Introduction:

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 620 members in 67 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.

Executive summary:

ICMA welcomes the opportunity to respond to the [ESMA Call for Evidence on shortening the settlement cycle](). ICMA views this CfE as an important first step in "assessing the potential benefits and challenges that the adoption of a T+1 settlement cycle would represent, including an assessment of its impact on counterparty, market, credit and operational risk, its impact on the global competitiveness and attractiveness of capital markets of the Union, and its impact and feasibility in the context of the level of settlement efficiency on capital markets of the Union" as referred to in the approved text of the CSDR Refit.[1]

T+1 represents a very important topic for ICMA members with potentially significant and broad implications for the international bond markets, which ICMA represents, both within Europe and beyond, and across our diverse membership. Notably, this response has benefitted from input from ICMA's Secondary Market Practices Committee (SMPC), ICMA's European Repo and Collateral Council (ERCC), as well as ICMA's Market Infrastructure Advisory Committee (MIAG). ICMA's T+1 Taskforce was established in July 2023 as a joint effort across the three groups and has coordinated our response to this consultation. Over the past months, the ICMA Taskforce has grown to around 150 members, representing sell-sides, buy-sides, market infrastructures as well as other relevant service providers. On the EU side, ICMA forms part of an EU cross-industry Taskforce on T+1 which was established in March 2023, bringing together 15 trade associations. ICMA is also actively involved in the T+1 discussion in the UK as a member of the UK's Accelerated Settlement Taskforce.

Key points:

- ICMA views a potential EU move to T+1 as a significant undertaking with wide-ranging implications, not only for the post-trade process, but also for trading, market-making and liquidity issues. It is important to highlight that a move to T+1 is expected to take the current post-trade process in the EU to a natural limit, leaving scarcely any buffer for manual intervention

[1] https://data.consilium.europa.eu/doc/document/PE-47-2023-INIT/en/pdf

and exception management. This would come with significant risks that need to be carefully considered, and that are exacerbated by the complexities and fragmentation of the EU market.

- In that sense, ICMA strongly supports the EU's focus on the "why" behind T+1, with the aim of conducting, as a starting point, a thorough assessment of all the expected costs and benefits of such a move. It is important that the outcome of this process is, at this stage, considered open. Given the far-reaching and market-wide implications, it is critical that any decision in favour or against a further shortening of the settlement cycle is based on a solid understanding of costs and benefits. Furthermore, this should be a decision driven by economic rationale and quantitative evidence rather than a political agenda.
- When considering a move to T+1, one of the key elements to consider is whether such a move can be beneficial in raising the EU's competitiveness and attractiveness in an international context. On the one hand, it can be argued that streamlining current post-trade processes could help in achieving such competitiveness. On the other hand, there are doubts whether a move to T+1 is the correct tool to accomplish this goal (aside from other means to optimise settlement efficiency). A careful consideration of associated risks and costs needs to be conducted, given that moving to a faster settlement process, counterproductively, could lead to increased settlement fails and associated costs, which in turn could have severe negative effects on the EU's competitiveness and attractiveness.
- When assessing potential costs and benefits, it is also highly important not only to focus on operational impacts and post-trade processes, but also to discuss any possible implications for trading, market making, funding and market liquidity. As highlighted in our response to this consultation, we expect such areas to be heavily affected by a move to T+1, resulting, for example, in an increased need for intraday funding as well as putting further pressure on trading activity and, potentially more importantly, on repo and securities financing markets which are critical to the functioning and resilience of bond markets. It is worth highlighting that the negative effects on market making and funding are expected to be more pronounced in less liquid markets where securities are more difficult to source.
- The US (along with Canada and Mexico) have decided to move ahead to shorten the settlement cycle to T+1 in May 2024. While this may pose significant challenges also for European firms, it should be seen as an opportunity to carefully observe the real-world, practical implications of this move, both in terms of costs and benefits for the US market, but also in terms of the costs of misalignment between Europe and the US. This experience will shed additional light on the urgency and the risks for Europe to move to T+1, and its competitiveness in the international marketplace. Europe should therefore allow sufficient time to fully understand the implications and draw the right conclusions, bearing in mind that there are important differences between the EU and the US in terms of market (infra)structure and legal framework. The same is true for other markets that have already made, or are considering, a move in the near future. Hereby we would particularly like to stress the importance of an alignment between the EU and UK, given the strong interconnectedness between these two markets.
- In this response, ICMA's focuses only to a limited degree on the question of T+0. ICMA has instead opted to co-sign a joint industry cross-association submission to the Call for Evidence (attached to this submission under Annex 1), explaining this decision based on a position agreed between the associations. As pointed out in the cross-association letter, ICMA does not see T+0 as a current policy choice, and hence focusses on T+1 only in our response to this CfE. That said, and to expand on the cross-association letter, ICMA would like to stress that we can indeed see

the potential benefits of a future settlement system based on T+0 (or rather "atomic" settlement), once the required technology becomes available and scalable. While any system based on such technology will require a fundamental rethink of the current market structure, including trading, clearing and settlement, we would not discard the feasibility of such models, and the current significant investments in tokenisation, DLT and associated technology are a testament to the hopes and expectations related to such a new environment. At the same time, we would expect that such technology would emerge naturally and establish itself gradually over time, and not necessarily include a 'big bang' approach adopted through regulation. Commenting on T+0 as part of this consultation in more detail would therefore be a distraction. T+0 considerations would be naturally exposed in the next stage of the review where we can identify existing use cases and opportunities to accelerate activity into earlier windows. However, we would suggest that T+0 may be a consideration when assessing the costs and benefits of a move to T+1, as part of the discussion around opportunity costs of a potential move to T+1 (and as referred to under Question 8 of the consultation), as any funding towards T+1 would likely include the diversion of resources away from more "radical" technology, such as DLT, which would facilitate, in the long-term, atomic settlement.

- Given the limited time to respond to this consultation, and the fact that it has been launched earlier than the industry had anticipated, ICMA (and other industry stakeholders) have unfortunately not been able to collect and aggregate sufficient relevant data points in support of ESMA's quantitative assessment. However, we are keen to further support this process and assist ESMA with further analysis over the coming months.
- In addition to this cover letter and the consultation response, we also attach the following Appendices:
  - Annex 1: EU Industry Taskforce_Cross Association High Level remarks Position on T+0
  - Annex 2: AGC EFG Overview of Settlement Cycle and ICMA Survey of Settlement Periods in European Repo
  - Annex 3: ICMA Draft Briefing Paper_Trading Bonds with different settlement cycles

Contacts:

Alexander Westphal, Director, Market Practice and Regulatory Policy.

alexander.westphal@icmagroup.org

Nina Suhaib-Wolf, Director, Market Practice and Regulatory Policy.

Nina.suhaib-wolf@icmagroup.org

We remain at your disposal for any questions and further discussions,

Kind regards,

ICMA T+1 Taskforce

#	Question
1	Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please: • 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. • 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. ***Response:*** ***Impacts are expected to be broad and very significant:*** *In general, it is important to distinguish between the ability for market participants to settle on a T+1 (or even T+0) basis, from the proposal to impose a legal requirement to do so across all instruments and transaction types. The former is already possible today and is used extensively, eg in the case of repo discussed below. However, imposing a T+1 settlement cycle across the board is a very different proposal which would require a fundamental rethink of current processes across the entire settlement lifecycle, from trade execution through to settlement. The post-trade process is often complex involving multiple steps and a variety of intermediaries and service providers. Shortening the settlement cycle to T+1 means that this process needs to be significantly compressed for most transactions. The effort required to achieve this compression cannot be underestimated and would exceed by far the challenge that firms faced with the move to T+2 in 2014. It has been estimated that a move to T+1 would reduce the time available to conclude all necessary steps from trade execution to settlement by over 80%[1] and would take the current post-trade process to a natural limit, leaving hardly any buffer for manual interventions or exception management..* • *The attached overview shows the complexity of a typical settlement lifecycle from trade execution to settlement (as attached in Annex 2. Kindly do not publish Annex 2)* ***Impacts in the EU are exacerbated by a number of additional complexities:*** • ***Fragmentation:*** *Unlike the US (and the UK), the EU market continues to be heavily fragmented, in terms of market infrastructure (e.g. consisting of multiple trading venues, CCPs, CSDs), but also in terms of non-harmonisation in areas such as tax, corporate actions, other remaining market specificities, as well as comprising multiple currencies (which means heavier reliance on FX trades). These issues and challenges are well documented and have been pointed out in numerous reports and discussions, particularly in the context of the Giovannini reports and subsequent workstreams, most recently the European Post-Trade Forum (EPTF) which submitted its [final report](#) in 2017. All of these factors introduce additional friction into the post-trade process and mean that in the EU a compression at the required scale will be hugely challenging, and is not comparable to the experience in the US and/or the UK. We also expect those issues to not only affect post-trade processes, but the whole lifecycle around a transaction, as will be further explored thoughout this CfE*

[1] As further explained in AFME's report *T+1 Settlement in Europe: Potential Benefits and Challenges* (September 2022)

	response. There are also important differences in terms of the post-trade process which would have to be considered, e.g. differences in terms of the affirmation/matching process or differences in CCP-models and the difference of netting systems between the EU and the US. • ***Scope:*** *An EU move to T+1 would be more complex due to the larger scope of instruments that would need to migrate. In particular, treasuries in the US and gilts in the UK already settle on a T+1 standard settlement cycle, whereas in Europe government bonds still settle on a T+2 basis. It is important to note that government bond trading and related repo activity takes up a very significant share of the overall market. According to T2S figures for instance, settlement in government bonds accounts for over [70%] of the total settlement volume (in value terms).* • ***Settlement efficiency and CSDR:*** *Over the past years, there has been a lot of focus on settlement efficiency in the EU both in the regulatory community as well as the industry itself, trying to better understand current issues, bottlenecks and potential ways to reduce settlement fails. While some progress has been made as result, it is clear that a lot of work still lies ahead. Further progress in this area would be a pre-requisite for any attempted move to T+1 and should be a clear priority at this point in time. From an ICMA perspective, a particular focus has been on the use of relevant settlement optimisation tools, including shaping, auto-partialling and auto-borrowing. ICMA has expanded significantly related best practice recommendations, both in relation to repo and cash bonds. A move to T+1 would not make these efforts any easier. In fact, it is very likely to undermine the progress made to date and cause a steep increase in settlement fails, especially if attempted at an overly ambitious timeline. The introduction of CSDR settlement discipline measures, particularly the introduction of cash penalties in 2020, poses an additional challenge and further distinguishes the EU from US and UK market where no equivalent measures exist. Increased settlement fail rates would trigger CSDR cash penalties and, perhaps more worryingly, also risk triggering further discussion on the introduction of MBIs (given that these are still on the table as a last resort measure) which would be extremely damaging and counterproductive.* *More specifically, some challenges and risks that would likely result from a decision to move to T+1 would include:* • *The need for firms to **invest massively** in automation, by upgrading IT systems and post-trade processes as well as onboarding external technology providers. As mentioned above, T+1 takes the current process to a limit, leaving hardly any buffer for manual interventions and managing exceptions.* • *A move to T+1 in the cash markets would put particular **pressure on repo and securities lending markets** and related processes which firms rely on to cover and fund cash trades. Earlier settlement will narrow the window within which the repo market has to fund most cash transactions to only one day, which means that a substantial part of the repo market will have to move to overnight or even same day settlement. This is a major change compared to today, as a significant share of the European repo market is still settled on a T+2 basis. Currently, as our more detailed analysis shows (which is attached to this response under Annex 2. Kindly do not publish Annex 2), in the interdealer (D2D) market for general collateral (GC) only 25% of repo activity happens on a T+0 basis, and this is far more than in other segments of the repo market. For specials, the share is already significantly smaller at just 3%. And T+0 is currently virtually non-existent in the D2C market, where 68% of the market is still on T+2. This means that a T+1 settlement cycle in the cash markets would require fundamental changes in the way SFTs are traded and*

processed today. It is also worth noting that this would likely shift virtually all repo settlement from the efficient night-time batch settlement cycle (NTS) into real-time settlement (RTS) during the day, which would be a significant step backward in terms of efficiency (in terms of settlement and intraday liquidity management) and system resiliency. In this context we would also recall that repo settlement volumes are very substantial. While this is not necessarily visible in the settlement data (given that repos are often not distinguishable from cash trades at the settlement level), the relevant transaction data (e.g. SFTR data) is a better reference point for the relative scale of the repo market, including in terms of settlement.

- *The pressure on repo and securities lending markets and the increased risk of settlement fails could also **damage market liquidity**, as investors might be dissuaded from lending securities for fear of them not being returned. This is further explained in our answer to Q4. If problems were concentrated at particular firms, they might not be able to continue trading so actively in the face of a backlog of unsettled trades, which would further sap market liquidity, as well as posing reputational risk.*
- *A migration to T+1 would require a deeper **review of current market operating times**, both at trading and at settlement level. At the trading level there has been a push in recent years in several markets to extend trading hours until late in the evening, partly motivated by the aim to increase the overlap with US operating hours and thereby facilitating cross-border business. However, in a T+1 environment late trading hours will pose a particular challenge as this leaves very little time to conclude post-trade processes on T+0. At the settlement level, current cut-off times in T2S and in the ICSDs, including timings within the settlement day. In particular, as mentioned above, without changes a move to T+1 would likely lead to a shift of significant settlement volumes from the efficient NTS to RTS during the day. In order to avoid this and maintain the efficiency of the settlement system, NTS cut-offs will likely have to be reviewed, both within T2S as well as (I)CSDs outside of T2S.*
- *Complying with a T+1 settlement cycle will mean that **important steps in the post-trade process will have to be anticipated** and concluded by the end of trade date. This includes the affirmation/confirmation process, as well as allocations, matching and instructions. More generally, a T+1 model will therefore mean a shift from "normal working" hours to "end of day" hours. This will require significant organisational change within firms and may lead (larger) firms to adopt "follow the sun" models and relocate teams, particularly to the US.*
- *A T+1 settlement cycle in Europe would create particular **challenges for international/overseas investors**, particularly in the APAC region, due to the late and narrow overlap with European trading hours and the short window on payment cycles in Asian currencies in CLS. Given the importance for Europe to remain an attractive global marketplace and facilitate foreign investment, these concerns should be taken very seriously and should be a key consideration in any decision to further shorten the settlement cycle. In the context of the US decision to move to T+1, there has been relatively limited consideration for overseas investors which has raised significant concerns. Europe should not repeat the same mistake, especially given the much higher proportion of cross-border trading. With respect to alignment with other jurisdictions, we would like to particularly highlight the importance of an alignment between the EU and UK, given the deep interconnectedness between these two markets.*
- *Finally, the buy-side will face specific challenges, particularly related to the **fund allocation process** with various fund allocations still on a T+3 or T+4 basis.*

2	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? ***Response:*** ***Implications of a misalignment of settlement cycles across instruments:*** • *In general, it is safe to assume that the execution of any complex transaction involving one instrument settling on a T+2 basis and the other one settling on T+1 will require either additional intraday funding or it will come with an increased risk of settlement fails (depending on whether the position is long or short). For example, this can be the case for: (i) hedging/arbitrage strategies (ie short selling of one instrument versus buying another instrument), (ii) transactions involving an FX component, (iii) transactions in ETFs which consist of different underlying securities (iv) transactions involving derivatives such as Total Return Swaps.* • *For all these transactions there is a risk that they: (a) become more cumbersome to execute due to different settlement cycles of underlying instruments; and (b) require increased intraday funding for the purchase of instruments on a T+1 basis (cash has to be available for settlement and may also be necessary to fund (parts of) a transaction where one security is held overnight or sold short for 1 day due to different settlement cycles).* ***Considerations specifically in relation to FX**:* • *The standard settlement cycle for FX is T+2 – T+1 settlement will therefore compress the FX component which will in turn introduce additional forward risk and cost in the form of higher spreads. In particular, in stressed markets there may be additional risk.* • *Depending on the market and currency pairing and CLS cut-off times, we note that the compressed time for FX activity may also lead to a shift of activity from CLS to the bilateral FX market, which would introduce additional risk.* • *Looking at different investors worldwide, any transactions with FX component for example with an Asian or Australian investor would be particularly challenging as the relevant timeline to source the FX component would be dramatically reduced compared to today.* • *Contrary to the US (or the UK), the EU is a market which consists of multiple currencies, hence a move to T+1 will have a higher impact on the FX side as more trades will have an FX component due to the multitude of currencies.* • *Late trading hours will create particular challenges in terms of timing, especially (but not limited to) trades across different time zones.*
3	Which is your **current rate of straight-through processing (STP)**, in percentage of the number and of the volume of transactions broken down per type of transaction or per instrument as relevant? In case STP is used only for certain processes/operations, please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP? ***Response:*** • *The term "STP" is used in many different ways by the various participants and intermediaries involved in the market. It is therefore very difficult to provide consistent estimates for STP rates across the industry.*

	That said, it is important to keep in mind that STP in itself should not be seen as a 'silver bullet'. While an increase in STP rates is certainly a necessary prerequisite for a potential move to T+1, it is important to keep in mind that this is only one part of the solution. *Beyond automating the post-trade process, an equally (or even more) important factor is the availability of inventory (cash and securities) in a timely manner to ensure settlement on T+1. Automation of processes and avoidance of manual interventions will help to avoid adding further friction into the process but this does not ensure the availability of the relevant assets and cash in time for settlement. There are other more important factors to consider here, such as the additional pressure on SFT markets explained in our response to Q1 and the issues related to FX which we described in our response to Q2.* *It is also important to keep in mind that there are various actors involved in the settlement process that will all have their own understanding of STP. From a custodian perspective for instance, there are particular challenges due to required checks, e.g. to ensure stock is available to deliver for a given client as well as compliance with AML requirements – this is generally done on an STP basis but still requires additional steps and time.* *While it is clear that technology will help, it is also important to keep in mind that the onboarding of new solutions is a complex, costly and time-consuming process. Besides cost, timing is therefore an important element that needs to be considered, particularly when it comes to defining a realistic timeframe for a migration to T+1.*
4	Please describe the impacts that, in your views, the shortening of the securities settlement cycle could have beyond post-trade processes, in particular on the functioning of markets (trading) and on the access of retail investors to financial markets. If you identify any negative impact, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation…) and elaborate on possible avenues to address it. ***Response:*** ***Impacts on liquidity and market making of T+1:*** *Market makers and other liquidity providers in the market across all bond classes would likely be severely impacted as this activity relies on the ability to enter into short positions which subsequently need to be covered. In a T+1 environment the time to source the bonds from the market would be dramatically reduced (from 2 days to only 1 day or potentially to only a few hours, if the trade happen late on T+0). This would not only put significant time constraints on fixed income front office trading desks, but it will also, perhaps even more significantly, put significant pressure and stress on repo and securities lending markets (as described in question 1). It can be assumed that the less liquid the traded product is, the more difficult it will be for market makers to offer liquidity. As a result, it is expected that some instruments (particularly more illiquid instruments that are more difficult to source) can potentially not be offered anymore, resulting in a further erosion of liquidity.* ***Buy-side implications:*** *From a buy-side perspective, a misalignment of settlement cycles between the fund liabilities and fund assets, could be particularly damaging, as this results in an additional day of funding. This de-correlation would mean ultimately investment fund performance losses to investors, as cash for funding does not provide any*

remuneration while invested money does. In addition, a funding gap would also mean that buy-side firms have to rely to a greater extent on custodian overdraft facilities which are expensive and discretionary (so may not be available). In case these are not available this would lead to increased fails. Also, the negative balance sheet implications for custodian banks and the costs resulting from funds' increased reliance on overdrafts will have detrimental impacts for the end investor.

- *Finally, on a related note we would also point out that managers of UCITS vehicles are likely to see a significant increase in breaches of applicable UCITS rules, in particular limits for funds' in terms of cash held and borrowing. There would have to be relevant exceptions in place in terms of regulatory forbearance.*

From a retail perspective:

- *In general, we expect implications for retail clients from a move to T+1 to be limited, given that settlement activity should be largely invisible to retail clients and not relevant for prices and therefore investment decisions. However, there may be important consequences in terms of cost as the necessary up-front investment to firms for implementing T+1 and higher running costs that financial institutions are facing will ultimately be passed on to clients.*
- *In particular, this is true for asset managers and other buy-side institutions who will be disproportionately impacted by a move to T+1. As explained above, this will lead to increased costs which will have to be borne by the end investor, eg as swing pricing thresholds are revised to account for the increase in transaction costs associated with T+1 settlement.*
- *T+1 is also particularly challenging for ETFs (given multijurisdictional underlyings with different settlement cycles potentially) which are an important and popular product for retail investors. As T+1 puts pressure on ETFs, including potentially increased intraday funding costs, this may increase costs for end investors and reduce demand accordingly.*
- *Allocation to sub-funds (including to retail investors) usually requires longer settlement periods (anything between T+2 to T+5), a shortening of this process to T+1 would be extremely challenging or not possible without disproportionate cost and risk impacts.*
- *If trading hours need to be shortened as explained in our response to Q1, this would have an impact on retail investors as well.*

5

What would be the costs you would have to incur in order to implement the technology and operational changes required to work in a T+1 environment? And in a T+0 environment?

Please differentiate between **one-off costs and on-going costs**, comparing the on-going costs of T+1 and T+0 to those in the current T+2 environment. Where relevant please explain if these are general or asset class/instrument/ trade specific.

Response:

- *ICMA members cautioned that it will be extremely challenging to come up with a single cost estimate – as T+1 will impact the entire business/trade lifecycle and each firm differently, within a single sector, but also across the entire industry (ie. sell-side, buy-side, FMIs, other service providers). One important factor in this context is a firm's exposure to the US market and the degree to which it will have to implement wider system changes and upgrades to adapt to the US migration to T+1, which will likely make it easier to adapt to an EU T+1 settlement cycle. Although we note that*

	this is not necessarily true for firms those firms that access the US market through global/local agents or have separate systems in place. • *One important element to consider (which might be more straightforward to estimate) is the onboarding of additional technology/vendors in order to facilitate a move to T+1 – in terms of both cost and time (usually at least 12 months)* • *Besides the direct costs in terms of required investment in technology, IT systems and process automation more generally, it is important to also consider in any comprehensive impact study the indirect costs from the migration to T+1, which are explained in more detail in other questions of this consultation, including:* o *Costs in terms of trading implications, particularly in relation to SFT markets and a deterioration in market liquidity more broadly (see Q2 and Q4)* o *Costs in terms of a likely increase in settlement fails and systemic risk (see Q6 and Q7).* o *Potential constraints for international investors, especially from the APAC region, to access the European markets and resulting losses in terms of revenue and ultimately investments (see Q1).* o *Opportunity costs, given that firms will have to reallocate scarce resources in order to prioritise compliance with a T+1 settlement cycle, which will come at the expense of other potentially more forward-looking/strategic investments in innovation and technology which might be more beneficial in the long-term (see Q8).* o *Negative impact on fund management and resulting costs for retail investors (see Q4).*
6	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. ***Response:*** • *Given the structural complexities in Europe described above, it is highly likely that a move to T+1 would result in a very substantial increase in settlement fails. Although the scale of such an increase will depend on many factors, particularly on the timing of the migration and the level of settlement efficiency that can be achieved by that time through automation and other system upgrades (including an adjustment of relevant operating times). Without such pre-requisites in place, this would clearly raise concerns in terms of systemic risk.* • *As explained above, we expect a move to T+1 to lead to a significant shift of settlement activity from efficient night-time batch settlement to day-time gross settlement. This would result in capacity issues, increased risk of settlement fails, and it would moreover require significant operational and organizational changes and therefore cost for the industry (including extended work hours for staff or relocations).* • *As noted above, the impact of increased settlement fails will be exacerbated by CSDR settlement discipline measures, including automatic cash penalties, and potentially triggering renewed discussion on MBIs, which would have even more dramatic negative impacts.*
7	In your opinion, would the increase in settlement fails/cash penalties remain permanent or would you expect settlement efficiency to come back to higher rates with time? Please elaborate.

	Response: • *The longer-term impact is very difficult to predict as this will depend on many factors/variables, including the degree of automation/investment that is achieved, the way the settlement landscape and infrastructure adjusts etc.* • *However, as a general note we would remark that cutting the settlement cycle by one day simply means that there is significantly less time to settle and this will not change. Hence, all other things being equal, this would tend to increase the likelihood for fails in the longer term.*
8	Is there any other cost (in particular those resulting from potential impacts to trading identified in the previous section) that ESMA should take into consideration? If yes, please describe the type of cost and provide estimates. ***Response:*** • *One important point to consider is that any investment to facilitate a move to T+1, and these will be very substantial as explained above, will divert scarce resources away from other projects, including investments into market infrastructure, technology and innovation which are more forward-looking and will reap benefits in the longer term. Such opportunity costs of a move to T+1 need to be carefully considered when assessing costs and benefits of a move to T+1. Ultimately, this comes down to priorities and the choice of the most effective and efficient means to set the market on the right path for the future. It is worth noting that it would also potentially divert resources away from technologies and projects that aim to facilitate the adoption (in the longer term) of T+0 which, due to the differences in mechanics (tokenisation of market vs updating current post trade processes), would include very different types of investments. It can therefore be said that a move to T+1 can probably not be considered as an interim step to T+0, and somewhat counterintuitively may delay the availability of technology to facilitate T+0 settlement.* • *Given the impact of Europe's structural issues in terms of market fragmentation and a multitude of currencies, this would be an important factor to take into account, i.e. it would be important to consider if and at what costs these structural issues could be resolved. As noted above, significant progress in terms of market consolidation would seem to be a pre-requisite for a successful move to T+1.* • *Other relevant points have already been covered in our responses to questions 2 and 4.*
9	Do you agree with the mentioned benefits? Are there other benefits that should be accounted for in the assessment of an eventual shortening of the securities settlement cycle? ESMA lists the following "theoretical benefits": 1) reduction of counterparty risk; 2) encouraging additional automation and STP (contributing to increased settlement efficiency); 3) lower collateral requirements (and thus possible liquidity improvements); 4) elimination of issues associated with unharmonised settlement cycles and promoting international harmonisation; 5) increasing the attractiveness of EU markets.

Response:

- *In the US, the **reduction in counterparty risk and associated savings in margin** were presented as the key benefit. In general, reductions in clearing margins are likely to accrue, and these are yet to be quantified. Whether there is a similar positive impact in Europe would have to be better assessed. The market structure in Europe is very different to the US market, including in relation to the CCP clearing models. Whether the related benefits would arise at a similar scale in Europe is therefore uncertain and will mainly depend on the impact on CCPs' margin requirements and risk policies, ie they are mainly discretion of the CCPs. For further details we would therefore refer to EACH and its members.*
- *We also note that these benefits will only arise, at least initially, for direct members of a CCP. As a result, the benefits will likely be very unevenly distributed. This is important to keep in mind, especially as the related costs for a migration to T+1 are likely similarly skewed in the same direction, disproportionately impacting buy-side firms given lower levels of process automation. Eventually, it is reasonable to expect (some of) the benefits to be passed on to clients and end investors. However, this is likely a very gradual process, so in the first phase the costs and benefits can be assumed to be unevenly distributed. This has to be an important consideration in any decision on T+1.*
- *Finally, we would also note that the reduction in counterparty risk would have to be weighed against a number of other significant risks that we have referred to throughout this response, in particular the risk of dramatically increased settlement fails, higher operational and market risk and risks linked to FX and the likely need for more bilateral FX activity (and hence counterparty risk), as explained in Q2.*
- ***Eliminating misalignment** with the US market is without a doubt a benefit. However, even more important than an alignment with the US market would be for the EU to coordinate any approach with the UK market given higher levels of interconnection. We also note that a move to T+1 would result in misalignment with many other markets around the world, especially in APAC.*
- ***Encouraging additional automation:** a shortening of the settlement cycle will inevitably lead to investment in automation and STP. However, it is questionable whether this can really be considered as a unique benefit of T+1, as there are likely other, more direct ways to encourage firms to invest in post-trade processes without the associated operational and other risks that a move to T+1 entails. As noted in our response to Q8, the key question is whether T+1 is the most effective and proportionate tool to incentivise and achieve positive change.*
- *The **impact on competitiveness** resulting from a move to T+1 are uncertain. While there are certainly benefits from aligning with the US market in terms of settlement cycle, the impact on investors in other parts of the world, especially APAC, would have to be fully taken into account as well. If a move to T+1 results in EU markets becoming less accessible for those investors it is very likely that competitiveness overall would suffer. The same is true for the UK market, if it were to move to T+1 ahead of the EU. It is unclear how this would affect the competitiveness of the EU market, given that liquidity could move both ways. In any case, we would expect that there is no significant first mover advantage that would justify the significant costs and risks that T+1 entails. In fact, the unilateral decision of the US to move to T+1 gives Europe an opportunity to closely observe and draw the right conclusions from the US "experience". It is important to take sufficient time to assess all the impacts and learn related lessons including in terms of behavioural change before*

	any decision is taken on an EU move to T+1. In particular, the US move will show the costs arising from the misalignment of settlement cycles and will allow us to draw conclusions in terms of the urgency of an EU move to T+1.
10	Please **quantify the expected savings from an eventual reduction of collateral requirements** derived from T+1 and T+0 (for cleared transactions as well as for noncleared transactions subject to margin requirements). ***Response:*** • *As mentioned above, the potential benefits in terms of counterparty risk and associated margin requirements are likely to be the most substantial benefit. Although, these will depend primarily on the impact of the shorter cycle on CCP models and margin requirements. We would therefore refer to EACH and its members who we understand are working on an assessment of the quantitative impacts of a move to T+1.* • *Other benefits are very challenging to quantify, at least in the short time available for this consultation. As mentioned above, we would encourage ESMA to take time for a proper assessment of those costs and benefits before coming to any a recommendation related to T+1. ICMA will also continue to look into the (quantitative) impacts and we will share any related findings with ESMA as soon as available.*
11	If possible, please provide estimates of the benefits that you would expect from T+1 and from T+0, for example the **on-going savings of potentially more automated processes**. ***Response:*** • *Similar to Q10, the potential savings from increased automation are very difficult to estimate, especially as this would likely be a very gradual process with savings only manifesting over time. In addition, the savings will depend on many factors that are currently hard to foresee and would have to be weighed against the related costs of adopting the technology. As explained in Q9, it is also not clear how much of any potential savings can be attributed to T+1, or in how far these would arise irrespective of any shortening of the settlement cycle.*
12	How do you assess the impact that a shorter settlement cycle could have on the liquidity for EU markets (from your perspective and for the market in general)? Please differentiate between T+1 and T+0 where possible. ***Response:*** • *As explained in our response to Q4, a T+1 settlement cycle will be particular challenge for market makers and other liquidity providers, putting significant stress on repo and securities lending markets. This will likely have negative repercussions for market liquidity, especially in less liquid instrument that are already more difficult to source in the market.* • *We would expect that a move to T+1 will imply a higher degree of pre-funding in the context of securities trading, given that matching and confirmations would need to be input ideally on Trade date. In the current T+2 cycle, cash for the purchase of an instrument can be retrieved usually anytime on the day following the trade date, which still allows for T+2 settlement to happen. In a T+1 settlement cycle, such funding would need to be available right away therefore pre-funding will have to*

	increase. This will likely have implications in terms of capital requirements and liquidity ratios.
13	What would be the benefits for retail clients? ***Response:*** • *Benefits for retail clients from a shorter settlement cycle are expected to be marginal, given that the settlement process is largely invisible to them.* • *We also note that the US considerations around retail clients that contributed to the decision to move to T+1, motivated in part by the "meme stock" events in 2021, apply only to a very limited degree in Europe.* • *As mentioned in our answer to Q4, the main impact on retail clients will likely be on the cost side, as most of the implementation cost as well as increased operational costs will ultimately be passed on to the end investor. A particular impact may be related to ETFs which are popular investment products for retail investors. Given the additional complexity for ETFs in a T+1 environment, especially in the absence of global alignment this may increase the cost of ETF investing.* • *As explained in our response to Q9, the distribution of cost/benefits will be an important factor to consider, especially as this may disproportionately affect retail investors.*
14	How would you weigh the benefits against the costs of moving to a shorter settlement cycle? Please differentiate between a potential move to T+1 and to T+0. ***Response:*** • *The timing of this consultation is not sufficient to attempt a fuller quantitative assessment of costs and benefits and we are not aware of any solid assessment that has been done to date. However, qualitative feedback from members suggests that costs of T+1 will likely by far outweigh expected benefits. The gap will be especially wide in the short- to medium-term and may narrow in the longer term once benefits arise in terms of increased automation etc.* • *It is quite clear that without the US decision to shorten the settlement cycle, we would very likely not be discussing a potential move to T+1 in Europe at this point. As mentioned above, there will be some benefits in terms of the resulting reduction in counterparty risk and achieving (re-)alignment with the US, but the scale of those benefits is currently very uncertain and difficult to estimate.* • *Once the US has migrated to T+1 in May 2024 both the costs of the migration but also the costs of a misalignment between the US and Europe will become much clearer. Before any further steps towards T+1 are taken, it would be important to wait for the US migration and allow sufficient time to fully assess the implications. At that point we will be in a much better position to assess the need and the urgency for an EU (and UK) move to T+1. There should be no urgency to reach a conclusion on this question.*
15	Please describe the **main steps that you would envisage** to achieve an eventual shorter securities settlement cycle. In particular, specify: • the regulatory and industry milestones; and • the time needed for each milestone and the proposed ultimate deadline. ***Response:***

	• *Any decision on a move to T+1 should be based on a solid impact assessment which shows that such a move is justified from a cost benefit perspective. The ESMA Call for Evidence is an important first step in this process and therefore very welcome, even the timing is not sufficient to deliver more solid quantitative evidence.*
	• *In our view, it would be important to take a phased approach to the topic, i.e. to initially focus on operational improvements and post-trade efficiency without requiring a formal commitment to a move to T+1. This could include rules around the timing of the key steps in the post-trade process, particularly confirmations, allocations, instruction and possibly matching. Such an agenda would be complementary to the work on settlement efficiency which should continue to be treated as a priority.*
	• *Going beyond this, we would question whether a move to T+1 is feasible (or should be attempted) without more fundamental structural changes in the European post-trade space, including important steps towards a more consolidated and harmonised financial market infrastructure in Europe. In this context, we are very supportive of the recent remarks of ECB President Christine Lagarde who called for a fundamental rethink, or "Kantian shift" of the CMU project.*
	• *In this context, we would also reiterate that, even once it is established that T+1 should be the long-term goal, a decision on the right timing to trigger this process towards T+1 needs to carefully consider opportunity costs, i.e. whether the move the move to T+1 will divert resources away from other transformational projects that are perhaps more urgent. As mentioned above, T+1 will require making choices.*
	• *More specifically, necessary pre-requisites for a successful migration to T+1 would include:*
	  o *Important upgrades in the post-trade space would be required, including those that are currently being considered as part of the ongoing debate on settlement efficiency. This includes a comprehensive coverage of essential settlement optimisation tools such as shaping, auto-partialling and auto-borrowing which are not yet fully available and/or used sufficiently. The work on settlement efficiency in the current T+2 environment has highlighted the significant challenges ahead. This work needs to be progressed as a clear priority and any discussion on a potential move to T+1 should not distract attention away from those discussions.*
	  o *More generally, before committing to a move to T+1 regulators and stakeholders need to be confident that this does not undermine the current levels of settlement efficiency, including the availability of all settlement related services and optimisation tools;*
	  o *Relevant settlement cut-off times may need to be reviewed, both for securities settlement as well as for foreign exchange transactions, ie CLS operating times.*
	  o *Trading hours may have to be shortened, which would go against the general trend over past years of extending trading hours and would be at the detriment of retail investors.*

16	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? ***Response:*** • *Without further (technical) discussion on the actual steps required for a transition to T+1 and the details of the related legal requirements, it is extremely difficult to*

	provide an estimated timeline. As mentioned before, a move to T+1 would require a very material industry transformation that would have to involve all the relevant market players, including market participants but also the various market infrastructures and other service providers. Each of these would have to go through a full internal impact assessment in order to understand the full impact on the overall business as well as related requirements to move to a T+1 settlement cycle. For a large financial institution such an internal assessment in itself is expected to take at least 6-9 months. • *For the time being, we would therefore abstain from suggesting any specific project timeline (or feasible migration date), at least until all relevant variables and impacts have been fully assessed and a clear and credible path to T+1 has been defined, if and when a decision is taken that it would make sense for the EU to move to T+1.* • *That said, a prudent approach is key to avoid any (systemic) risks and ensure a smooth transition to T+1. In case of doubt, it is important to err on the side of caution, considering that there is no urgency to move to T+1.* • *As mentioned above, the scale of the project to migrate to T+1 should not be underestimated. Lessons can and should be drawn from other major infrastructure implementation projects in the past, e.g. the go-live of the T2S platform, which was implemented over a multi-year plan with clear milestones. The more recent development of ECMS offers another example of a major infrastructure upgrade which had to be postponed multiple times. Finally, in terms of industry-wide regulatory implementations, CSDR settlement discipline provisions should also be considered as a cautionary example, considering the complex multi-year process of adoption and implementation of the requirements which had market-wide impacts.* • *One element that needs to be taken into account in terms of timeline and which is often overlooked is the onboarding of new technology solutions/platforms which can take a substantial amount of time in a larger and complex financial institution (usually at least 12 months for a single solution).* • *Finally, in the EU context it is also important to fully understand the legislative process that would be required to impose a T+1 settlement cycle in the EU, ie whether this requires amending CSDR (which in itself would be a lengthy process) and/or whether any additional adaptations to national law would be needed (which would add further complexity).*
17	Do you think that the CSDR scope of financial instruments is adequate for a shorter settlement cycle? If not, what would be in your views a more adequate scope? ***Response:*** • *Generally, yes. It would be important to keep the scope of the regulatory requirement relatively limited. We also note that the current CSDR scope applies to transferable securities only (not the other instruments listed in point 44 of the consultation paper). In case the EU decides to move to T+1 it would be important to maintain this narrow scope.* • *The move to T+2 in 2014 offers a positive precedent, as private and public sector came together in a collaborative way on the back of the legal T+2 requirement in CSDR in order to coordinate and define a credible path for the industry to shorten the settlement cycle. The smooth transition process has been a testament to the success of this approach.* • *Repo should be explicitly excluded from any T+1 requirement as it has no standard settlement cycle and as a funding tool requires full flexibility. Again, the move to T+2 provides a valuable lesson in this regard as it unintentionally restricted forward-*

	forward repos executed on trading platforms, as recital 13 in CSDR only explicitly exempted the end (repurchase) leg of a repo. HSG best practice recommendations subsequently clarified that repos should not be bound by a standard settlement cycle. If the EU decides to move ahead with T+1, the related rule should explicitly exempt both start and end leg of repo transactions. *Physical bond deliveries related to certain derivatives, particularly Futures (on fixed income securities) may also have to be exempted from any T+1 requirement, as the timing for notifications/allocations and settlement deadlines are already an issue today, particularly considering the large size of these transactions.* *It would be important to coordinate the move to T+1 with the UK market, including in terms of scope. There are many instruments that can be traded on an EU as well as a UK trading venue irrespective of the settlement location. One example would be Eurobonds (XS ISINs) which are issued (and settle) in the ICSDs but can be traded on a trading venue both in the UK and the EU. Depending on how the scope is defined in each case, this needs careful consideration, especially if there is a period of misalignment between the two jurisdictions.*
18	Is it feasible to have different settlement cycles across different instruments? Which are the ones that would benefit most? Which least? ***Response:*** *Yes, this is possible and already the case today (e.g. gilts and treasuries already settle on a T+1 settlement cycle).* *Ultimately full alignment is preferable and a phased move to T+1 (e.g. distinguishing between equities and bonds) should be avoided given the important dependencies, particularly in terms of funding.*
19	Which financial instruments/ transaction types are easier to migrate to a shorter settlement period in the EU capital markets? Does the answer differ by asset class? Should it be feasible/advisable to have different migration times for different products/markets/assets? If yes, please elaborate. ***Response:*** *As stated in Q18 a phased move in terms of asset classes would not be ideal.* *That said, certain exemptions will be necessary, eg an exemption for repos (see Q17).*
20	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? ***Response:*** *No. The successful coordination exercise in the context of the migration to T+2 in 2014 led by the ECB/HSG in collaboration with the relevant trade associations has shown that it is better to keep the scope of any regulatory requirement relatively limited and leave some flexibility for subsequent technical discussions and alignment between industry and the relevant public sector bodies, particularly the central bank community. The well-established AMI-SeCo governance structure would seem to be well placed to coordinate such discussions/work, making sure to also involve non-T2S stakeholders.*

21	Please describe the impact(s) that the transition to T+1 in other jurisdictions has had or will have on your operations, assuming the EU remains on a T+2 cycle. ***Response:*** • *In response to this question, we would like to refer to the report **"Implementation of T+1 in US Securities Markets – the impact on EU-based participants"** prepared by a cross-industry taskforce of 15 trade associations which was submitted to the European Commission and ESMA in July 2023.* • *The US move to T+1 in May 2024 (along with Canada and Mexico) will happen before any EU decision regarding T+1 is taken. The EU is therefore in the fortunate position to learn the lessons from this "experience" and draw the right conclusions. This will also inevitably show the costs of misalignment with the US and therefore help determine the case for or against T+1 in Europe.* • *As regards markets that are already on T+1, including China and India, we note that these markets are very difficult to compare with the EU market in terms of their domestic nature, local market rules and legal frameworks as well as the scope of T+1 settlement. Before drawing any relevant conclusions from those experiences, it will be important to fully analyse and consider the relevant differences. As explained in Q1, this is of course also true for the US (and the UK), although to a lesser degree.*
22	Can you identify any EU legislative or regulatory action that would reduce the impact of the move to T+1 in third countries for EU market participants? Please specify 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. ***Response:*** • *As explained in Q4, regulatory forbearance may be required for investment funds in relation to UCITS limits in terms of cash held and cash borrowing.* *Although not being directly linked to the US move to T+1, we would recall (as explained in Q4) that in case the EU decides to move to T+1, there would be a number of potential regulatory implications/considerations:* • *Given that a move to T+1 would likely result in a dramatic increase in settlement fails, especially if a migration to T+1 is imposed on a market that is not ready, ie in case the various pre-requisites that are listed in our response to Q15 (and elsewhere), regulators would have to consider a suspension of CSDR settlement discipline measures, including cash penalties. Perhaps even more importantly, it should be clarified that the resulting increase in fails cannot be considered as a trigger for any discussion on mandatory buy-ins (MBIs) under CSDR, which would clearly be counterproductive and extremely damaging to already stressed markets.* • *As explained above, a migration to T+1 would likely require a review (and extension) of T2S schedules which would have to be agreed and approved by the relevant governance structures.* • *Close coordination with UK authorities would be important to seek an alignment on migration times (ideally) or in the case of divergent approaches other mitigating actions may have to be agreed.* • *As a general note, we would also caution that the EU does not dispose of a formal instrument to provide "no action relief" which could be used in the case of any unintended consequences. Given the risks and uncertainties related to a move to T+1, this should be an additional reason for caution.*

23	Do you see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions? ***Response:*** • *Yes, a harmonisation of settlement cycles across jurisdictions is generally beneficial. That said, we note that the US decision to move to T+1 has not been sufficiently coordinated with other jurisdictions, which is unfortunate.* • *As pointed out in Q21, it is also important to consider the significant differences between markets and the various forms that T+1 can take, which will impact the degree to which alignment can be beneficial.* • *From an EU perspective, it would be especially important to achieve a coordinated approach with the UK given multiple dependencies and substantial cross-border business between both markets. As noted above, there is also a potential overlap in terms of instrument scope, as the UK seems to consider applying a T+1 requirement at trading venue level, irrespective of settlement location, although applicable safe harbour provisions have also been suggested.* • *A potential overlap in terms of scope could result in different settlement cycles being applied to the same instrument. This would have important implications from a trading and market liquidity perspective and should be avoided. The issue is further explained in the attached ICMA Draft Briefing Paper on trading bonds with different settlement cycles under Annex 3. Please note this paper is in draft version and still work-in-progress and has not been published yet. Therefore we would wish that you do not publish it as part of this response.* • *That said, from an EU perspective it will be even more important to insist on a timeline that is reasonable. If the UK decides to migrate to T+1 on a timeline that is not ideal for the EU market, there should not be any undue pressure on EU authorities to accelerate the EU's own transition to T+1. In such a case the stability and safety of the EU market should obviously take precedence over maintaining alignment with the UK market.* • *Finally, it is also important to note that aligning with the US (and potentially the UK) on a T+1 cycle would inevitably result in misalignment with other jurisdictions globally that are still operating on a T+2 (or even longer) settlement cycle.*
24	Would reducing the settlement cycle bring any other indirect benefits to the Capital Markets Union and the EU's position internationally? ***Response:*** • *We are not aware of any additional benefits.*
25	Do you consider that the adaptation of EU market participants to the shorter settlement cycles in other jurisdictions could facilitate the adoption of T+1 or T+0 in the EU? Please elaborate. ***Response:*** • *For market participants with strong US business ties, this will certainly be the case in terms of the adaptation of firm-wide systems and processes.* • *However, these benefits will be much less significant for market participants with a limited footprint in the US/North America, as well as firms that are operating with separate systems and/or access models for both markets.*

26	Would different settlement cycles in the EU and other non-EU jurisdictions be a viable option? ***Response:*** • *While global alignment is preferable, a misalignment of settlement cycles is inevitable given the US decision to move to T+1 in May 2024. This is also an opportunity to learn the related lessons and fully understand the impacts of a misalignment of settlement cycles between the US and Europe.* • *We would also note that a (temporary) misalignment between the US and Europe in terms of the settlement cycle is not unprecedented. More recently, the EU moved from a T+3 to a T+2 cycle in October 2014, while the US remained on a T+3 settlement cycle for three more years until September 2017. While not ideal, this did not cause any unacceptable disturbances. Although, as explained in Q1 a move to T+1 is not comparable as it takes the current system and process to a natural limit which leaves no buffer for any manual interventions and exceptions.* • *There is no similar precedent for a misalignment between the EU and the UK which is expected to be significantly more challenging for the industry to manage.* • *As mentioned in Q22, achieving alignment with the US (and other) markets on a T+1 basis, would inevitably result in misalignment with other jurisdictions globally that are still operating on a T+2 (or even longer) settlement cycle.*
27	Please elaborate about any other issue in relation to the shortening of the securities settlement cycle in the EU or in third-country jurisdictions not previously addressed in the Call for Evidence.