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

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

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

T+1

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

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

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

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

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

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

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

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

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

T+0

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AIMA	The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than US$2.5 trillion in hedge fund and private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage US$800 billion of private credit assets globally.
afme/ Finance for Europe	AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.
Association of Global Custodians European Focus Committee Subject to Supplemental Commentary	Established in 1996, the Association of Global Custodians (the "Association") is a group of 12 global financial institutions that each provides securities custody and asset-servicing functions primarily to institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure. The member banks are competitors, and the Association does not involve itself in member commercial activities or take positions concerning how members should conduct their custody and related businesses. The members of the Association are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company.
.BVI	BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 28%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en
EACH European Association of CCP Clearing Houses	The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EAPB	The EAPB is the voice of the European public banking sector. It represents directly and indirectly over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality funding agencies and public commercial banks across Europe.
EBF European Banking Federation	The European Banking Federation is the voice of the European banking sector, uniting 33 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about 2,7 million people.
ECSDA European Central Securities Depositories Association	The European Central Securities Depositories Association (ECSDA) represents 39 national and international central securities depositories (CSDs) across 35 European countries. The association provides a forum for European CSDs to exchange views and take forward projects of mutual interest. It aims to promote a constructive dialogue between the CSD community, European public authorities, and other stakeholders aiming at contributing to an efficient and risk-averse infrastructure for European financial markets.
EFAMA European Fund and Asset Management Association	EFAMA is the voice of the European investment management industry, which manages over EUR 30 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors. Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book. More information is available at www.efama.org
EVIA European Venues & Intermediaries Association	The European Venues and Intermediaries Association promotes and enhances the value and competitiveness of Wholesale Market Venues, Platforms and Arranging Intermediaries by providing members with co-ordination and a common voice to foster and promote liquid, transparent and fair markets. It has built a credible reputation over 50 years, by acting as a focal point for its members when communicating with central banks, governments, policy makers, and regulators.
FESE	The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member from 30 countries. At the end of June 2023, FESE members had 7,357 companies listed on their markets, of which 19% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,482 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union. FESE is registered in the European Union Transparency Register: 71488206456-23.

FIA	FIA is the leading global trade association for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from around the world as well as technology vendors, law firms and other professional service providers. FIA's mission is to: support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Learn more at www.fia.org, visit FIA, Inc. on LinkedIn or follow us on Twitter @FIAConnect.
FIA EPTA EUROPEAN PRINCIPAL TRADERS ASSOCIATION	FIA European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms. Our 24 members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe. We work constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient, high-quality financial markets.
gfma GLOBAL FINANCIAL MARKETS ASSOCIATION	The Global Financial Markets Associations (GFMAs) Global Foreign Exchange Division (GFXD) was formed in cooperation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 24 global foreign exchange (FX) market participants, collectively representing the majority of the FX inter-dealer market. Both the GFXD and its members are committed to ensuring a robust, open, and fair marketplace and welcome the opportunity for continued dialogue with global regulators.
ICMA International Capital Market Association	ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels, and Hong Kong, serving over 600 members in 66 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets. www.icmagroup.org / @ICMAgroup
ISLA®	The International Securities Lending Association (ISLA) is a leading non-profit industry association, representing the common interests of securities lending and financing market participants across Europe, Middle East and Africa. Its geographically diverse membership of over 180 firms includes institutional investors, asset managers, custodial banks, prime brokers and service providers.
ISSA International Securities Services Association	ISSA is a Swiss-domiciled association that supports the securities services industry. ISSA's members include CSDs, custodians, technology companies and other firms who are actively involved in all aspects of the securities services value chain. By connecting its members and facilitating collaboration, ISSA provides the leadership necessary to drive change in the securities services industry. The focus is on finding progressive solutions to reduce risk and improve efficiency and effectiveness – from issuer through to investor – as well as on providing broader thought-leadership to help shape the future of the industry.