap between “record date” and “ex date” is one business day less than the standard settlement cycle. In a T+1 settlement cycle, this would imply that “ex date” and “record date” would be the same day.

- In the case of elective events, EU market standards mandate that there is a gap of one settlement cycle between the “guaranteed participation date” and the “buyer protection deadline”. In a T+1 settlement cycle, this would mean only one day. This compression could potentially lead to an increase in requirements to pass elections and tighter deadlines by intermediaries in order to comply with their own deadlines, ultimately leaving less time available for end investors to make decisions (and having to elect whilst the security is still tradable on the market).

- One respondent has indicated that in a compressed settlement window environment, it will be key that the information related to the corporate event is relayed in a timely manner, settlement teams would need access to the corporate action notification more quickly (especially around the event key dates). This would allow knowing if the trade is impacted by a corporate action to identify eligible positions, resolve any blocking issues, or identify eligibility market claims (among others).

- One respondent has pointed particularly to single stock options and indicated that, if opening hours for CSDs/T2S are kept the same and if the exercise/assignment process does not change, the resulting positions from exercise/assignment will not be instructed at the start of the T+1 settlement cycle but only later in the settlement day.

47. Furthermore, if there is an increase in settlement fails due to T+1, some respondents have suggested that this could lead to an increase in the number of (reverse) market claims. One respondent has suggested that this increase in market claims will probably be the highest impact on (I)CSDs especially if they have not yet implemented or automated their processes in line with the existing European standards.

g) Other issues

48. Some respondents have highlighted a number of other operational processes, specific instruments or situations which might be impacted by a move to T+1 or which might impact the ability to shorten settlement cycles.

49. One respondent has highlighted sanction screening and management of credit risk as two processes undertaken outside of securities settlement operations, which have significant manual elements.

50. Several respondents have suggested that T+1 could bring challenges to some types of securities (in particular open-ended investment funds and hedge funds) which require specific information for the calculation of the Net Asset Value (NAV), which is not immediately available. One of these respondents suggests that in the case of open-ended investment funds and hedge funds, the trade date would have to be changed so that it would be the same as the date when the NAV is issued and when the CCP registers the trade, the day prior to settlement, to be on time. The management company that calculates the NAV and the counterparty member would also need to adjust. Several other respondents have reminded ESMA that ETFs suffer from lower settlement efficiency in a T+2 environment than other types of securities. This respondent suggests that an alignment with issuers on global creation/redemption processes will be required to assess whether an impact on settlement efficiency of these asset classes can be mitigated and will not add further stress.

51. One association has more specifically highlighted that T+2 might be an optimal settlement cycle for UCITS held by non-EU investors in time zones where a shorter settlement cycle would increase errors, impede the fund administration process, and make the daily NAV calculation difficult.

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?

52. ESMA received 47 responses to this question. Six replies addressed the *impact of a shorter settlement cycle on hedging and pre-hedging.* They noted that misaligned settlement cycles between financial instruments or between the EU and the UK could increase the risk of failed trades, increasing the costs related to cash penalties.

53. One association noted that misaligned settlement cycles would imply additional intraday funding for long positions. It would also imply a higher risk of settlement failures for short positions. For example, this would be the case for hedging/arbitrage strategies (short selling of one instrument versus buying another instrument).

54. One of these respondents also highlighted that misaligned settlement cycles would directly impact market makers' ability to hedge their positions. They proposed that T+2 should remain for transactions on EU securities executed on UK trading platforms but settled on EU post trade infrastructure if the EU and the UK do not transition at the same time.

55. Several respondents suggested that a shorter settlement cycle would directly reduce the available liquidity, due to the impact on market makers. The reduced time frame to locate and borrow financial instruments when short-selling would reduce their capacity to hedge certain instruments and ultimately imply higher spreads.

56. The views on whether T+1 would impact pre-hedging practices are mixed. Several responders did not expect an increase in pre-hedging or any impact on it as a result to the switch to T+1, while three associations and a trading venue did expect an increase, in order to reduce exposure during the settlement period.

57. Most respondents addressed the *impact of a shorter settlement cycle on transactions with an FX component*. The main concern expressed is the mismatch which would emerge between the securities settlement cycle (in case it is reduced to T+1) and the FX settlement cycle (in T+2), resulting in increased costs and settlement risk. Alignment between the two settlement cycles is considered necessary to prevent small EU currencies losing their attractiveness.

58. Several responders raised the need for pre-funding FX transactions as a side-effect of the mismatch between settlement cycles. Several respondents have highlighted that pre-funding based on estimated amounts of cross-border securities transactions might lead to extremely high liquidity and funding costs.

59. One respondent felt that custodians would need to hold more currency buffers to fund cash accounts. That might lead to increased custody costs.

60. Several respondents warned about the potential negative impact of T+1 on cross-border transactions, in particular in the EU where there are several currencies. For these stakeholders, the increased number of processes involved and the larger number of intermediaries needed to settle a transaction would be a significant cost.

61. The aggregated pressure of the successive cut-off times in a context of shorter settlement of transactions featured in most responses: CLS cut-off is 00:00 CET, custodians' cut-off time is usually 22:30 CET (although there is no uniform practice); in the EU, local currencies cut-off times for same-day currency payments are generally between 07:00 and 18:00 CET. This might lead market participants to execute FX transactions during periods of reduced liquidity, increasing the cost.

62. The time zone challenge for certain jurisdictions (APAC) to meet the current CLS cut-off time was raised by several respondents. However, two replies underlined that the problem for foreign investors in case the EU moves to T+1 would be less relevant, because the difference between the EU/London market close (17:30) and the CLS cut-off time (00:00 CET) as opposed to the difference between the US market close (22:00 CET) and the CLS cut-off (00:00 CET). Moreover, one of these responses noted that an EU move to T+1 would be less impactful because market participants will have adapted their systems and processes to the US move to T+1. Other replies considered that extending trading hours makes more complex settlement in T+1 for foreign investors.

63. Many replies noted that a decrease in use of CLS is foreseeable. However, all the alternatives identified are more expensive. As a side-effect of the challenging cut-off times of CLS, market participants will shift to bilateral transactions adding settlement risks and costs. They can also pre-fund FX transactions or instruct the FX trade before the securities trade has been confirmed, requiring reconciliation the next day.

64. Another reply from the buy-side industry noted that some fund managers might be forced to reduce or curtail their foreign market participation due to the inability to align foreign trade settlement with their funding market needs.

Q3. Which is your current rate of straight-through processing (STP[10]), 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,

[10] Not involving any manual intervention.

please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP?

65. 49 respondents have responded to this question, although only few of them have provided feedback regarding their current level of STP.

66. Respondents having provided information in this regard have indicated high levels of STP and of matching ratios, all of them above 90% and some even above 99%. This feedback also suggests that simplest operations and plain vanilla instruments have higher levels of STP, while less liquid instruments and more complex operations imply higher degree of manual intervention. One of the respondents has confirmed that the same applies to complex corporate actions, which require more manual intervention mainly due to an unstructured input received from the issuer/agents and various paperwork requirements.

67. Another respondent (an association) indicated that a data request to its members showed that all recalls in securities financing transactions imply manual intervention, in line with information already provided in responses to Q1 of the Call for evidence. This same respondent has confirmed that securities lending and borrowing represents a challenge from the automation point of view, indicating that the challenges might be slightly different from the perspective of the borrower and from the lender. Another respondent has suggested that no cross-border transactions are handled by means of STP, and another one has further added that despite T2S standards, certain market requirements are not standardised and not harmonised in the EU, which contributes to the lack of STP on cross-border settlement.

68. However, feedback also suggests that, despite the importance of further automation to increase settlement efficiency and ensure a smooth transition towards T+1, STP might not be a good indicator or at least not the only one. Some transactions might require manual intervention, but they might not fail, while some other fully automated transactions might fail due to lack of inventory. One respondent has suggested that ESMA look at the percentage of transactions going through NTS at T and at T+1 from T2S which should provide a good indication of smooth processing through the settlement chain.

69. One association indicated that the complexity of the settlement chain and the diversity of all the actors make it difficult to estimate the rate of STP transactions.

70. One respondent has highlighted a number of challenges affecting the level of automation across the trade lifecycle, including: the exchange of data (including non-economic trade data in a non-machine readable format) via email, instead of through a centralised platform; matching issues not being identified until instructions reach the CSD (estimated to account for 10-30% of settlement fails); automated partial settlement not being fully supported by

all CSDs and not optimally used by participants; data quality issues on standardised settlement instructions (SSIs), including formatting not aligned with market standards.

71. Other respondents have agreed on the lack of automation and the fact that important information is typically communicated via free text in messaging platforms. However, according to some of these respondents this is typically done for processes where there is a lack of standardisation such as repo or loan transactions.

72. One provider of STP solutions has shared data suggesting that US clients using their services have reached 97% of eligible trades matching on T, with 70% of these going out to settlement on T. This respondent highlights that reaching these levels of automation takes time.

73. Several respondents have also suggested that using technology solutions can help increasing automation. The challenge will be to analyse outdated legacy systems and update them. Some of these respondents have also suggested that the time required for technology enhancements are long, as they include securing budget, project planning, development and comprehensive system testing.

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.

74. 51 respondents have provided feedback to this question. A lot of the feedback confirms what has already been presented in the responses received to Q1, e.g. the potential deterioration of settlement efficiency, issues related to misalignment of settlement cycles and the impacts on securities lending and borrowing and repo.

75. Several respondents have indicated that T+1 could have an impact on market liquidity, as market makers provide liquidity on securities that they do not hold in their inventories but rely on securities financing transactions for that liquidity provision. Securities lending and repo markets would have to considerably improve the way in which they work to be able to return securities in time when required. This might impact the liquidity of these markets, for instance if lenders would be less prone to lend securities if they fear not being able to recall them on time for the settlement of another transaction. These respondents have further indicated that market makers could have issues in sourcing liquidity and/or hedging in a timely manner, which would be amplify under stressful market conditions, leading to less liquidity provided on the markets. At the same time, one respondent has suggested that T+1 could potentially increase the demand and volume of repo trades (same-day repos)

and securities lending trades which would be used to deliver securities when market players lack holdings due to other parties not being able to deliver in time.

76. Several respondents have further added that in a market with less securities lending and with lower liquidity, covering short positions will be more costly, as a few entities will have the power to decide on the price. These respondents have expressed concerns about the impacts for short sellers.

77. According to some of the respondents who have highlighted the challenges related to securities financing transactions in a T+1 environment, the further stress that T+1 would put into these asset-collateralised markets would potentially mean trading parties post excess collateral. This would result in reduced capital efficiency. Some of them recognised however that one-day reduction in exposure should lead to a decrease in margin calls.

78. One of the respondents has suggested that a move to T+1 may result in exacerbated settlement market inefficiencies coupled with a loss of liquidity, resulting in greater inefficiencies. This respondent added that market fragmentation in Europe will make it very challenging for the EU to move to T+1 and provided the following example: Norway has 3 settlement batch runs with a mid-morning cut-off for DvP. France and Germany have continuous settlement and the deadline is late afternoon. This respondent argues that these market practices would have to be addressed to shorten the settlement cycle.

79. The feedback received with regard to the potential impact of T+1 on retail investors is very mixed. Several respondents have indicated that they do not foresee any impact on retail investors. Some others have suggested positive impacts resulting from higher automation and hence higher efficiency in markets and less counterparty risk. Some others have however suggested that the impact on retail investor can be very negative providing different examples. One of them has indicated that T+1 could restrict access to capital markets for retail clients. This respondent has suggested that in cases where a large number of market participants are involved in the settlement chain of one transaction, for example in cross-border transactions with different depositories, banks might no longer offer their clients trading in the corresponding product because they will fear that the transaction will not settle on time for T+1 due to the number of intermediaries involved.

80. One respondent has indicated that cross-border distribution of funds is currently a challenge due to many different aspects such as regulatory or tax notification requirements and local marketing requirements, according to this respondent the cross-border distribution of funds would be impacted by T+1 due to the market fragmentation, the lack of standardised environment.

81. It is however interesting to note that a number of respondents have suggested that the compression of the settlement cycle will not have any negative effect, nor to the clients

neither to the operation of the financial markets. Some of them have further suggested positive impacts such as the reduction of collateral needs, increase in liquidity, lower exposure and uncertainty between the trade and settlement dates and the solution of the misalignment of settlement cycles globally.

4.1.2 ESMA's preliminary assessment

82. ESMA understands that, although T+1 is technically possible (and as a matter of fact, it already happens in relatively large proportions, depending on the type of financial instrument and transactions), mandating a harmonised shift from T+2 to T+1 in the EU would have considerable operational impacts and could even negatively affect the market if not organised properly.

83. The feedback received to this section highlights the operational impacts of T+1 *ceteris paribus*, i.e. taking into consideration the current level of automation, the existing deadlines for the start of T2S Night Time Settlement (NTS), the current functioning of FX markets and the existing European standards for corporate actions, among others. With this in mind, a number of important challenges for a smooth implementation of T+1 in the EU have been highlighted. These include the reduction of 80 to 90% of the available time for post-trading processes, the lack of automation, inventory management, the lack of use of certain CSDs' functionalities, the complex management of a long chain of intermediaries/infrastructures in case of cross-border transactions, the NAV calculation and cross-border distribution for certain types of funds and FX trading, existing standards for corporate actions, among others. Securities borrowing and lending, repo, FX trading and cross-border activities seem to be some of the most challenging aspects of a transition to T+1.

84. In its Report on shortening the settlement cycle, ESMA will further explore the operational impacts described, paying particular attention to FX trading, securities lending, borrowing, repo and cross-border transactions.

85. However, ESMA would like to highlight already that some of the operational issues described should be overcome in any case in order to improve settlement efficiency independently of the duration of the settlement cycle. Settlement efficiency remains a top priority for ESMA (cf. ESMA's preliminary assessment on Q6).

86. Respondents have also suggested that ESMA takes into consideration the impacts that a potential move to T+1 in the EU could have for investors in the APAC region. Taking into consideration the very limited feedback received so far from this region, ESMA has initiated consultations with authorities and industry associations in several jurisdictions in the APAC region. One respondent to the call for evidence had suggested that Taiwan had moved to T+1 but had to move back to T+2 due to "*time zones issues for US investors*". ESMA has

consulted with the Financial Supervisory Commission in Taiwan and the feedback received so far is the following: *Taiwan started to implement the T+2 mechanism since 2009. Before 2009, the settlement of securities and fundings followed different mechanisms. Brokers were required to settle securities with the Exchanges on T+1 base, while fundings were settled on T+2. In order to mitigate settlement risks, Taiwan adopted to T+2 for both securities and fundings settlements in 2009"*.

87. ESMA will take into consideration further feedback received during its consultations with stakeholders in the APAC region and will integrate it in its Report on shortening the settlement cycle.

88. ESMA also notes arguments suggesting that in the absence of an aligned transition date to T+1 between the EU and the UK, transactions on EU securities executed on UK trading platforms but settled on EU post-trade infrastructures should remain in T+2. This is another element that deserves further analysis.

89. ESMA also recognises that the warnings about the impact of a shorter settlement cycle in the EU complex landscape (different currencies, many financial market infrastructures) require extensive analysis. Likewise, the impossibility of smaller fund managers to invest in foreign markets is another risk to be considered, since it would reduce their capacity to compete against bigger players.

90. The spot FX angle of the issue introduces elements that fall out of the scope of securities regulation (or out of the scope of the regulation altogether, since some of the requests refer to industry conventions), including the spot FX settlement cycle, the CLS cut-off time, the capacity of CLS to support settlement of a high volume of FX transactions on T or the unilateral cancellation deadlines. Nonetheless, ESMA understands that these are relevant issues to be considered in the final report.

4.2 Costs and benefits of a shorter securities settlement cycle

91. This second section of the call for evidence included 10 questions about the costs and the benefits related to shorter settlement cycles. After having obtained a better understanding of the possibility for EU stakeholders to operate in shorter settlement cycle, the objective of these questions was to gather quantitative evidence on the costs and the benefits that the move to shorter settlement cycle would represent.

4.2.1 Feedback received

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.

92. 56 respondents have provided feedback in relation to the costs of implementing T+1. Most of the respondents providing feedback to this question have indicated that it is difficult to quantify costs, as this would highly depend on the way in which T+1 would be mandated. As such, they have only highlighted the sources of costs, providing different views on how they could be categorised. Only two respondents (both credit institutions) have provided confidential information on the cost they would incur in a shift to T+1. One of them has indicated that adapting its business to T+1 would imply dozens of millions of euros, the other one has indicated one-off costs of approximately EUR3M and on-going costs of EUR0,5M annually.

93. Some respondents have differentiated between one-off/short term costs, related to investments in shortening IT processes and procedures, and on-going/longer term costs related to pre-matching, which will require availability of IT systems and personnel.

94. Other respondents have differentiated between direct costs (e.g., technological developments required to increase automation, and operational costs to change working arrangements including human resources to cover longer working hours) and indirect costs (e.g., infrastructure transformation, impacts on securities lending and borrowing, potential impacts on liquidity, on FX and increase of settlement fails penalties).

95. One association representing the asset management industry has differentiated between other categories of costs, including: those related to trading (including the use of new infrastructures for confirmation and allocation processes, less favourable securities lending, higher operational risks and potential costs to relocate staff in America); those related to funding (when there is a liquidity gap to cover due to trading of securities happening on T+1 but subscription payments only received on T+3 for some types of funds, also they expect FX to be performed at higher costs); and, those related to repapering.

96. Some respondents (mainly intermediaries in securities markets) have indicated that they are already capable of processing transactions for T+1 settlement, therefore the costs in their views would come from the adoption of T+1 at a larger scale, which would require changes by market participants to adopt more efficient ways of working and increase levels of automation and standardisation.

97. Several respondents have warned about the fact that costs will not have the same impact for all market players and that smaller ones may have to undertake more significant preparation for T+1 involving higher costs. Further feedback suggests that T+1 would

represent a very important challenge to smaller participants specially in the buy-side, some of them have suggested they will not be able to continue operating due to the costs linked to T+1. Feedback from some associations representing the buy-side has confirmed this highlighting that T+1 would bring consolidation to this industry.

98. The feedback from some market infrastructures suggests that they will also incur some costs, although these are also difficult to calculate and they depend not only on the changes required to cut-offs but also on e.g. the need for increase capacity to deal with operations happening during day-time on T+1 when not meeting previous night cycle.

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.

99. 55 respondents have provided their feedback to this question. Most of them agree that settlement efficiency will deteriorate when moving to T+1 although they have indicated that forecasting the level of deterioration is very difficult and as such little quantitative evidence has been provided. Furthermore, some of them have highlighted that such a deterioration would be different by asset class and would depend on the timeline for the adoption of T+1 and on the adoption of measures necessary for the transition to T+1 (such as investment in automation, further standardisation, and harmonisation of post-trade processes). Some of these respondents have suggested that the measures that have already been taken to improve settlement efficiency will continue to have a positive impact on the settlement efficiency.

100. One respondent (a credit institution) has indicated that market fails would increase in total by 30-40% in the short term, medium 25% and long term 10-15% approximately. However, this same respondent has suggested that even staying in T+2 in the EU would not impede settlement efficiency from deteriorating due to the move to T+1 in the US.

101. Other respondents have also suggested an increase in settlement fails ranging from 10 to 30%. A more pessimistic respondent has indicated an increase of settlement fails of 80% in the short term, 50% in the medium term and 40% in the long term.

102. Another respondent, despite assuming the right level of preparation by the market, has estimated an increase of fails from 5% to somewhere between 15% and 20% in the first days followed by a quick recovery to around 10%. This respondent has further suggested that going back to current T+2 fail rates would require the complete infrastructure to be as comfortable under T+1 as it is currently under T+2. Other respondents have agreed with these views when stating that returning to current levels of settlement efficiency might be difficult as some structural issues will remain.

103. One confidential respondent has suggested that, if nothing changes, 70% of the instructions that this respondent observes are ready for the NTS on T, while part of the remaining instructions could be settled during daytime of T+1. As suggested by other respondents, this type of methodology would not necessarily translate in a figure indicating a good proxy for settlement efficiency deterioration.

104. According to other feedback brought to the attention of ESMA, different stakeholders in the US (brokers, custodians, and investors) consider that settlement fails in the US would increase from an average of 2.9% today to 4.1% once the US moves to T+1. The expected change in fail rates is different depending on the size of the firm, with bigger firms experiencing lower impact (a change of 17% in their fail rates) and smaller firms seeing the most prominent impacts (a change of 37% in their fail rates). This same feedback suggests that the deterioration of settlement fails will be temporary and should recover with time.

105. A small number of respondents have indicated that settlement efficiency should not necessarily deteriorate except in cases of market turmoil.

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.

106. 50 respondents have provided feedback to this question although many of them have already provided their views on this matter in their feedback to Q6. Views are quite mixed on whether structural lower settlement efficiency rates will remain or whether settlement efficiency will come back to current levels sometime after the implementation of T+1. The summary below focuses on feedback which was not provided in the previous question.

107. Several respondents have suggested looking at the experience in relation to T+1 in other jurisdictions when it comes to assessing settlement efficiency. Some of them have indicated that there is anecdotal evidence that there was a temporary spike in fails in the Indian market after moving to T+1, with fails returning to normal levels subsequently. To understand how T+1 will impact the cost and availability of borrowing securities (which can have a permanent effect on settlement fails) one respondent suggests learning from the move to T+1 in the US, another respondent has indicated that Canada would be a better comparison for European markets as it is also a bilaterally matching market. Some of the respondents suggesting looking at the experience in the US have recognised that the way in which settlement efficiency is measured in the EU is very different from other jurisdictions. These respondents have suggested that DTCC would not be able to provide a comparable figure on the rate of settlement fails.

108. Several respondents have highlighted that CSDR settlement discipline and more concretely cash penalties will continue to act as an effective incentive for market

participants to prevent settlement fails. However, a few respondents have argued that settlement penalties have not contributed to higher settlement efficiency.

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.

109. 44 respondents provided feedback to this question. Most of them referred to their feedback to question 5. The summary below includes only feedback which referred to costs other than those already provided in previous questions. Some respondents have indicated that some of the costs associated to T+1 will not be easily quantifiable (such as the expected increase of operational risk). Some of these respondents expect that existing risks will be amplified in times of market stress due to T+1.

110. Some respondents have highlighted that shaping and partial settlement, while they can be seen as tools to improve settlement efficiency, they can come at a higher cost because they result in a higher number of settlements.

111. One respondent who currently offers trading until 22:00CET has suggested that despite the potential need for an earlier cut-off on T for settlement to happen on T+1, moving the end of trading earlier would not be absent of cost for retail investor. According to this respondent, offering extended trading hours in the evening is valued by retail clients, changing that could push retail clients to less regulated products or markets which come at higher risk and hence potentially higher costs.

112. Regarding the changes needed to T2S NTS and other cut-offs, including the possibility that different night batches are put in place to accommodate late trading hours, feedback from several respondents suggests that this will come at a cost. Also, as described before, margins might have to be called on the evening of T. This would be after 18:00 CET which is currently the time at which the ECB payments would be close and therefore this cut-off would have also to be adapted with the consequent costs this will imply.

113. Several respondents have also argued that focusing resources in shortening the settlement cycle will imply project opportunity costs. This means that other regulatory projects might need to be deprioritised for the industry to be able to focus on T+1.

114. One respondent has also indicated that the update of all legal documentation represents a major undertaking and will imply costs.

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?

115. 52 respondents have provided feedback to this question. Most of the respondents agree with the benefits suggested in the Call for evidence. Some of these respondents have put emphasis on some specific benefits. Some others, while agreeing with the benefits, have however warned that those benefits might be conditional on being able to keep satisfactory levels of settlement efficiency and some of them have even suggested that the sought benefits could also be achieved without changing settlement cycles.

116. Others have warned against an uneven distribution of the benefits. Only six respondents do not agree with the suggested benefits or consider that despite the potential benefits (which they see as rather theoretical until they can be proven), the costs of moving to T+1 will be higher than the benefits.

117. Among those two groups of respondents, those who agree with the benefits and those who do not agree, there is a fair representation of different segments of financial markets. To give an example, there are credit institutions (who often have several business lines as clearing members, brokers, custodians, etc.) who see benefits in T+1 and those who do not. There are also buy-side market players (asset managers and their representative associations) among the group who agree with the benefits and among those who do not agree.

118. Some of the respondents who agreed on the suggested benefits, have highlighted that some of the benefits may not translate into a directly measurable cost saving, but should accrue over a longer time-horizon than costs. Furthermore, a number of respondents have suggested that benefits might materialise differently for different market players and might distribute unevenly. For example, reductions in margin requirements would benefit direct clearing members quicker than investors. The latter might see the benefits only in the long-term.

119. Finally, a smaller group of respondents remain quite neutral, either because they do not feel concerned about the benefits (this is the case for some market infrastructures) or because they are yet not sure of the balance between the costs and the benefits.

120. Some respondents see T+1 as an opportunity for the modernisation of financial markets increasing European capital markets efficiency and competitiveness.

121. Several respondents agree that the harmonisation of settlement cycles is one of the main benefits of T+1. These respondents suggest that this will specially be the case for multi-listed securities and for ETFs. More concretely, in the case of ETFs, aligning settlement cycles in T+1 with the US would smooth out operations, lower the risk of settlement failure and lower the cost of funding to the benefit of the end-investor, according to some respondents (including some representatives of the asset management industry

who have not provided in general very favourable to T+1 and see this as the only benefit of T+1 in the EU).

122. The harmonisation of market practices that would be required to achieve T+1 is also seen as an important benefit by some respondents.

123. Another benefit highlighted by these respondents is the reduction of overall levels of settlement risk in the ecosystem.

124. The reduction of counterparty risk has been highlighted as one of the main benefits of T+1 which would halve the time during which a counterparty can default. Some respondents have highlighted that from a risk and resilience perspective, a shortening of the settlement cycle would reduce the number of "open" transactions at any point in time (theoretically by as much as 50%).

125. An eventual reduction of CCP collateral is also seen as one of the main benefits. However, some respondents have indicated that the exact level of reduction of CCP collateral might not be significant and must be balanced against the impact of changes to securities lending processes potentially resulting in posting excess margin. Another respondent (an association representing the asset management industry mainly from North America) has suggested that associated reduced collateral requirements should permit market participants, including UCITS and other regulated funds, to improve their cash and liquidity management, leading to more efficient and liquid capital markets.

126. Some respondents have indicated that projections in the reduction of CCP collateral requirements should be carefully assessed and has pointed out that the numbers identified by DTCC in the US only impact the volatility component, which leads to a much lower overall reduction in margin requirements.

127. In the case of derivatives, one respondent has highlighted that liquidity sourcing around expiry will be better aligned as a result of T+1, currently a funding gap exists between cash settling the derivative (T+1) and the stock (T+2).

128. One respondent has suggested that greater alignment between traded positions and settled positions could improve among others the process of shareholder identification and the exercise of shareholder rights, since there would be greater alignment between the entities that have an economic interest in securities and the entities that have the practical ability to exercise shareholder rights.

129. Regarding the minority of respondents who do not agree with the mentioned benefits, some of them have suggested that the benefits mentioned by ESMA are purely theoretical (e.g., high frequency traders consider that efficiency gains and increases in automation are

rather by-products of the steps that market participants will need to take to meet a shorter settlement cycle) and very marginal as compared to the costs.

130. Some others have highlighted that possible lower collateral requirements would be outweighed by higher funding costs. One of them has further suggested that even if there were lower collateral requirements, this would only benefit clearing members and it is unclear how this benefit would be passed onwards. Others have highlighted that the international alignment would only benefit bigger market players with international presence. On this same topic, some respondents have suggested that the alignment with North America will mean misalignment with other regions. Another respondent has suggested that the level of settlement efficiency in the EU is pretty satisfactory and T+1 would not bring any material additional benefit.

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).

131. 44 respondents have provided feedback to this question.

132. Two respondents have suggested that T+1 could imply a margin reduction of 65% under normal market conditions. These same respondents have provided estimation of EUR 3-5 bn of collateral requirements decrease across EU clearing members and CCPs in relation to cash equities. According to the views of these respondents this represents a very limited benefit.

133. One respondent has suggested the reduction of collateral by less than 30% of current collateral requirements for the settlement of cash transactions. This same respondent considers however that at the scale of financial markets collateral requirements linked to cash transactions are a negligeable fraction of the requirements linked to derivative transaction. In addition, according to the same respondent, the exclusion of post trade risk reduction services from clearing obligation would offer a more effective tool to reduce collateral requirements.

134. Several respondents, mainly credit institutions, have noted that in EU securities markets, banks and other institutions typically provide collateral in asset form (rather than cash), which results in multiple settlements related to the same transaction. In accordance with their answers to previous questions on the impact that T+1 would have on securities lending, these respondents have reminded that a large part of borrowing activity is collateralised via triparty agents, who may be unable to move collateral without friction on a same-day basis. According to them this could lead to institutions posting excess collateral at triparty agents, reducing capital efficiency.

135. One respondent (a CCP) has suggested that expected collateral savings could amount to 20-40%. Another respondent has suggested a margin reduction of 14,15%. However, this respondent has suggested that they would expect on average lower margin calculations with a larger standard deviation or daily change in the margin requirements. Clearing members may leave excess collateral in their account to avoid meeting multiple margin calls which would encumber capital.

136. Another CCP has provided more detailed calculations of the expected savings in margins, showing a reduction in forward-looking margin between 15% - 70%, which corresponds to a reduction of between EUR 0,3 – 1,5 bn. This results in an average decrease of 40% of the margin for the two-month period selected.

137. One respondent has indicated that the margin reductions for equity clearing due to T+1 would amount to EUR 0,8 bn, which represents 24,6% of EU CCPs cash equity margin. Furthermore, this same respondent has highlighted that this reduction would also represent direct savings to market participants, as they would have lower funding costs. However, these savings in funding cost are less significant as they would only amount to EUR 41 million.

138. Most of the respondents having provided estimates on the reduction of collateral have however warned that impacts of T+1 on margins will depend on many different factors, such as the risk model used by the CCP, the underlying portfolio, and market conditions.

139. Several respondents (including some credit institutions, buy-side, and their representative associations) have indicated that no significant saving would derive from an eventual reduction of collateral requirements resulting from T+1. Arguments supporting these views focus mainly on potential increase in collateral requirements if securities lending and borrowing activity increases in the market, either to cover settlement fails or to mitigate liquidity challenges.

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.

140. 41 respondents have provided answers to this question. Most of them have indicated that it is very difficult to provide at this stage estimates of potential savings related to the shortening of the settlement cycle, they have however referred to their feedback to previous questions reminding the different types of benefits which can be expected from T+1 (e.g., further automation and standardisation, alignment with North America, savings in collateral, competitiveness).

141. Only three respondents have provided some estimates of expected savings. One has indicated that certain costs related to institutional post-trade processes for large global broker-dealers in the US could be reduced by 20-25%. The other two have provided a more conservative view and expect these savings to amount to 10-15%.

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.

142. 43 respondents provided feedback to this question. Some of them referred to their feedback to question 4. The summary below includes only feedback referring to the impacts not already mentioned in answers to previous questions.

143. Overall, there are mixed views on what would be the impact of a shorter settlement cycle on the liquidity of EU markets. On the one hand, a significant number of respondents have suggested that a move to a shorter settlement cycle would pose several challenges to liquidity, especially in the short-term and for more illiquid and complex instruments. Fewer respondents considered that the impact will be positive. For some others, the impact on liquidity is not that clear cut, and could be different over the time horizon. Moreover, for one respondent, whereas it could have a positive effect for securities, it could generate market frictions for money markets, FX swap markets and funding markets.

144. In line with feedback received to other questions, main challenges to liquidity are expected for securities borrowing and lending markets and in repo markets. Several respondents have suggested that shortening the settlement cycle will: substantially increase pre-funding needs (i.e., banks required to hold larger amounts of intraday liquidity); substantially increase lending buffers (both of lenders and borrowers); increase the cost of borrowing; increase settlement failures; in case of operational disruption, a liquidity trap will require higher cash buffer maintenance, increase the costs of doing business for both banks and clients.

145. Other respondents expressed also concerns on the potential changes that a shorter settlement cycle could have in the buy-side behaviour (i.e., how, where, and when to execute orders). Namely, few respondents have suggested a risk that trading activity will shift from multilateral to bilateral (OTC).

146. Some respondents expressed concerns that challenges for liquidity will arise from the misalignment in settlement cycles between European markets and the US. However, a participant questioned the impact of such misalignment as it already happened in the past (i.e., 2014-2017).

147. Among the minority of respondents that envisage a positive impact on the liquidity of EU markets, respondents suggested the following as possible causes: lower counterparty risks; lower margin requirements; a realignment with US settlement cycle; freeing up funds and securities faster; higher operational efficiency; higher end-to-end level of automation.

Q13: What would be the benefits for retail clients?

148. 42 respondents provided feedback to this question. Some of them referred to their feedback to question 4 or 9. The summary below includes only feedback which referred to the impacts other than those already provided for in previous questions.

149. Overall, respondents have identified very limited or no benefits for retail investors. Some participants referred to the fact that the settlement process is invisible to retail investors. Moreover, even where advantages are identified, participants sometimes recognize that they could be offset by potential drawbacks.

150. Among those that did envisage some advantages, several respondents mentioned that retail investors could benefit from: an increased trading speed (i.e., retail investors would receive cash/deliveries earlier); faster booking-cycles and money movements; faster processing of corporate actions; quicker access to funds; and shorter interest and dividend payment cycles. Some respondents signalled that such benefits would align with retail investors' demands for more instantaneous services. However, some respondents were also aware that the extent to which these benefits materialize depends on the contractual relationship between the retail investor and their intermediaries (i.e., whether contractual settlement is offered or not). Retail investors may not even be aware of some of these benefits as *de facto* they live in a contractual-settlement-base environment.

151. Only a minority of respondents mentioned that the move to T+1 will bring lower costs for retail investors over time.

152. Several respondents have highlighted that a move to T+1 will negatively impact retail investors due to: increased costs for investment firms and intermediaries (implementation and operational costs), will eventually be passed to the end investor in the form of higher transaction costs; higher cost of ETF investing as investors might have further funding requirements due to FX transactions (although another participant saw that a move to T+1 and the alignment of the US and EU settlement cycle will have a positive impact on ETF investment); forcing an earlier cut-off time for trading.

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.

153. 50 respondents provided feedback to this question. Some of them referred to their feedback to questions 1, 5, 9, 11, 13 or 27. The summary below includes only feedback which referred to the impacts other than those already provided for in previous questions.

154. Overall, respondents expressed difficulties in properly quantifying and comparing the benefits and costs of moving to a shorter settlement cycle mainly due to the consultation time-constraints, difficulties in anticipating, identifying, and quantifying many of the costs and benefits and due to the current uncertainty around the timelines, scope, legal framework, and technical specificities of an eventual decision. Many respondents have highlighted that they will be in a better position to conduct such assessment with time and especially, after the US transition to T+1 has taken place.

155. Many respondents have suggested that the costs and risks associated with moving to a shorter settlement cycle will outweigh the potential benefits, especially in the short-term and in relation to smaller players.

156. Several respondents have highlighted that costs and benefits will occur over different time horizons. Like the feedback received to other questions, respondents have highlighted that in the short-term, while costs are expected to be especially acute, benefits are only expected to be modest (e.g., less collateral requirements). Only over the longer-term horizon, benefits could eventually offset the initial costs. Consequently, some participants cautioned against an implementation timeline that is overly aggressive.

4.2.2 ESMA's preliminary assessment

157. Quantitative evidence on costs linked to T+1 is extremely limited. ESMA has however taken note of the different sources of costs and will take that into consideration in its report. The risk that some of the smaller participants will not be able to afford those costs has also been duly noted. Potential impacts that would result from T+1 in terms of competition will be further assessed and reflected in ESMA's Report.

158. The deterioration of settlement efficiency in the case of moving to T+1 has also been flagged by a number of respondents. As stated before, settlement efficiency remains a priority for ESMA. ESMA is of the view that all stakeholders should continue improving post-trade processes to increase settlement efficiency rates, independently of any potential decision on the shortening of the settlement cycle. In September 2023, ESMA organised an industry workshop on settlement efficiency. During this workshop, stakeholders already identified areas of work to improve settlement efficiency. In CSDR and in CSDR Refit notably, the co-legislators have also recognised the need to improve settlement efficiency. As such, ESMA has been mandated through CSDR Refit to identify measures and tools to improve settlement efficiency in the Union and develop draft regulatory technical

standards. ESMA's work on shortening the settlement cycle will be closely linked to the work on improving settlement efficiency.

159. ESMA has taken note that the majority of respondents see some benefits in shortening the settlement cycle. These benefits cannot always be quantified and in some cases might materialise in the longer term. ESMA has also noted that a number of respondents remain unconvinced of the positive balance between costs and benefits, possibly also related to the fact that it might be easier to identify the immediate costs (e.g. technology upgrades, standardisation, human resources) rather than some of the longer term benefits (e.g. freeing up regulatory capital, innovation, competitiveness).

160. ESMA has also taken note of the different quantitative evidence provided with regard to margin reduction. ESMA is of the view that freeing up collateral used to meet margin requirements would be a positive outcome of shorter settlement cycles. ESMA understands that these savings have to be put in the perspective of other costs associated to shorter settlement cycles and that repo markets seem to represent a particular challenge which, if not dealt with, could affect the gains in margin savings. Considering the different quantitative evidence received, in its Report on shortening settlement cycles, ESMA will aim at deepening its understanding of the magnitude of potential savings related to margin requirements to complement its cost benefit analysis.

161. Views on benefits to retail investors are mixed, although the majority of feedback received seems to indicate that this will not be one of the major benefits of a shorter settlement cycle. ESMA will further investigate on the impact that shorter settlement cycles could have on retail investors from the perspective of corporate actions, as feedback received appears contradictory, indicating on the one hand a negative impact for elective events due to the shorter time to decide, and on the other hand a positive impact due to the faster processing of corporate actions.

4.3 How and when to move to a shorter securities settlement cycle

162. Through the questions included in this section of the Call for evidence, ESMA wanted to gather feedback related to the legal, regulatory and practical aspects (including the timeline and the scope) of a potential implementation of a shorter settlement cycle in the EU.

4.3.1 Feedback received

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.

163. ESMA received 51 replies to this question. *In general*, the responses can be grouped into two main types: those who proposed pre-requisites to shorter settlement cycles or alternative regulatory actions that should take priority and those (the majority) who proposed regulatory and industry roadmaps.

164. Several respondents considered it necessary to meet certain *pre-requisites* before moving to a shorter settlement cycle. 10 associations and market participants requested a robust cost-benefit analysis prior to any mandatory reduction of the settlement cycle. Most of these responses considered necessary a careful analysis of the experience of other non-EU jurisdictions that have moved to a shorter settlement cycle or plan to do it in the short term.

165. Seven respondents have requested a careful assessment of the ongoing legislative projects to prioritise an eventual shortening of the settlement cycle. For these respondents, given the resource-intensive nature of adapting to a shorter settlement cycle, ESMA should consider the competing policy objectives. Moreover, some of these responses considered that other projects could be more important. For example, the responses mentioned the ECB regulatory projects, CSDR Refit, the Digital Operational Resilience Act, or the need for more consolidated and harmonised financial market infrastructures in the EU (which might imply a revision of the objectives of the Capital Markets Union).

166. 11 responses noted that the improvement of settlement efficiency should remain a priority, either as a preliminary step to any reduction of the settlement cycle, or as part of the assessment to be carried out prior to any decision on it. Some of these stakeholders have highlighted that settlement discipline should not be undermined by an eventual reduction of the settlement cycle. Respondents noted that:

167. Some CSDs offer some features that are not widespread across the EU financial markets including partial settlement, auto-borrowing or pools of securities available for lending by participants to fill complete or partial shortfalls where sellers have insufficient securities to meet their delivery obligations (automatic pool lending facilities).

168. Market participants should deliver and receive at the same time, avoiding “strategic” settlement. In particular, one respondent considered that the main problem to shorten the settlement cycle in this capacity to delay cash transfers.

169. Two replies suggested suspending the settlement discipline regime around the migration period.

170. As regards the *regulatory and industry milestones for an eventual transition to T+1,* the majority of the responses considered that it should take place in the mid-term. Some respondents suggested specific timelines ranging from one year to seven years.

171. Whilst some of the responses demanded a coordinated reduction of the settlement cycle in the EU, the UK and Switzerland, two responses understood that the EU should not rush to coordinate with the UK.

172. In terms of legislative changes needed, the responses suggested amending not only Article 5 of CSDR but also Articles 2, 10 and 11.4 of Commission Delegated Regulation 2018/1229 on Settlement Discipline were mentioned.

173. Several proposals were based on the US experience, and suggested as main milestones:

- Identification of a go-live date for the transition to a shorter settlement cycle. Some responses suggested that it should be decided by the industry instead of the co-legislators. Other responders identified the ECB's Advisory Committee on Market Infrastructures for Securities and Collateral (Ami-SeCo) and the Joint Industry Association Steering Committee on T+1 as joint fora to do that.

- A preparatory phase involving industry discussions to identify the technical and organisational changes required, including the establishment of an industry steering committee to develop the equivalent to the US T+1 Implementation Playbook.

- Amendment of CSDR (Article 5(2)).

- Implementation phase, at the end of which market participants could issue readiness statements.

- End-to-end testing

- Go-live. Some replies considered necessary to foresee the possibility to push back the go-live date in case major issues were identified.

- Ex-post revision of T+1 regime to permit fine-tuning.

174. ESMA received also replies from the CCP industry identifying specific milestones but noting that, in general, they would be ready for a move to T+1 in 18 to 24 months after the publication of a revised CSDR in the Official Journal. These milestones would include requirements analysis, IT impact assessment, streamlining clearing processes, alignment target schedule of trading venues, clearing members and CSDs, adjust and de-couple some reporting obligations, adapt methodologies for margin calculations.

175. Many respondents (to this and the following question) have suggested *specific measures to facilitate the transition to T+1* including:

- Four responses underlined the importance of a simultaneous move of all the EU markets at the same time.
- Moving backwards (and extending) T2S opening hours, improving the coordination with the trading venues' closing. One reply suggested maintaining the current T2S settlement process to avoid a too massive shift from NTS to RTS.
- Coordinated CSD opening hours at EU level.
- Several responses considered necessary a reduction of trading venues' trading hours (especially for those offering extended trading hours).
- Two stakeholders recommended that the transition to T+1 should be implemented outside of the "corporate action season" and certain specific dates, such as month and quarter ends and major fund rebalancing dates.
- Streamlining the acquisition of SSIs. One response suggested the creation of a SSI repository.
- Allocation and confirmation should be made at the end of the trading day (however, it should be determined at a later stage whether the end of the day should be considered 23:59 CET or 04:59 CET).
- All custodians' statements of holdings should disclose in which CSD the securities are recorded.

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?

176. ESMA received 51 replies to this question. Some of them suggested that it is too early to identify and address the different issues that may arise along the way and did not provide a timeline.

177. Some respondents noted that the main issue is not how long would it take for certain specific firms to adapt to T+1, but how long it would take for the market as a whole to adapt.

178. Some other respondents used the implementation of T+2 as a reference. They concluded that it should take more than 31 months given that it was the time gap between

the EC's proposal of CSDR and the effective implementation of T+2. These responders noted that T+1 is significantly more complex than implementing T+2.

179. Nine respondents considered that the period to implement T+1 should be at least 4 years (some of them identified this period directly and others considered that they would need 18 to 24 months after publication of the amendment of Article 5 of CSDR in the Official Journal).

180. Finally, nine respondents would be ready for adaptation within one year.

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?

181. 44 replies addressed this question. The vast majority of responses considered that the current scope of Article 5(2) of CSDR would be appropriate for a shorter settlement cycle, i.e., transactions in transferable securities executed on a trading venue.

182. A small number of respondents suggested specific exclusions from the scope of T+1, such as UCITS.

183. One association recommended explicitly excluding both the start and the end leg of a repo transaction from the scope of T+1. This association noted that only the end (repurchase) leg of a repo is exempted from T+2 under the current CSDR (see recital (13)).

184. On the contrary, six replies considered it necessary to extend the scope of Article 5(2) of CSDR, to include FX transactions (currently out of the scope of EU financial regulation).

185. When talking about the scope of instruments subject to a shorter settlement cycle, three respondents insisted on the need to coordinate with the UK and Switzerland and provided the example of Eurobonds as instruments traded in the UK but settled on a CSD/ICSD which could be negatively affected by non-harmonised settlement cycles.

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

186. ESMA received 50 replies to this question. 20 responses did not consider feasible this possibility providing different reasons for this: increasing interdependency across instruments; further complexity of the cash management and investment decisions (e.g., funding issues for ETPs with equity/bond underlying); the risk of biasing funds' investment decisions towards instruments with a longer settlement cycle… Some of these responses noted that a shorter settlement cycle would impact more heavily fewer liquid shares and ETFs.

187. 14 responses considered feasible having different settlement cycles across financial instruments. Many of these replies noted that that it is the case today in relation to derivatives versus shares or gilts and treasuries, that currently settle in T+1.

188. Apart from those, 13 additional responses considered feasible having different settlement cycles across instruments but expressed a clear preference for having all securities traded on a trading venue within the same settlement cycle. Some of these suggested that in case it is decided to move to T+1 in the case of the instruments contemplated in Article 5(2) of CSDR, FX transactions and derivatives should align on the same settlement cycle.

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.

189. ESMA received 42 replies to this question. The vast majority of these responses supported a *single migration time for all instruments in the scope of Article 5(2) of CSDR*. Only three stakeholders supported a phased transition to a shorter settlement cycle, but not necessarily based on the asset class: one of these responders considered that the migration should take place per country, and a sell-side representative supported migration per trading venue.

190. In terms of identification of financial instruments that would be *more adequate for an earlier migration*, those were identified even by the market participants who expressed a clear preference for a single migration date for all instruments within the scope of Article 5(2) CSDR:

- Some stakeholders supported migrating equities and bonds in the first place in case such a phased approach was decided. One respondent suggested that T2S eligible instruments could easily migrate to T+1, provided that its cut-off times and processing times were optimised; two respondents proposed to migrate debt instruments first (however, one of these only referred to government bonds); another respondent considered that any financial instrument that does not derive its value from an underlying instrument and financial instruments which derive their value from EU underlying instruments or benchmarks would be ready to move at an earlier phase.

- One respondent considered that liquid financial instruments would not have major impediments for that move.

- One sell-side participant considered that free-of-payment OTC transactions and FI securities could migrate easily; and
- Finally, one financial market infrastructure considered that domestic market instruments (as opposed to financial instruments issued in another country and part of international custodian channels).

191. On the contrary, several respondents provided extensive views regarding the financial instruments or transactions that should be excluded from a shortened settlement cycle or for which a longer transition delay would be necessary:

- Eight replies concluded that the settlement cycle of ETFs should not be shortened because the creation of new units is contingent on the settlement of the underlying constituents, which may lead to delays.
- Derivatives and other complex instruments the price of which is dependent on overnight price feeds were mentioned by five stakeholders.
- Investment funds were mentioned by two stakeholders. One of them was more specific when mentioning SICAVs and SILs trading at the net asset value.
- Euro Medium Term Notes, US term notes… and in general debt instruments for which the ISIN code is not available at the time of execution.
- Latibex shares were mentioned as well.
- Three responses proposed to correct CSDR to permit that both legs (buy and sell) of a repo transaction were exempted from a shorter settlement cycle.
- Primary market transactions, transactions not involving two trading parties (such as securities account transfers or free-of-payment transactions in the (de)mobilisation of collateral) and OTC transactions were mentioned as transactions that should remain out of the scope of a shorter settlement cycle.

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?

192. ESMA received 36 responses to this question. The rejection of an eventual expansion of the scope of Article 5(2) of CSDR was almost unanimous.

4.3.2 ESMA's preliminary assessment

193. As regards the steps to be taken towards a shorter settlement cycle, ESMA agrees with the responses received in the necessity of a sound cost-benefit analysis. As part of that analysis, ESMA will consider lessons learnt from the North America transition to T+1 in its final report.

194. ESMA also understands that an eventual transition to a shorter settlement cycle would require an intensive coordination involving regulators and the industry, but the current stage of the analysis does not permit to "designate" a specific body to coordinate that task.

195. ESMA takes note of the broad feedback requesting coordination with financial authorities of the UK and Switzerland in the context of an eventual shortening of the settlement cycle.

196. Regarding the regulatory steps to be taken, ESMA notes the comments regarding the competing EU regulatory objectives. ESMA will assess areas of divergence which should be addressed (including settlement functionalities that remain optional, potentially hampering settlement efficiency) in the case of a shift to shorter settlement cycles.

197. As regards the date for an eventual transition to T+1, ESMA is considering the feedback received from the Call for Evidence and the contributions to roundtables hosted by ESMA and the European Commission. The preliminary analysis of the feedback received suggests that an eventual transition to T+1 could take place no earlier than 32 months from the date industry is informed that the change needs to happen,, but it does not pre-judge ESMA's final position. In case the EU decided to move to a shorter settlement cycle, ESMA agrees with some of the feedback suggesting that such transition should not be initiated at a moment where there is traditionally significant activity in the area of corporate actions.

198. The feedback to the two questions on the CSDR scope (Q17 and Q20) are consistent and indicate a clear preference for maintaining the current scope, but there are nuances and recommendations to be explored. ESMA will further examine whether certain transactions should be excluded from the scope.

199. When asked about the financial instruments that are easier to migrate to a shorter settlement cycle, most responses support a single migration date for transferable securities traded on a trading venue.

4.4 International developments on settlement cycles and their impact on the Union's capital markets

200. Since the entry into force of Article 5(2) of CSDR in 2014, the settlement cycle in other jurisdictions has continued to evolve. In 2017, the US shortened its securities settlement cycle from T+3 to T+2, aligning with the EU. More recently, other jurisdictions have moved to shorter settlement cycles, including India which has been operating in T+1 since the beginning of 2023 following a staggered transition, and China which adopted a T+1 settlement cycle for Delivery versus Payment transactions in December 2022. On 27 and 28 May 2024, North America will shorten again its securities settlement cycle to T+1. The objective of this section of the Call for evidence was to gather feedback on the impact that international developments related to settlement cycles have on the Union's capital markets.

4.4.1 Feedback received

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.

201. ESMA received 49 replies to this question. The majority of respondents have strongly supported an alignment with the US and the UK. For some of these responses the alignment EU-UK-Switzerland is more important than the EU-US alignment.

202. On the opposite front, five replies from different stakeholders recommended ESMA a "wait and see" approach to do the assessment after the US transition has been finalised. Irrespective of whether they were in favour or against of an alignment EU-US (and with UK and Switzerland) on T+1, nine market participants underlined that there remain uncertainties about the US move to a T+1 settlement cycle. Therefore, these respondents concluded that a full assessment can only be made after the transition to T+1 in the US and Canada.

203. In terms of the specific impacts identified, the compressed time window due to the US transition has been addressed from different angles. Several respondents have noted the compressed time to carry out the allocation, confirmation, and affirmation of the trades. One association highlighted that this should be a problem for trades later in the day, due to the current industry standard for lenders to enforce a cut-off time two hours before market close.

204. Likewise, several respondents have highlighted that FX transactions will suffer the time compression due to the shorter settlement cycle in the US since the settlement cycle of the securities and that of the related FX transaction have to be finalised in T+1. One credit

institution estimated that circa 1% of CLS notional value will move to T+0, not meeting custodian cut-offs and therefore not being processed into the CLS settlement.

205. On a related topic, the compressed time window between trading and settlement should also have a direct impact on *securities financing transactions* (repo and securities lending), according to several stakeholders. In line with feedback received to other questions of the Call for evidence, one association noted that the compressed settlement timeframe will affect borrowers (who will need to ensure the timely availability of acceptable collateral to secure borrowed securities) and lenders (who will need to manage collateral receipts and returns efficiently within the compressed timeframe). Some of these responses connected this compressed time window and the increased cost and complexity to undertake market making, that may increase the bid-ask spreads.

206. For ETFs, multi-listed securities and depositary receipts, separate workflows will be required for different settlement cycles, leading to additional costs and complexities. Several replies considered that the inherent lower settlement efficiency of ETFs is likely to further decrease when the settlement cycle of all or part of their portfolio is reduced. Another possible result is wider spreads for investors and cash breaches for ETFs operating under the UCITS Directive. One association of custodians noted that the ETF industry with global portfolios will have to decide whether they remain on T+2 or move to T+1.

207. Other respondents have highlighted that another likely outcome is that multi-listed securities and depository receipts will become subject to different settlement cycles depending on the jurisdiction where they are traded. Several responses highlighted the funding gap, the balance sheet inefficiencies and the opportunity costs that would appear for these instruments, leading to increased spreads or costs for the issuer (as an example, if one share is bought in the EU and sold in the US, it implies that the acquisition is settled in T+2, which is also the settlement period of the FX transaction, while the share is sold in the US in T+1, meaning that the entity will be short on that share for one day. In a reverse transaction, the entity will be long on that share for one day). One respondent considered that the increase in the bid-ask spreads should not be significant.

208. One respondent has suggested that the above-mentioned circumstances will increase market making costs. Along the same line, another reply highlighted the case of Latibex shares, Latin American securities traded in the Spanish stock exchange as well. If Latin American countries moved to T+1 and Europe remained in T+2, the arbitrage carried out by specialists would become more complex.

209. Another widely shared concern is about corporate actions in relation to shares listed in the US and the EU, where the record date and the ex-date will differ as long as the EU remains in T+2. As a consequence, the dates of determination of the entitlement to

dividend and the date of payment might differ leading to impacts on the price of the securities. In that sense, one response noted that in principle, the record date should be same across markets. However, two possibilities exist for the EU in relation to equities listed in the EU and the US: EX= Record Date-1 vs. EX= Record Date (another respondent supported this option). Therefore, a standard industry practice should be established soon. This issue has an impact on tax processing as well.

210. One custodian noted that derivatives will also be affected. Despite equity swaps are excluded from US T+1, their settlement cycle will align with that of the underlying instruments.

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.

211. ESMA received 40 replies to this question. Stakeholders mostly addressed this question from the perspective of the misaligned settlement cycles and recommended the shortening of the settlement cycle in the EU.

212. Seven associations and market participants requested regional coordination, mostly with the UK, but also with Switzerland, to achieve a coordinated transition to a shorter settlement cycle. In six responders' view, an orderly migration within the EU (even by asset type) to a shorter settlement cycle would prevent that different markets settle in different cycles. One association requested guidance on the settlement convention to be used for multi-listed instruments (from the US mostly, but also from the UK) that settle in (I)CSDs.

213. One financial market infrastructure suggested the harmonisation of securities laws in the EU, especially with regards to registration and financial transaction taxes; alignment of the securities lending procedures to the T+1 settlement cycle; establishment of a "no action relief" to be used in case of unintended consequences of a shorter settlement cycle in the EU.

214. Other replies addressed topics that fall under the responsibility of the industry rather than under the EU regulators' remit (e.g., settlement conventions for multi-listed instruments settled in EU (I)CDS; increase of straight-through-processing; harmonise the application of EU standards, further standardisation of asset servicing…). In particular, two responders considered necessary ensuring that the allocation, confirmation, and matching is made in T. One of these suggested a mandatory pre-matching regime to reduce the risks of misaligned settlement cycles but also to facilitate an eventual transition to T+1 in the EU.

215. Two associations suggested that the ECB and EU legislators should contribute in the transition of CLS cut-off from 12:00 AM CET to 2:00 AM CET.

216. One association suggested the alignment of Free-of-Payment and the Delivery-versus-Payment settlement cycles.

217. Regarding the proposed regulatory actions, it is possible to group them around the following items:

- a potential breach of the UCITS limits for investments in deposits (Article 52(1)(b) of UCITS Directive[11]) and the temporary borrowing limits (Article 83(2) of UCITS Directive[12]) was mentioned by six respondents; these replies requested regulatory guidance considering that the breach of the deposit limits due to misaligned settlement cycles should not be considered as an active breach; likewise, they requested a temporary forbearance of the temporary borrowing limit for one day due to the mismatch;

- three replies considered that the US move to T+1 will entail an increase of settlement fails due to the mismatch with the EU settlement cycle; in line with that they requested a temporary suspension of CSDR settlement discipline.

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

218. 54 replies reacted to this question. The vast majority of them supported the alignment of settlement cycles with other non-EU jurisdictions, with some nuances. Many of them also supported regional coordination with the markets more intertwined with EU markets, i.e., the UK and Switzerland.

219. Several of these supportive responses considered that an internal harmonisation within the EU is a pre-requisite to achieve a shorter settlement cycle. These responses underlined the internal EU inconsistencies in terms of regulatory framework and settlement systems. As a corollary of that, one stakeholder indicated that pushing for T+1 without solving the operational challenges that such legal divergences entail could impair liquidity in the EU or make extended settlement a prevailing feature.

220. Nine responses had a negative view on a shorter settlement cycle. These stakeholders suggested that shortening the settlement cycle would not have benefits, or it would only have benefits for global market participants (and not for the purely domestic ones) or the

[11] Article 52(1)(b) of UCITS Directive establishes that a UCITS shall invest no more than 20% of its assets in deposits made with the same body.

[12] Article 83(2) of UCITS Directive, establishes a temporary borrowing limit of 10% of their assets.

benefits will have to be determined in the future. Three of these replies considered that the alignment on the timing of settlement is just one portion of the mismatch between other jurisdictions and the EU. One association warned that there are several ways to converge in T+1 and not all of them would be beneficial for the EU. This association noted that it would be likely that the scope of T+1 was different in the EU and the US, or the personal scope could differ as well.

221. Another response considered that it is necessary to determine first the volumes of cross-border transactions, the dependencies between the different jurisdictions and which is the real impact of T+1 in the US.

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

222. ESMA received 41 responses to this question. 26 stakeholders identified positive side-effects of shortening the settlement cycle, including:

- Further harmonisation of the EU settlement landscape.
- Increased automation of post-trade processes and therefore, an increased settlement efficiency.
- Improvement of the competitiveness of EU.
- Twelve stakeholders did not identify further indirect benefits with different nuances:
    - One response considered that harmonising the EU settlement landscape would deliver indirect benefits, rather than a shorter settlement cycle.
    - Two responses suggested focusing on the Capital Markets Union and other objectives supported by the European Commission.
    - One reply did not see additional benefits but noted that the EU would suffer a reputational impact in case it did not adapt to the shorter settlement cycle.
    - One association considered that the benefits would only be accrued by global players, whereas smaller players would only bear additional costs.

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.

223. ESMA received 44 replies to this question. The majority of respondents considered that the adaptation to a shorter settlement cycle in third-country jurisdictions (i.e., in the US) would facilitate their transition to an eventual shorter settlement cycle in the EU.

224. However, a significant number of respondents noted that only market participants actively trading in the US could leverage on their experience and not all EU market participants are active in the US (such as Tier 2 or Tier 3 buy-side entities).

225. Two associations considered that the adaptation of EU market participants to a shorter settlement cycle would not be useful in an eventual shortening of the settlement cycle in the EU. Four other respondents highlighted that firms do not have a single set of procedures, technology, and staff for settlement in both sides of the Atlantic. Instead, they may have US and EU sets of procedures, technology, and staff, limiting the capacity of extracting conclusions from the US transition. One reply concluded that EU market participants active in the US, instead of duplicating the set-up used for its major activity (the EU market) for episodic transactions in the US, should become clients of global or local providers.

226. Ten replies underlined the different degree of complexity of the EU in terms of fragmentation, number of infrastructures and currencies as opposed to the US. These differences implied that the lessons learnt from the US experience could not be directly extrapolated to the EU case.

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

227. ESMA received 53 reactions to this question. The vast majority of these responses considered that having different settlement cycles in the US and in the EU is a viable option, at least in the short-term. Most of them have indicated though that such a misalignment could generate complexity, costs and operational risks (in particular for certain financial instruments, such as ETFs, ADRs and double-listed securities) that should be avoided in the long-term. However, they also noted that the EU and the US markets had different settlement periods in the past without major consequences (even though some of them noted that the impact of T+1 is bigger than shortening to T+2) and that there are different settlement periods across financial instruments.

228. Several stakeholders have raised a number of arguments in favour of remaining (at least temporarily) in T+2.

229. According to some of them the impact of remaining in T+2 would be limited. The reasons for that were varied, including past experience with misalignments, the fact that the misalignment would only impact EU market participants actively trading in the US. Also two respondents considered that the settlement cycle is not the main driver for investment decisions.

230. According to some respondents, remaining in T+2 would have different advantages:

- it would prevent a reduction of investments in less liquid currencies, at least as long as the FX settlement cycle remains in T+2;

- it might increase the attractiveness of EU markets for foreign investors which do not have to change their own operating models (for instance, from APAC investors); some of these responses noted that alignment with the US in T+1 implies a misalignment with the jurisdictions that remain in T+2;

- the amount of settlement fails would not increase (which contrast with feedback received to other questions of the Call for evidence, suggesting an inevitable increase of settlement fails due to the misalignment of settlement cycles across the Atlantic);

- cost savings for market participants, because it would not be necessary to carry out the update of systems and processes to T+1.

231. Five replies expressly considered that a misalignment with the US is not viable (or is not being viable in the long-term).

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.

232. None of the responses received to this question elaborate on relevant issues not identified in the responses to other questions of the Call for evidence.

4.4.2 ESMA's preliminary assessment

233. Two main types of concerns arise from the responses to the question on the main impacts of the transition to T+1 in other jurisdictions:

- the compressed time to carry out all the post-trade processes. In the case of North America, this is a consequence of the different time zones and this may not be solved even in case the EU shortens its own settlement cycle; and

- the impact of misaligned settlement cycles between the EU and the main non-EU jurisdictions (such as the funding gap to be covered by EU funds invested in US securities) which would remain unless there is a realignment of settlement cycles.

234. ESMA takes note of the comments regarding the uncertainties concerning the US transition to T+1 and will take them into account to the extent possible in its final report.

ESMA's assessment on the specific requests for regulatory action due to misalignment of settlement cycles in the EU and in North America:

235. As regards the possible legislative or regulatory actions to reduce the impact of the move to T+1 in other jurisdictions, taking into consideration the approaching date of the move to T+1 in North America, three main requests result from the feedback received to the Call for evidence:

- addressing a potential breach of the UCITS limits for investments in deposits (Article 52(1)(b) of UCITS Directive) due to a mismatch in the settlement cycles;
- forbearance for a potential breach of the temporary borrowing limits (Article 83(2) of UCITS Directive); and
- a temporary suspension of CSDR settlement discipline (cash penalties).

Potential breach of the UCITS limits for investments in deposits (Article 52(1)(b) of UCITS Directive)

236. The UCITS Directive distinguishes between (1) UCITS investing in deposits and (2) UCITS holding ancillary liquid assets. This is reflected also in Recitals 40 and 41 of the UCITS Directive[13].

[13] (40) In order to take into account market developments and in consideration of the completion of economic and monetary union it is desirable to permit UCITS to **invest in bank deposits**. To ensure adequate liquidity of investments in deposits, those deposits **should be repayable on demand or have the right to be withdrawn**. If the deposits are made with a credit institution the registered office of which is located in a third country, the credit institution should be subject to prudential rules equivalent to those laid down in Community law.
(41) **In addition** to the case in which a UCITS invests in bank deposits in accordance with its fund rules or instruments of incorporation, it should be possible to allow all UCITS to **hold ancillary liquid assets**, **such as bank deposits at sight**. The holding of such ancillary liquid assets **may be justified, inter alia, in order to cover current or exceptional payments**; in the case of sales, for the time necessary to reinvest in transferable securities, money market instruments or in other financial assets provided for in this Directive; or for a period of time strictly necessary when, because of unfavourable market conditions, the investment in transferable securities, money market instruments and in other financial assets is suspended.

237. Article 52(1)(b) of the UCITS Directive provides for a 20% limit for investments in deposits, while noting that the legal text clarifies that this relates to deposits with the *same* body.

238. In addition, the second subparagraph of Article 50(2)(b) of the UCITS Directive sets out that UCITS may hold ancillary liquid assets, without providing for any explicit quantitative limit.

239. In light of this, ESMA does not see any obstacles in the EU legislation for UCITS to deal with the expected change of the settlement cycles to T+1 in the US.

Potential breach of the temporary borrowing limits (Article 83(2) UCITS Directive)

240. According to the responses received, the misalignment between the US and the EU will lead UCITS having to pay for US securities sooner than they would receive the cash against the fund share/unit from the EU investor. According to these stakeholders, they will (have to) borrow cash in order to cover that “funding gap”. In some cases, this may result in UCITS breaching the temporary borrowing limits of 10% set out in Article 83(2)(a) of the UCITS Directive. Some stakeholders argued that this does not create ‘leverage’ since the borrowing would be fully covered by the subscription money to be received (within the next business day).

241. While ESMA does not find sufficient evidence to argue that legislative changes or a general forbearance are strictly needed to allow UCITS to deal with the expected change of the settlement cycle to T+1, ESMA will keep monitoring market developments and consider whether any actions or guidance are needed to ensure supervisory convergence.

A temporary suspension of CSDR settlement discipline (cash penalties)

242. Finally, there is the alleged risk of increased settlement fails of transactions concluded in the EU on ETFs invested in US securities. However, when looking at the creation of the ETF shares, given that US securities would settle before the ETF, the fund manager would receive the securities composing the fund before it has to deliver the fund share to the EU investor. When looking at redemptions, the same would apply i.e., the transaction on the US securities would be settled before the fund has to redeem the ETF share in the EU. Taking this into consideration, ESMA does not agree with the arguments suggesting that the move to T+1 in North America would imply an increase in settlement fails for funds invested in North American securities. As such, it does not seem adequate to provide forbearance on or suspend the application of CSDR cash penalties due to the move to T+1 in North America. On the contrary, ESMA considers that these penalties are a good tool to encourage settlement efficiency and providing forbearance on the application of cash

penalties would not be exempted from the risk of deteriorating settlement efficiency in the EU.

243. ESMA will continue analysing the responses provided to the question on the *benefits in the harmonisation of settlement cycles with other non-EU jurisdictions*. However, it acknowledges stakeholders' preference for not being faced with misaligned settlement cycles. Additionally, ESMA will carefully analyse the impact of misaligned settlement cycles in specific cases, including dual-listed securities, and the tax and legal implications that such misalignment would entail.

244. ESMA also notes responses regarding the need for prior internal harmonisation of the EU regulatory framework and settlement systems.

245. As regards the alleged *indirect benefits of a shorter settlement cycle*, ESMA notes that there are conflicting messages on whether a shorter settlement cycle would be a catalyst for internal harmonisation and the achievement of the Capital Markets Union or instead, such internal harmonisation is a pre-requisite for a successful shorter settlement cycle.

246. Most responders consider that the adaptation of EU market participants to the shorter settlement cycles in other jurisdictions could facilitate the adoption of T+1. However, ESMA acknowledges that:

- some market participants are not actively involved in the US market. As a consequence, these local players would not benefit from the experience gathered in such transition in case of an eventual EU move to T+1. Moreover, even if these market participants make use of the services provided by a third party (such as custodians) to adapt to a shorter settlement cycle in the EU, it would come at a cost that would ultimately be passed on to the end investors;

- the degree of complexity of the EU post-trading landscape is significantly higher than that of other jurisdictions. Again, ESMA considers that this feedback has to be put in the context of the requests for further harmonisation of the EU post-trade landscape.

247. As regards the *viability of different settlement cycles in the EU and other non-EU jurisdictions*, the vast majority of the feedback received considers that remaining in T+2 is a viable option at least in the short term. Additionally, the EU and the US had different settlement cycles in the past and the industry does not report significant impacts from that. Also, as noted by some respondents, both the US government and government agency debt markets as well as the UK government bond markets have already been settling on a T+1 basis for a few years now, i.e. the standard settlement cycles for government bonds are not aligned between the EU, on the one hand, and the US and the UK, on the other

hand; yet this does not seem to have led to any major disruption in capital flows between the EU and these jurisdictions.

5 Conclusion and next steps

248. Overall, views expressed in the feedback to the Call for evidence on shortening the settlement cycle are quite mixed. Respondents have highlighted a number of operational impacts that go beyond simple adaptations of post-trade processes. From a cost and benefit perspective, while respondents have clearly identified the main areas of focus and have clearly highlighted the negative aspects and the costs, together with a a number of benefits resulting from shorter settlement cycles, ESMA has received limited quantitative evidence due to forecasting complexities.

249. In order for ESMA to produce its assessment on the appropriateness of shortening the settlement cycle and of the costs and benefits of doing so, several questions remain to be further assessed and better understood. These include (but are not limited to) the impacts on securities lending and borrowing, market making, and the repo market; FX trading; cross-border activities; corporate actions standards; and, benefits resulting from margin reductions for cleared transactions. ESMA will also aim at clarifying the possible implications of T+1 for retail investors and smaller market players.

250. Respondents have also provided a number of suggestions on how the shortening of the settlement cycle could be organised and when this should be achieved. ESMA's report will also assess these suggestions in order to provide the Commission with a detailed outline of how to move to a shorter settlement cycle as mandated by CSDR Refit. In doing this, ESMA will look at legislative and regulatory action required, including any transitional measure, which could help ensuring a smooth transition to T+1. ESMA will also assess as areas where further harmonisation should be achieved.

251. Finally, looking at international developments, ESMA has understood that the transition to T+1 in other jurisdictions will require EU market players active in those jurisdictions to adapt their processes. Whether any legislative or regulatory barrier may jeopardise EU market players from operating in an environment where securities transactions in North America settle in T+1 while the EU remains in T+2 requires further analysis.

252. A significant part of the feedback received suggests that an alignment would be beneficial, including cooperation within geographical Europe, although this will not solve challenges related to cross-border settlement within the EU. Also, on the international aspects, ESMA has been strongly encouraged to consult with investors located in the APAC region, as they would be particularly impacted by a potential EU move to T+1 due to time zone differences. In its Report on shortening the settlement cycle, ESMA will aim

at including lessons learnt from the North American move to T+1 as well as any further feedback received from stakeholders in the APAC region.

253. ESMA will aim at publishing the report mandated by CSDR Refit in Q3/Q4 2024, before the given legislative deadline, i.e., 17 January 2025.

6 Annex – List of non-confidential responses

#	Institution
1	AMAFI
2	AMI-SeCo
3	Amundi Asset Management
4	Association de la Gestion Financière
5	Association for Financial Markets in Europe
6	Association Nationale des Sociétés par Actions -ANSA
7	Association of German Public Banks
8	Association of Global Custodians - European Focus Committee
9	Association of the Luxembourg Fund Industry (ALFI)
10	Associazione Intermediari Mercati Finanziari – ASSOSIM
11	Austrian Federal Economic Chamber, Division Bank and Insurance
12	BNY Mellon
13	Bundesverband der Wertpapierfirmen (bwf)
14	Bundeverband für strukturierte Wertpapiere e.V. (BSW)
15	BVI
16	Caceis Bank Spain
17	Cboe Clear Europe NV
18	CIB Bank Plc.
19	Citibank Europe Plc
20	CLS Bank International
21	Czech Banking Association
22	Czech Capital Market Association
23	DACSI
24	Deutsche Börse Group
25	DTCC
26	ECSDA
27	Euronext
28	European Association of CCP Clearing Houses (EACH)
29	European Association of Public Banks
30	European Fund and Asset Management Association (EFAMA)
31	Febelfin
32	FESE
33	FIA EPTA
34	Finance Denmark
35	Finance Finland
36	FIX Trading Community
37	FRANCE POST MARCHE (French post trade association)

38	G. M. Bollenbacher & Co., Ltd.
39	German Banking Asociation/Bundesverband deutscher Banken
40	German Finance Agency
41	GFMAs Global FX Division
42	International Capital Market Association (ICMA)
43	International Securities Lending Association (ISLA)
44	International Securities Services Association
45	Investment Company Institute and ICI Global
46	ISITC Europe CIC
47	Italian Banking Association
48	Luxembourg Bankers' Association (ABBL - Association des Banques et Banquiers, Luxembourg)
49	Nordic Growth Market
50	PGGM Vermogensbeheer B.V.
51	Raiffeisen Invest d.o.o.
52	SIX Group
53	Societe Generale
54	State Street Corporation
55	Swedish Securities Markets Association
56	Swift
57	The Alternative Investment Management Association (AIMA)
58	The Global Association of Central Counterparties - CCP Global
59	The Investment Association
60	The Norwegian Securities Dealers Association
61	UK Finance
62	World Federation of Exchanges
63	Zagrebačka banka d.d.