ESMA
European Securities and Markets Authority

5 October 2023
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Reply form

on the call for evidence on shortening of the settlement cycle

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Responding to this paper

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

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

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

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

Instructions

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

- Insert your responses to the questions in the Consultation Paper in this reply form.

- Please do not remove tags of the type < ESMA_QUESTION_SETT_0>. Your response to each question has to be framed by the two tags corresponding to the question.

- If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.

- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP1_SETT _nameofrespondent.

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

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

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you

do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Data protection'.

Who should read this paper?

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

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1 General information about respondent

Name of the company / organisation	France Post Marché
Activity	Associations, professional bodies, industry representatives
Are you representing an association?	☒
Country / Region	France

2 Questions

Q1 : Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please:

(i) provide as much detail as possible on what issues would emerge in both cases and how they could be addressed with special attention to critical processes (matching, allocation, affirmation and confirmation) and interdependencies. Where relevant please explain if these are general or asset class/instrument/ trade specific.

(ii) Identify processes, operations or types of transaction or financial instrument class that would be severely impacted or no longer doable in a T+1 and in a T+0 environment.

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

<ESMA_QUESTION_SETT_1>

In its Call for Evidence, ESMA seeks the view of the industry on two options for a shortening of the settlement cycle. On a theoretical basis, it is sensible to open the discussion on these two scenarios (one day less versus two days less) but they are not really comparable and should not be assessed on an equal basis. Indeed, their nature are fundamentally different and a one day less scenario would require critical changes whereas a 2 days less scenario would require drastic transformations.

To consider a T+0 model raises essential questions. Do we target an “atomic settlement”? Do we maintain a settlement “at the end of day”?

- An atomic settlement will require new technology in order to be deployed; moreover, those technologies (like DLT) must be robust and resilient enough to absorb the volumes. It is our view that the state of art is not at this level of requirements so far. This model would also mean to forego the CCP netting process which makes our markets operations more efficient by reducing the volume of settlements and the margins required to guarantee those transactions.
- An « end of day » settlement triggers other questions and firstly: "what is an « end of day » settlement?". The current US model could be an answer, but it would not be in line with the CSDR requirement (CSDs shall try to provide their participants with a real-time gross settlement process - RTGS -) and, for most of the countries, would be a step backwards. Another option could be to process all the settlements as of the closing of the markets until midnight on a RTGS basis with only the partial settlement as an optimization tool. Beyond the damage of abandoning the night settlement cycle and its technical netting functionalities, there would be the question on the capacity of CSDs to process all the settlements in only few hours.

One can note that DTCC has explored the T+0 model both in 2018 and 2021 and stated that any new technology will have to be capable of handling 2 to 3 times the peak of volume. When considering the implementation of a real time gross settlement they concluded that "*Accelerated settlement that abandons the significant capital and operational efficiencies gained through centralized multilateral netting would be a step backward for the world's most liquid markets*" (2018) and, following a clients' survey, that it "*could increase risk for investors and make markets less efficient*" (2021).

A move to T+0 is not achievable for the moment and would not help address any of the challenges a move to T+1 would create. On the other side, a move to T+1 cannot be considered as a first step to a move to T+0. For all these reasons, we prefer to limit our answers to the Call for Evidence to a "T+1" scenario and concentrate our attention on all the challenges and consequences a reduction by 1 day would already mean (specifically those that were not at the agenda when the EU decided to harmonize its settlement cycles in 2014).

Before answering to the questions about a T+1 model, there is a point we would like to clarify: a T+1 settlement would be feasible, and it is even already the case for certain specific transactions (for example, lending and borrowing, collateral movements, realignments). Participants' IT systems are already capable to support T+1 (or T0) transactions; thus, the issue is on the ability of all the other types of transactions to follow the same settlement cycle. Although the scope (see our answers to dedicated questions) should be limited to those executed on a Trading Venue, such move would create a momentum in the EU market, leading other activities to be forced to (voluntary choose to) adopt the same pattern or to adapt themselves to the new framework.

It needs to be considered that France Post Marché answer is taking into consideration French Market Infrastructure (for example T2S as Settlement system) and processes, some of these analysis may not apply to some other markets with different structure.

To better understand the impacts on the trade and post-trade processes, we have included an appendix in the form of a presentation which will include:

- the macro processes of clearing and settlement in intermediated transactions,
- the timeline and the cut offs from the European market infrastructures,
- the lifecycle of intermediated transactions,
- UCITS subscription and redemption, NAV management processes,
- the main impacts identified when considering the shortening of the settlement cycle.

As such please consult the presentation in appendix to understand the rationales behind processes and impacts described in our response.

Here are the main impacts we have identified.

On the settlement processes for investors

The objective for a transaction is to be “ready to settle” on the agreed date. In a T+1 model, it means that all the steps described in our appendix would need to be achieved ideally by end of T, in order to keep benefiting from optimisation process (T2S Night Time Settlement)

1. Allocation / Confirmation

The Allocation / Confirmation processes are essential to the settlement process as they need to be completed to generate the settlement instructions. As such, if allocation / confirmation must take place mostly right after the market closure, the participants would need to be able to produce the allocations throughout the day and not wait for an end of day process. It is worth considering that there is an important concentration of trades at market closure (approximately 35% of trades are completed at that time) and this concentration makes the anticipation of the allocation / confirmation process all the more difficult. Also, to comply with Best Execution obligations, brokers might need to account for different executions during the day when completing a client order as permitted by market conditions which might limit their capacity to anticipate the allocation / confirmation process. The amount of information transmitted at market closure is already very important and the actors would need to anticipate as much as possible the trade settlement information’s.

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Following this first point, as Allocation and Confirmation are the prerequisite to the start of the settlement process, those processes would have to be achieved early enough for the settlement instructions to be part of the night-time settlement (NTS). Practically it would require trading parties to have more STP processes, by using for example affirmation platforms directly or via trading desks. However, this might not be sufficient; as a comparison, in the US market, the deadline for affirmation is set 3 hours after market closing, while the confirmation's one is set 5 hours after market closing.

If the solution would be to close EU Markets earlier for post trade processes to work effectively it is important to note that this early closure would reduce greatly the window in which European and American markets would remain open simultaneously (currently between 15:30 and 17:30). Also, the potential benefits should be reconsidered compared to a major downside for investors of reducing market hours. These considerations should not be ignored as market participants have evidenced that EU market volumes are significantly higher during the window where American markets are also opened.

2. Settlement instructions
   - Following the allocation confirmation processes, the investor then needs to send instructions to its custodian and then downwards until reaching the CSD. While the allocation/confirmation timing is ruled by CSDR (unless specific cases, the process shall be achieved on Trade date), there is no such requirement for instructions. Their settlement would be penalised should it not be finalised on the agreed date.
   - Currently, settlement instructions are received by the CSD on T, T+1 or T+2. A move to T+1 would mean that the settlement instructions would have to be transmitted to the CSD at the latest on T+1 but preferably on T evening to take part to the NTS.

Before sending the instruction received from the investor, the custodian would apply a certain number of mandatory controls (Provision, Cash, Inventory, AML etc.). Moreover, these controls are to be done at every level of the custody chain (Global Custodian, Local Custodian, etc.)

As regards the control of the provision, two options are available:

a. if the client holds the quantity in its account, then the instruction is sent down the chain.
b. If not,
   - An error notification will be sent to the client. In a T+1 world, the client would need to have staff able to handle those messages to fix these types of errors, preferably immediately to be part of the NTS process
   - The instruction will be sent down the custody chain on "hold", and be "released" as soon as the stock is available

The instructions will be ultimately presented on T2S platform to be matched and presented to the CSD's SSS. We will go on the impacts on the infrastructure in the section below.

3. Additional services

One reason for the investor to not have the financial instruments on its account is to have lent them. Thus, a sale may trigger a "recall". Currently, in a T+2 world, the act of recalling securities can be done the day after the trade. In a T+1 settlement cycle, the recall needs to be initiated as soon as possible. To some extent it may mean that every instruction from a client has to be accompanied by a recall order for the instruments that were traded.

Securities lending processes would be deeply affected by a T+1 settlement and would need to evolve significantly to protect clients from a significantly higher risk of settlement fail due to late recalls. Given the importance of securities lending markets in the provision of liquidity, a future market practice should carefully address the negative effects of a potential reduction of securities available for loans.

For the significant quantity of multi deposited financial instruments, the inventory process would have to be deeply improved and clearly identify where the stock is held so that realignments may be triggered soon enough for both instructions (the sale and the transfer to be presented in the NTS. The current T+2 settlement cycle allows European Market participants to have the possibility to hold securities in several places without timing issues for the settlement process.

All services around cash funding and FX would also need to be reviewed as a T+1 settlement could create issues through the discrepancy in settlement cycles between currencies and securities.

On settlement process for Clearers/Brokers

1. Clearing executions and settlement netting reports
   - Currently CCP executions are sent intraday and end of day (EoD) while settlement netting results only at the end of the day. For sake of reconciliation, clearers have to send similar reports EoD to their brokers / clients, to allow them to also process reconciliations at their end. The change of settlement cycle pushing to compression of delays, would impose deep change of these process.

2. CCPs Instructions towards clearers
   - CCPs are managing clearers' instructions using different set-ups: by application of a PoA at the level of the CSD / the Agent, or via the standard matching against the clearer. Depending on CCPs' analysis of impacts on such process, it may also add complexity in clearers settlement process, leading to a potential evolution of the account structure when required.

On the settlement processes for the infrastructures:

1. Settlement process and batches:
   - Currently the T2S platform offers two processes for settling transactions. A night settlement cycle (NTS) starting at 20:00 and a real time gross settlement occurring during the day of settlement. The former is very important in the whole settlement process since it includes optimisation tools, the main one being these technical nettings.
   - There is an important point to be recalled. As showed in our Appendix, the day of trade and the day of settlement are not of the same nature. The former is within a calendar day whereas the latter straddles two calendar dates. It is also the case in the US as shown by the timeline in the Call for Evidence, but it is very light since the American NTS start just before midnight. In Europe the settlement date, actually, encroaches on the day for trading.
   - Thus, in our view maintaining this 20:00 cut off in a T+1 settlement cycle seems extremely difficult. As such a redefinition of how the T2S platform (and other CSDs) works would be necessary to allow for later cut off giving more time to participants to complete all the preparation for settlement process. It is to be noted that the cut off defined for settlement by DTCC has been moved to 23:30, which leaves 7.5 hours after trade closing.

2. Margin Calls:
   - Margin calls are currently calculated at the end of each trading day with a report sent to clearing members by 9pm but called between 7 and 9am on the following day so that CCP are hedged for trades that will settle on the next following day (on T+2). In a T+1 model, the calculation would continue to be done on T evening but part (most) of the CCP's netted transactions may settle during the NTS. This raises the question on when CCPs would call their margins:
     - still on T+1 morning with part of transactions no more to be guaranteed since they are settled ? Furthermore, the CCP would be exposed during the settlement process in the night, with no margin available to cover for the settlement risk.
     - Or on T evening? But then it would increase the time compression since clearing members would have to pass-on the amounts to their clients to reflect the CCP's margins and it would raise another concern as regards the Euro cut-off (since below).

- We firmly believe that redefining the margin call process to ensure continuity of alignment with the post trade processes would be necessary.

3. ECB Euro Payments Cut Off times:

If Margin calls need to be performed on T0 evening they most probably would be done after ECB cut-off time, preventing the participants to pay those margin calls. As such the ECB Euro payments Cut off would also need to be reconsidered. If it is not changed the most probable outcome will be that these margins would need to be settled in foreign currencies (dollar most probably).

4. Exercises and Assignments

Currently, for stock options the cut off of the exercise process is 8 pm CET at maturity date.

Once this process is completed, the CCP must create trades, perform netting, and generate settlement instructions to be sent to T2S.

Obviously, this sending cannot occur before the current T2S night settlement cycle beginning at 8 pm CET. 2 options exists to be able to settle at T+1:

- Shorten the time when Clearing members can exercise their positions.
- Delay the T2S night settlement cycle.

Impact on specific processes:

1. French Market value add services

The French Market has a certain number of specific processes such as SBI, BRN and Mandatory Registered shares. These processes follow some rules and would need to be revised to fit in a T+1 ecosystem.

2. After hour trading windows

On, specific markets and instruments the trading window can be extended up to 10pm CET with bilateral settlement process. Those transactions might need to be reconsidered on a shortened settlement cycle.

3. Corporate Actions

Corporate Actions are designed according to European Standards that define Key dates and their sequences for each main categories of Corporate Actions: distributions of proceeds (in cash or securities), distributions with options, reorganisations -corporate actions replacing with proceeds a security- that can be mandatory, with options or voluntary.

Few Key dates refer to settlement cycle in their sequences to permit investor to exercise his rights or benefits from proceeds in case of a trade executed during the processing of corporate actions.

In the case of a distribution, this refers to **Ex Date and Record Date** positioning, Ex Date being the date from which the Underlying Security is traded without the benefit / right attached to it, Record Date being the date on which settled positions are struck in the books of the Issuer Central Securities Depositary at close of business to determine the entitlement to the proceeds of a Corporate Action.

Having these definitions in mind, Ex Date must be positioned to allow any transaction from this day to be settled after the record date, e.g. on settlement cycle minus one day.

In a T+1 context it means that Ex Date is on the beginning of the day of Record Date which is at the end of this same day. It also means that issuers and data vendors would need to adjust their announcement process.

An increase of failed settlement may result from the shortening of settlement cycle to T+1 and as a consequence market would experience a market claims increase. A market claim is a separate transaction without changing the underlying transaction, created by the CSD or the CCP for all irrevocable settlement transactions.

The settlement of the market claim can lead to a delay in the reception of securities for the buyer that can put him in a situation of non-availability of securities or cash for other future transactions and leading to new failed settlements.

In the case of mandatory reorganization (such as redemption, merger, …), this refers to **Last Trading Date and Record Date** positioning**,** last trading date being the last date to trade the Underlying Security in the old ISIN.
Having the correspondent definitions in mind the last trading date should precede the Record Date by at least one settlement cycle. In a T+1 context it means that the Last Trading Date is on the day before the Record Date.

The issue is here again the risk of an increase of settlement fails in a context of settlement cycle shortening leading to an increase of corporate actions on flow (a market claim) to be managed. They are called transformation in the case of reorganisation. The transformation

process consists in cancellation of pending instructions by CSD and CCP and replacement by new matched instructions in the outturn ISIN and or cash in accordance with the terms of the reorganisation. It would have to be managed in the context of an increase of volumes and in a shorter timeline.

In the case of mandatory reorganisation with option and voluntary reorganisation, this refers to **Guaranteed Participation Date, Buyer Protection Deadline** positioning, Guaranteed Participation Date being the last date to buy the underlying security with the right attached to participate in an elective corporate action, Buyer Protection Deadline being the last day and time by which a Buyer Protection instruction can be given. The Buyer Protection is the process whereby a buyer who has yet to receive the underlying securities of an elective corporate action, instructs the seller to receive the outturn of his choice.

Having the correspondent definitions in mind the Guaranteed Participation Date should precede the Buyer Protection Deadline by one settlement cycle plus two hours.
In a T+1 context it means that Guaranteed Participation Date is on the day before the Buyer Protection Deadline.

The first consequence is that it reduces by one day the possibility given to an investor to exercise the Buyer Protection in a context where:

- settlement fails may increase due to the shortening of settlement cycle
- Buyer Protection process is complex having in mind it consists in different steps and at least
    - an instruction of the buyer, who has not received the underlying securities of the elective corporate action, to the seller.
    - An instruction of the seller to apply the choices of the buyer in response of the corporate actions before the market deadline that is positioned the day after the Buyer Protection Deadline.

In the case of distribution with option, the event is in fact a distribution followed by a mandatory reorganization with option. It refers to the same concepts as above and positioning aspects.

An increase of settlement fails as a result of shortening settlement cycle would lead to have unsettled transaction on Record Date of General Meetings.

The Record Date permits to have the photography of all shareholders entitled to exercise their rights to vote to the General Meeting (GM).

In case of fails, the holdings of a buyer would not be taken in account for the General Meeting. Furthermore, there is no Buyer Protection or equivalent process in this scenario

and no process is in place to admit the seller that still has the position at the RD as a representant of the buyer (no way to pass instruction of votes).

Accordingly, it may have an effect on important positions of voters.

4. Impact on UCITS Funds and ETFs

Currently it needs to be noted that Funds and ETFs are not in the scope of products which need to be settled at T+2 in the Article 5.2 of CSDR. Since we believe the scope of a mandatory T+1 should be identical (see our responses to the dedicated questions), these instruments would not be directly impacted by a move to T+1.

Currently, these instruments settle at T+2, T+3 or later. Following the move to T+2, some have adopted the T+2 settlement cycle to avoid misalignments between assets and liabilities. It is likely that the same question would be raised by the asset management community in the context of a T+1 model. Should they decide to voluntary migrate their primary market to T+1 then, in our view, the following impacts would exist:

- Since subscriptions and redemptions would also settle on T+1, there is a necessity for the Transfer Agent (TA) to receive the NAV on T+1 noon not later than 12.00am for a settlement on the intended settlement date (the CSD cut-off is 4pm).
- Consequently, it would give less time for the Asset Manager & the Fund Administrator to perform the NAV calculation and its control.
- These reductions of time process may increase the risks of errors and reduce the flexibility and the time to correct the NAV and make settlement adjustments (cancellation of the previous settlement instructions, sending of the correct ones).
- All market actors may be impacted by these reduced settlement timelines (new organizations to be defined, potential follow the sun approach, …).
- Eventually, French funds are distributed in European countries where the foreign investor may be affected by the reduction of time to send his cash to pay his order of subscription should the NAV be published at T+1 12AM CET (currencies cut off).

Operational impacts

Extended Hours

As previously mentioned, the shift to T+1 basically means that the trades must settle during night after the trade date. To ensure this smooth and effective settlement process, a lot of checks and actions must be carried out with no delay after the close of trade.

This means that actors would have to pursue their operations longer during the night to support these processes. To manage these impacts, we foresee that actors would have either to put in place night shifts for their teams or to set up new office locations, probably outside Europe to take advantage of time zones differences to support their activities.

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Business continuity and DRP Management

The shift to T+1 would reduce the buffer for operations, increasing the Business Impact criticality of specific activities. As such some actors may have to set up operating model allowing them to instantly transfer operations to other locations.

Important incidents would also have a bigger impact as a T+1 settlement reduces the buffer for market participants to correct their position. As such an incident would expose the market participants to more impacts from these kinds of unexpected events.

<ESMA_QUESTION_SETT_1>

Q2 : What would be the consequences of a move to a shorter settlement cycle for (a) hedging practices (i.e. would it lead to increase pre-hedging practices?), (b) transactions with an FX component?

<ESMA_QUESTION_SETT_2>

On hedging practices, trading process are not a core subject for France Post Marché participants and business represented and we will let the related association provide accurate views on the impacts of T+1.

Nevertheless for funds operations, if the settlement-delivery cycle on the liabilities side is reduced & in order to avoid CSDR or late penalties, management companies could request pre-funding on the Subscriptions-Redemptions, i.e. require the cash payment before the cut-off of the fund and delivery of securities to the knowledge of the NAV : this process would force a dissociated settlement & breaks the STP settlement mechanism into a CSD model, and generates additional control tasks before execution and operational risks.

The wholesale FX market is already able to and do settle on T+1, however there is particular concern for cross-border transactions where participants are in different time zones (e.g. ASIA)

FX order usually follows the securities trade confirmation – thus the FX component may effectively have to settle on T0 relative to the FX order.

<ESMA_QUESTION_SETT_2>

Q3 : Which is your current rate of straight-through processing (STP), in percentage of the number and of the volume of transactions broken down per type of transaction or per instrument as relevant? In case STP is used only for certain processes/operations, please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP?

<ESMA_QUESTION_SETT_3>

Transactions currently go through a significant number of actors along the trading and settlement chain. As such, it is very difficult to estimate the rate of STP transactions in the market has a complete picture from beginning to end of the post trade process could not be built.

STP by itself implies that there is no information captured more than once by a manual process along the chain, however this does not mean that a STP process always goes through automatically without human interventions. Batch processes and controls can capture the transactions at several points of the post trade processes and cause the process to be paused.

The STP level is a necessary but not sufficient condition for an efficient and smooth T+1 transition.

We believe that a better indicator to take into account the possible effects of moving from T+2 to T+1 is to look at the % of transactions going through Night Settlement (NTS) at T and at T+1 from T2S. It would indicate that these transactions have gone through the chain of settlement successfully without being hindered along it.

<ESMA_QUESTION_SETT_3>

Q4 : Please describe the impacts that, in your views, the shortening of the securities settlement cycle could have beyond post-trade processes, in particular on the functioning of markets (trading) and on the access of retail investors to financial markets. If you identify any negative impact, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation…) and elaborate on possible avenues to address it.

<ESMA_QUESTION_SETT_4>

We already noted several other impacts:

1. Liquidity

For several instruments, and especially for corporate bonds, liquidity providers cannot trade solely on their portfolios. They often offer prices on bonds that they do not own, but for which they have a view on the borrowing cost (that they integrate in their offer). If, and once, the transaction is done, they then need to secure a borrowing transaction quickly enough to ensure the settlement of the transaction with their own client. If such borrowing transaction is concluded the next day, then it would have to settle T+1. If it is concluded on T+2, it would have to be immediately settled.

Reducing the settlement cycle would obviously limit the time available for liquidity providers to source liquidity for the instruments, which would have a variety of impacts: the quality of settlement, but also the availability and cost of liquidity offered to investors,

- Shortening the settlement cycle for in-scope securities would result in less time to source bonds used in short selling. This would impact the Repo and Securities Lending markets and reduce liquidity, particularly for already less liquid products.
- Separately, securities lending recall already has a limited window to recall securities for an open transaction. This would severely stress a firm ability to execute effectively for an instrument subject to a T+1 settlement.

2. Retail clients

As regards retail clients, we noted these following points:

- The migration is a significant project that would be very costly (since the first step whereas benefits may be delayed, see our answer to Q14) and it is likely (as suggested in the Call for Evidence) that part of the financial costs would be passed on by the end to clients (as settlement and custody fees or spread widening). There is a risk they would not understand the reason of this increase.

- Moreover, the main benefits pointed out in this consultation, i.e. lower counterparty risk, lower collateral needs or increased efficiency) would have a very minor effect on retail investors.

- Retail clients would face a lower liquidity of funds compared to ETFs and thus may prefer investing in ETFs while, due to MIF 2 requirements, not be always authorized to acquire such financial instruments (rated as riskier assets). Ultimately these clients would face a lower diversity of instruments available to them.

- In short, the T+1 settlement cycle, from retail perspective, may backfire increased settlement prices without added value or even worse, like reduced investment offer.

3. Systematic internalisers (SI)

Assuming the scope is the same as the current CSDR one, SI would not be affected since they are not a Trading Venue. However, they may likely be obliged to adopt the same settlement cycle as regulated markets / MTFs.

4. On the actors

The investments some companies may have to do to be "T+1" compliant compared to the volume of transactions they process may appear as too prohibitive and thus would let them rethink their strategy, one option for them being to purely sell their activity. In this scenario it is likely that the buyer would be a Tier 1 market participant and potentially a non-European one.

5. Local specificities

In France, like in other European countries some domestic functions are maintained (SBI, BRN, …). Being strictly related to the local market they may not always to be addressed by additional harmonisation's work. Therefore, such specificities would have to be viable in a T+1 set-up.

6. Others

The impact assessment ESMA will conduct should also include the other main initiatives the EU aims to launch in the upcoming years in order to increase the EU attractiveness or to strengthen its international role. Indeed, the industry (market participants, FMIs, …) has neither the time nor the budget to pursue them in addition to the migration to T+1.

On The European Commission's side, the key objectives and actions set out in the Capital Markets Union 2020 action plan have not all being achieved to date. As regards environment, the European Grean Deal also impacts the financial markets.

Another good indicator of what the coming years will be made of and on which initiatives the industry will work on is the ESMA Strategy 2023 – 2028 document[1]. Three strategic priorities (fostering effective markets and financial stability, strengthening supervision of EU financial markets, and enhancing protection of retail investors) are listed with two thematic drivers

[1] ESMA Strategy 2023 - 2028 (europa.eu)

(enabling sustainable finance and facilitating technological innovation and effective use of date). CMU, ESAP, CTP are mentioned.

The question on the interest for a shortening of the settlement cycle in EU is only due to the US decision; it has never been touched on as a useful tool for the EU to achieve its goals. Moreover, its entry into application may go against them. When weighting the pros and cons, the EC will have to rate all its initiatives and prioritise them accordingly.

As regards regulatory changes, there are some amendments that could be made in CSDR. For example, the derogation given to some CSDs for a non-application of partial settlement should be abandoned, and a potential suspension of the penalties for a given period after the migration.

<ESMA_QUESTION_SETT_4>

Q5 : What would be the costs you would have to incur in order to implement the technology and operational changes required to work in a T+1 environment? And in a T+0 environment? Please differentiate between one-off costs and on-going costs, comparing the on-going costs of T+1 and T+0 to those in the current T+2 environment. Where relevant please explain if these are general or asset class/instrument/ trade specific.

<ESMA_QUESTION_SETT_5>

As stated in Q1 answer we will not refer to T0 impacts.

From a general standpoint, a precise evaluation of costs to implement T+1 is objectively a very difficult exercise to complete. It would heavily depend on what is meant by a move to T+1, i.e., a precise definition of what is considered. The agreed-upon scope, and a precise view of all the technical changes required from the impacts identified in our Q1 answer would help build a possible timeline and roadmap.

Firstly, a clear view on the changes considered by the infrastructures and on the changes considered in the regulations would allow all the actors to make a more precise estimate of the costs of a move to T+1.

As illustrated in Q1, a T+1 project would be an extremely massive undertaking and requires global coordination from a wide spectrum of European actors requiring long discussions on the

possible standards to be defined. As such, on top of implementation costs a massive project management cost must be accounted for.

There will be direct impacts to T+1 with costs that can be broadly identified as of today in their nature but would remain very difficult to quantify without more precise considerations. Also, additional costs to a T+1 transition would be indirect costs impacting the direct environment of the financial industry. Those indirect costs are very difficult to assess as they are by nature more complicated to predict but some scenarios should be built to create projections and forecasts.

We detail below our cost analysis related to the impact of T+1 by identifying categories/families of costs but given the timeframe of the consultation and considering the lack of predefined scope, a serious and realistic roadmap and timeline cannot be built for the moment.

A key consideration is that these costs would not be distributed evenly, and we anticipate that smaller and less efficient market participants would be more impacted by these costs of a move to T+1 than larger market players with an already high level of automation.

Direct technological costs:

- Allocation / Confirmation automation
  - It needs to be taken into consideration that software and platforms in use for Allocation / Confirmation automation are all from foreign providers and no such software exist in Europe exposing European companies to dependency to foreign actors.
- Software acquisition or evolution
- IT infrastructures reinforcement (capacity, computing power, redundancies…)

Direct operational costs:

- Operating model transformation
  - Additional staff for overnight process (night shifts, offshoring, outsourcing, follow-the-sun models…)
  - Additional staff to cope for error and exception management on shorter timeframes.
- BCP evolution
  - Shorter timeframe to recover operational duties.

Indirect costs: as indicated above we cannot foresee all of them, but following our answers in the previous questions we have detected the following ones:

- Infrastructure transformation
- Securities lending and borrowing
- Liquidity

- Foreign currency
- Settlement risk (on short term)
- CSDR penalties (on short/middle term)

<ESMA_QUESTION_SETT_5>

Q6 : In your view, by how much would settlement fails increase if T+1 would be required in the short, medium and long term? What about T+0? Please provide estimates where possible.

<ESMA_QUESTION_SETT_6>

It is not easy to estimate so far how important the increase of fails would be. What is certain is there will be one. Its level will depend on different factors like the level of settlement efficiency achieved when the migration will take place (including all the prerequisites already listed), the level of liquidity and the related ability to borrow to cover a lack of securities, …

What is crucial is that the level of fails reached in the days (or more) after the move would remain "under control" and not lead to a situation where the CSDR Refit buy-in may become less theoretical.

<ESMA_QUESTION_SETT_6>

Q7 : In your opinion, would the increase in settlement fails/cash penalties remain permanent or would you expect settlement efficiency to come back to higher rates with time? Please elaborate.

<ESMA_QUESTION_SETT_7>

The return to a higher rate of settlement efficiency after an initial spike of fails after adoption of T+1 seems a rather plausible scenario. However, it is impossible to estimate if and at what point of time it would come back to pre-T+1 level. The timeframe of this return to normal is also impossible to estimate. If the infrastructure prerequisites for T+1 are met the level of settlement efficiency would be dependent on significant technology investments both on STP adoption and Data quality management.

Also, it needs to be considered that settlement efficiency could also increase through the effect of actors being excluded from the market overtime because they could not adapt fast enough and had to bear the cost of penalties overtime.

Furthermore, some impacts may affect the market permanently, as we highlighted in Q1. Securities lending could be deeply affected by a move to T+1 which could lead to a lower rate of securities lending. However, this process is fundamental to provide liquidity in the market and to prevent settlement fail by helping participants in their settlement process. A lower rate of securities lending would permanently affect the settlement fail rate.

It also needs to be considered that the US adoption of T+1 would not provide enough information on the matter. The rate of settlement fail is a figure that is not monitored in the US market because of its different market model structure. For example, DTCC is not able to give a figure on the rate of settlement fails in its market. In fact, the EU is the only jurisdiction that closely monitor the settlement efficiency.

<ESMA_QUESTION_SETT_7>

Q8 : Is there any other cost (in particular those resulting from potential impacts to trading identified in the previous section) that ESMA should take into consideration? If yes, please describe the type of cost and provide estimates.

<ESMA_QUESTION_SETT_8>

Several additional costs should be taken in consideration to get a full picture of the impacts of a move to T+1.

First a category of direct costs that wasn't addressed previously is a number of change of the EU Market Infrastructure in itself. It should be noted that the move from T+3 to T+2 did not affect the infrastructure processes.

From the analysis that we performed the Market Infrastructure could be impacted on two specific processes.

1. T2S platform and other CSDs: As we mentioned in Q1 the T2S matching processes should change significantly to allow for a T+1. We see two solutions to this issue:
   - to delay the start of the NTS to a later time to be defined. If we are to follow the example of the US of 7 hours between trade close and settlement process start it would be at 00:30.
   - to create several different standard settlement cycles that would allow market participants to enter at different hours of the night.

in both cases, the change to the platform is a project cost that also need to be taken into consideration but that we cannot estimate in our capacity.

It should also be noted that the night settlement cycle should remain the preferable process for settlement, and that a shift to the real time settlement cycle should not be considered as normal.

2. ECB Euro payments: Considering the possible impact of a T+1 Settlement cycle on the margin process that we described in detail above it is a possibility that margins have to be called on the evening of the Trade date. If it is the case these initial margins would most likely be called after 18:00, time at which the ECB payments would be close. If in this situation the ECB payments cut-off must be extended, and this costs also have to be taken into consideration.

The second cost that may need to be taken into consideration is a **project opportunity cost**. A move to T+1 is a massive undertaking. We believe that a lot of resources would need to be allocated to this project by most of the market participants.

Consequently, some important regulatory or market projects would need to be put on hiatus before T+1 is completed. Pursuing T+1, as such, is an opportunity cost to other market projects that are already or soon to be planned.

Another consequence is an increased cost of financial instruments because of a lower liquidity. Indeed, as stated previously a concern of France Post Marché is that smaller or less efficient market participants would be excluded from the market because of the high project and running costs of T+1. Additionally, actors not able to adapt fast enough may also bear the costs of increased settlement fails and eventually not be able to compete. It also needs to be considered that this move would make accessing European market more difficult for international actors, notably in Asia. The decrease in market participants could potentially affect the liquidity of the market and increase costs.

<ESMA_QUESTION_SETT_8>

Q9 : Do you agree with the mentioned benefits? Are there other benefits that should be accounted for in the assessment of an eventual shortening of the securities settlement cycle?

<ESMA_QUESTION_SETT_9>

While a move to T+1 would at the end bring benefits, they should not be as important as expected:

- Reduction of counterparty risk and related margin requirements: the margin models used by EU CCPs are not identical to the US one; thus, a potential reduction of the amount would not result in huge amount; moreover, the increase of settlement fails following the implementation of T+1 will delay this benefit.

- Encourage STP: the improvement of STP operations would indeed happen, however we do not believe this would have such a beneficial impact on the settlement efficiency. Indeed, the implementation of CSDR has already push market participants toward improving drastically settlement efficiency (which was not the case in the US). As such the level of settlement efficiency in Europe is already at a pretty satisfactory level and as such, we do not believe T+1 would bring material additional benefits.

- Elimination of issues associated to unharmonized settlement cycles: if the EU moves to T+1 there will be an alignment with the US and misalignments with other jurisdictions still in a T+2 model. Moreover, if the idea to promote an international harmonization is sensible, the reality shows that it is (at least today) a utopia. There are quite as many T+1 models as countries that decide to move (see our answer to Q15). Each jurisdiction has adapted the concept of a T+1 settlement cycle to its own market. In regards to the future US / EU misalignment, we believe it will help assess the real impact of having different settlement cycles and see if the negative consequences are as high as currently foreseen.

- Increase the attractiveness of EU markets: a T+1 settlement cycle may be perceived as way to attract investors, but we do not believe it is the first reason they would invest in EU markets. Moreover, should the shortening impact too negatively the efficiency of the EU market this would disincentivize investors. In addition, APAC investors APAC may find difficult to continue investing in the EU. We also fear that the cost that actors would have to incur to comply with a T+1 landscape would weight on their capacity to invest and innovate thus making them less competitive and eventually the EU itself.

<ESMA_QUESTION_SETT_9>

Q10 :Please quantify the expected savings from an eventual reduction of collateral requirements derived from T+1 and T+0 (for cleared transactions as well as for non-cleared transactions subject to margin requirements).

<ESMA_QUESTION_SETT_10>

We do not wish to comment on estimating the improvement of collateral requirements as this is mainly a question for CCP and we are not privy the VAR computation parameters and cannot estimate the benefit of reducing the time of settlement from T+2 to T+1. Additionally, the question of collateral requirement is far less of an impact on securities market compared to other more volatile market such as derivatives for example. We believe the impact of a reduction of 1 day in settlement would be far less substantial than what is currently envisioned for US markets due to different margin models.

<ESMA_QUESTION_SETT_10>

Q11 : If possible, please provide estimates of the benefits that you would expect from T+1 and from T+0, for example the on-going savings of potentially more automated processes.

<ESMA_QUESTION_SETT_11>

The processes that were described through Q1 and in Appendix, show the number of interactions between actors; these interactions as much as they can be automated would still need some controls within the chain. As such the settlement process would never be completely automated.

<ESMA_QUESTION_SETT_11>

Q12 : How do you assess the impact that a shorter settlement cycle could have on the liquidity for EU markets (from your perspective and for the market in general)? Please differentiate between T+1 and T+0 where possible.

<ESMA_QUESTION_SETT_12>

As stated in Q4 we believe that a T+1 settlement would bring more difficulty to the security lending process and as such the ability for liquidity provider to offer low liquidity securities in their offers. As such we believe T+1 to negatively affect liquidity and particularly for low liquidity securities. Please refer to Q4 for more details on this topic.

<ESMA_QUESTION_SETT_12>

Q13 : What would be the benefits for retail clients?

<ESMA_QUESTION_SETT_13>

We do not foresee any benefits for retail clients as such.

Counterparty risk in France is not carried by retail clients once order is executed. As such there would be no benefits for retail clients on reducing counterparty risks. In France retail clients are not subject to margin calls on securities.

Due to the difference in market organisation between France and the US the potential benefits that T+1 could bring to retail clients would not apply to the French retail clients.

<ESMA_QUESTION_SETT_13>

Q14 : How would you weigh the benefits against the costs of moving to a shorter settlement cycle? Please differentiate between a potential move to T+1 and to T+0.

<ESMA_QUESTION_SETT_14>

In our opinion the cost would be far more important that the benefits in a move to T+1. However, as we said the costs and benefits analysis is a broad one and a precise estimate cannot be made without some working hypothesis of how the market would be structured under at T+1 settlement regime.

We feel it is too early to estimate the weight between benefits and cost of the migration to T+1. The prerequisite, project, and transition costs would probably take many years to be offsetted by the benefits.

Moreover, there is other aspects of this cost/benefit analysis that needs to be highlighted.

1. Timeframe discrepancy: For the reasons we stated in our previous answers the investment to achieve T+1 would be extremely significant; however, the benefits won't be immediate with the market needing adjust to this new paradigm. As such benefit would be delayed exposing market participants for a long period of time which is a significant risk which cost might be reflected all the way to the client.

2. Unbalanced cost and benefits repartition: As we exposed earlier the exposure of market participants is not equal. Smaller and less efficient actors would have to invest exponentially more to be able to keep up for T+1. However, the actors which would benefit the most from the benefits of T+1 are the most efficient actors of the market which would have less trouble adapting to T+1.

Finally, an element that should also be part of the equation is linked to the other projects the legislators / regulators / Infrastructures have listed in their annual and/or pluri-annual work plans. Indeed, those resources that would be devoted to the migration to take place would be distracted from other initiatives with potential impacts detrimental to their objectives.

At the end, the EU would have to define its priorities. Not all the topics could be addressed at the same time.

<ESMA_QUESTION_SETT_14>

Q15 : Please describe the main steps that you would envisage to achieve an eventual shorter securities settlement cycle. In particular, specify: (i) the regulatory and industry milestones; and (ii) the time needed for each milestone and the proposed ultimate deadline.

<ESMA_QUESTION_SETT_15>

The preparatory phase for the transition to T+1 would need to implicate all market participants. As we illustrated, to transition to T+1 the whole market ecosystem would need to be restructured. In order to do that effectively and without creating peripheral impact all actors would need to be consulted to take into accounts all implications of T+1.

The first step to make this transition would be to define the conditions of a T+1 and precise the conditions of this T+1 transition. Without, clearly built conditions to this T+1 assessment could not be made. When the prerequisites are met a global European taskforce ensuring global coordination across Europe would need to be put in place. Clearly defined scenarios for a T+1 transition would be needed for the industry to make an assessment on the time needed for the transitions and regulatory milestones.

Once the conditions and specificities of T+1 clearly defined a solid impact assessment across all industry actors based in Europe as well as outside Europe would need to be made considering the complete lifecycle and actors of the post trade industry. This impact assessment should be done by also taking advantage of the implementation of T+1 across the globe (US, Canada, India, Taiwan, Japan – for state bonds) and keeping in mind that the existing “T+1” are not identical in terms of scope of financial instruments, scope of types of investors or even local legal requirements (pre-funding, individual segregation, …).

Regulatory changes and Infrastructure milestones would need to be achieved first to define the scope and conditions of T+1 settlement in Europe. The industry would then need time to make their impact assessment, define new target operating model, execute the change to their organisation and systems. Once both infrastructure and industry are ready an extensive testing phase is necessary, to consider all trade scenarios that a global Market such as Europe allows.

We believe that the infrastructure process would need to be changed before the change to T+1 is made effective. The change of process of the infrastructures (cut off, systems, margins etc.) should probably be acted and operational before the shift to T+1 for products have to be acted to test systems and avoid a shift of the environment in one go that would carry increased risks. The impact of such an approach if considered should also be studied very closely to ensure it is the most beneficial approach.

<ESMA_QUESTION_SETT_15>

Q16 : Assuming that the EU institutions would decide to shorten the securities settlement cycle in the EU, how long would you need to adapt to the new settlement cycle? And in the case of a move to T+0?

<ESMA_QUESTION_SETT_16>

Please refer to answer to previous question.

<ESMA_QUESTION_SETT_16>

Q17 : Do you think that the CSDR scope of financial instruments is adequate for a shorter settlement cycle? If not, what would be in your views a more adequate scope?

<ESMA_QUESTION_SETT_17>

The scope of a mandatory T+1 should be the one detailed in CSDR (paragraph 2 of article 5). In other words, each transaction executed on an EU trading venue and settling in a CSDR CSD when its underlying financial instrument is a transferable security (unlike what is written in point 44, the 3 other asset classes are out of scope) should be required to settle on T+1.

<ESMA_QUESTION_SETT_17>

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

<ESMA_QUESTION_SETT_18>

We already have different settlement cycles across different instruments (for example, non-ETFs funds traded on the French market settle on T+3, while ETFs, although not being transferable securities, settle on T+2). The migration to T+1 would be a combination of mandatory and voluntary moves. This transition should leave enough space to the market participants to be able to self-organize and find market led solutions to local specificities.

<ESMA_QUESTION_SETT_18>

Q19 : Which financial instruments/ transaction types are easier to migrate to a shorter settlement period in the EU capital markets? Does the answer differ by asset class? Should it be feasible/advisable to have different migration times for different products/markets/assets? If yes, please elaborate.

<ESMA_QUESTION_SETT_19>

Since the scope of a mandatory T+1 should be the one of CSDR, a potential phase-in would be between different types of transferable securities. A prerequisite for a phase in approach would be that this phase-in plan would apply across Europe uniformly with an aligned timeline. A phase-in approach would only be beneficial under a very rigorous and detailed plan built and shared across Europe with dates followed by every market participant jointly.

We tend toward believing a big bang approach would be more beneficial however the full impact assessment would have to be performed to confirm this approach as there is a need for more analysis on the impacts of a phase-in approach (impact of multiple IT migrations, existence of a data base referencing the settlement cycle, …).

<ESMA_QUESTION_SETT_19>

ESMA
European Securities and Markets Authority

Q20 : Do you think that the settlement cycle for transactions currently excluded by Article 5 of CSDR should be regulated? If you think that the settlement cycle of some or all of these transactions should be regulated, what would be in your view an appropriate length for their settlement cycle?

<ESMA_QUESTION_SETT_20>

No. Transactions currently excluded from paragraph 2 of Article 5 of CSDR have still to comply with the first paragraph of the same article. Therefore, participants need to respect the settlement date agreed between the parties. In our view, such obligation is sufficient since in most of the cases penalties will apply if the full settlement does not happen on that day while leaving some room and flexibility. Should the parties believe there is an interest for the transaction to also settle at T+1 then they will do. Like what happened with the move to T+2, there would be a natural (when justified) move for “out of the mandatory scope” operations.

<ESMA_QUESTION_SETT_20>

Q21 : Please describe the impact(s) that the transition to T+1 in other jurisdictions has had or will have on your operations, assuming the EU remains on a T+2 cycle.

<ESMA_QUESTION_SETT_21>

For this paragraph from question 21 to 26 focusing on “International developments on settlement cycles and their impact on the Union’s capital markets” we would like to highlight that the European Market is a very complex structure with a lot of different market participants / FMIs. If the successful implementation of T+1 in other countries, those implementations of course differing in each country, would help to guide the European effort it would not be directly replicable. It would serve to highlight areas of interest and pain points but the blueprint for T+1 in other countries cannot be directly translated in Europe.

France Post Marche being an association representing French market post trade participants, we prefer to let specific actors delve into the impacts into their specific operations.

Impact would vary depending on market coverage of participants from local participants, regional participants in Europe and global operations spanning globally.

As we have mentioned before the impact would also vary between actors and their footprint in the US. If they have truly global operations they would have to adapt their process completely. If their operations in the US represents a small part of their businesses they might use their partners offers and tools to comply with outside Europe jurisdictions.

When speaking of the future misalignment between the US and the EU, we believe it the transition of the US in may will give us a good opportunity to accurately evaluate the real impact it may have on our activity and determine how urgent it will be for the EU to eliminate an non harmonization with the US.

<ESMA_QUESTION_SETT_21>

Q22 : Can you identify any EU legislative or regulatory action that would reduce the impact of the move to T+1 in third countries for EU market participants? Please specify the content of the regulatory action and justify why it would be necessary. In particular, please clarify whether those regulatory actions would be necessary in the event of a transition of the EU to a shorter settlement cycle, or they would be specific only to address the misaligned cycles.

<ESMA_QUESTION_SETT_22>

We do not have an opinion on this question

<ESMA_QUESTION_SETT_22>

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

<ESMA_QUESTION_SETT_23>

The harmonization of settlement cycles between different jurisdictions is indeed a good thing to achieve if it's done in coordination with those same jurisdictions. The move to T+1 of the US, Canada and Mexico is of great importance for all actors over the world. If an alignment with the US could of course be beneficial the other markets should also be taken carefully into consideration. We believe that the stakes for actors in Asia should also be considered. If a reduction of settlement cycle can be beneficial to domestic investors it has proved in previous attempts to be detrimental to foreign investors. As an example, Taïwan made an attempt to move to T+1 but reverted back to T+2 due to the difficulties foreign investors had to participate

in the market. In the same spirit, if China can exist with a T+0 environment the market is very difficult to access for foreign investors. Finally, as mentioned before, Japan adopted a hybrid model for state bonds settlement. If the settlement is done at T+1 for domestic investors, foreign participants can settle the transaction at T+2.

We feel that the US have made a bold move and regret that no effort at global coordination was done in this effort of reducing settlement cycle. We believe the European market should not follow in these footsteps. In particular when UK, Switzerland and Europe market are so closely interconnected. As T+1 settlement cycle can be done with very different parameters, the harmonization should not be focused solely on the timing of the settlements but also in the characteristics and market process used in each country and ensure they work together in optimal conditions. Also, a close synchronization with CLS, which helped improve settlement efficiency on the FX market, would be necessary to ensure that FX and securities settlement cycles are aligned.

<ESMA_QUESTION_SETT_23>

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

<ESMA_QUESTION_SETT_24>

We do not foresee any additional indirect benefits on post market operations.

<ESMA_QUESTION_SETT_24>

Q25 : Do you consider that the adaptation of EU market participants to the shorter settlement cycles in other jurisdictions could facilitate the adoption of T+1 or T+0 in the EU? Please elaborate.

<ESMA_QUESTION_SETT_25>

The adaptation to T+1 settlement cycle in other jurisdictions would push some market participants to look into the impacts of T+1 in other jurisdiction. However, it would be the case for a limited number of actors involved in those countries.

The move to T+1 in the US might help by transforming the currency market and getting the Forex market to transition to T+1 which would be beneficial for a T+1 in Europe.

However, as regards process adaptions, the move to T+1 in the US won't be that beneficial. Settlement in the US and in Europe relies on different process and tools which are specific to each market. Moreover, if the biggest actors are impacted by T+1 in the US it is not the case for the smaller one. As we described our worries are not focused on the biggest actors but rather on the regional ones in Europe. Those might not be impacted at all by the transition to T+1 in the US.

As also mentioned in question 21 the adaptation of European actors for US settlement would probably not be the same, as actors would not rely on the same processes for their main activity and secondary activities.

<ESMA_QUESTION_SETT_25>

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

<ESMA_QUESTION_SETT_26>

Different cycles between the EU and non-EU jurisdictions are of course less than optimal. However, this is a reality due to the varied and non-homogeneous nature of non-EU jurisdictions. What should be closely studied is the specific non-EU jurisdictions with that misalignment. A misalignment might prove itself more or less detrimental depending on their ties with the EU. In the same sense we believe the access to the US market might prove more difficult to foreign investor and make European market more attractive to those specific investors. Ultimately, we believe that the settlement process has a low impact on the attractivity of a market to an investor. The securities tied to the market is the prominent criteria for the investment decisions. However, the access to liquidity and the health and stability of a market comes also into consideration. Europe should aim to preserve these characteristics to define its market.

It also bears reminding that the EU and US have also existed with different settlement cycle for 3 years in the past in particular when the EU adopted a T+2 settlement in 2014 cycle while the US market continued to stay on a T+3 settlement cycle until 2017.

We believe that the costs of a misalignment between jurisdictions could be far less than a rushed and unprepared transition to T+1 could cause for our market.

Two other points should, on our view, also be kept in mind:

1. A move to T+1 does not make misalignment disappear:

Actually, the only harmonisation that would exist is about the number of days between the trading and the settlement dates. No more. Each T+1 jurisdiction has or would have its own “T+1” and it is more than likely that there will be discrepancies: one country would limit the T+1 settlement cycle to shares while keeping a T+2 for bonds, another country would apply the T+1 to all type of securities but would limit it to domestic clients, … In the end frictions would still exist, hindering cross-border transactions. While being potentially of some interest, an alignment with T+1 countries is definitively not optimal for competitiveness, attractiveness, or operational issues the EC may have pointed out.

2. The misalignment should be also assessed on the side of the “T+1” jurisdiction:

For example, it is evident that US market participants active in the EU market would be negatively impacted until the EU moves. In fact, they even may be more impacted than a European actor acting on the US market. The EU should not underestimate the push “T+1” countries may make in order to, as quickly as possible, fill the gap and be back to normal.

<ESMA_QUESTION_SETT_26>

Q27 : Please elaborate about any other issue in relation to the shortening of the securities settlement cycle in the EU or in third-country jurisdictions not previously addressed in the Call for Evidence.

<ESMA_QUESTION_SETT_27>

To conclude on this call for evidence we wish to reinforce some key points that we have mentioned over our response:

1. From our point of view, there is **no clear interest so far for European actors of the market to go to T+1**. However, we understand European authorities opened the question due to the US decision (indeed it did not appear to be in the work plan of the EC or ESMA for the next years). The European market as a whole has made numerous investments these past years on the path to a unified and secured market through

important efforts despite the diversity of infrastructures, countries, and actors. Although the European market is more complex than others, these **achievements are the foundation of the strength, attractiveness, and competitiveness of the market**. A move to T+1 would certainly weaken the market for some time, due to the diversity and the amount of work and expenses necessary to achieve this transformation. We believe that such a move, if it should be pursued, must be **extremely well thought out, planned, and executed** with a robust project planning and coordination, to avoid losing the benefits achieved over the past years. Without doing so, the EU carry a significant risk on its liquidity resulting from the operational risks associated with this transformation. Therefore, **we urge ESMA to not rush any recommendation to move to T+1** and take the time to evaluate in detail the ratio of benefits versus costs in particular in terms of attractiveness and competitiveness both for the market participants and the European Union itself, while **scrutinizing the consequences of the project in the US market.**

2. Should a decision to move to T+1 be taken, it is mandatory that EU authorities work towards further harmonizing the underlying regulations for processes related to CSDs, CCPs and trading venues within Europe to ensure a seamless and successful transition.

3. The prerequisite to this move to T+1 is to **completely redesign the infrastructure environment** (Trading Hours, Post Trading hours, CCP processes, ECB processes etc.) which supports the European Market. We are convinced that **under the current infrastructure conditions a move to T+1 could not be achieved**. The definition of this new infrastructure conditions would be the first step toward achieving T+1. Assessments and costs/benefits analysis can only be performed once these new conditions are clearly laid out. This analysis must also take into consideration the operational risks increase associated with such a move, and eventually the impact it could have on the market liquidity.

4. The success of such a critical change would require **full adhesion of the financial community** across Europe. Strong coordination of actors within as well as outside Europe is a mandatory prerequisite to achieve an orderly move to T+1. Ensuring that an **evolution is made jointly, at the same time, in accordance with UK and Switzerland markets and authorities, would also be essential to the success of this project**. Furthermore, ensuring that all actors (FMIs, Intermediaries, investment

companies and investors both domestic and foreign ones) can be informed and contribute to the definition of this project would be required for its success.

5. More fundamentally, we believe that a **move to T+1 would bring more costs than benefits**, taking into consideration that these benefits would take much more time to appear compared to substantial costs before and during the transition. We also believe that these costs would be **unevenly shared between market participants**. Moreover, the costs of this transition would impact **European actors, and hamper their capacity to invest into innovative projects and affect their competitivity** at the international level. We believe that the competitiveness of the ecosystem is a key criterion for a market to be attractive for investors. Therefore, our concern is that such a move to T+1 would result in a massive misallocation of EU resources and workforce even if both US and UK market were on T+1. Furthermore, we fear a move to T+1 may force EU market participants to consider a potential workforce relocation or outsourcing out of the EU to cope with the new timeline.

6. Therefore, we would like to suggest to the EU authorities to consider carefully **whether T+1 should constitute a priority for EU capital markets** as alternative projects requiring less resources may foster more innovation and benefits for Europe. Also, it should be kept in mind that there are **multiple "T+1"s per different regions** where it is being considered or implemented in the world. Some countries have chosen to apply different settlement cycles for diverse investors (domestic/foreign) or for diverse asset classes and with different local market rules (pre-funding, account segregation, etc.) making "T+1" very different across jurisdictions.

7. **T+2 settlement cycle might also present some advantages** for domestic investors (working hours, FX market, Sec Lending, UCITS management, ….) and foreign investors (notably for Asian ones) for which a move to T+1 could negatively affect their propensity to invest in European markets. Taiwan for instance, which adopted a T+1 settlement cycle in the past moved back to a T+2 cycle because of the difficulties it created for foreign investors. The **interest to move to T+1 is therefore strongly correlated to local or regional market organizations** and should follow an independent cost/benefit assessment in each jurisdiction.

8. Finally, we would like to remind that the **US decision** which is the starting point of this analysis conducted for Europe was:

    - meant to reduce the counterparty and liquidity risks and to increase the confidence of investors in the financial markets, following some impactful cases (Market volatility, Gamestop, AMC Entertainment etc.)

    - led by the industry and not the regulators. Indeed, the project was brought up by DTCC and then agreed upon by the SEC. It is also worth reminding that this decision came after the fact that the industry felt compelled to improve its processes following the challenges faced due to the emergence of retail trading and DLT platforms.

    - **made without assessing the impacts on non-US actors**

    - **expecting benefits that may not replicate in the EU**

9. Meanwhile it should be considered that Europe addressed these issues by implementing more restrictive regulations such as CSDR and the settlement discipline. Therefore, **the benefits that the US perceive by implementing T+1 would not necessarily translate into the European market environment**. It should also be noted that the US market is not monitoring its settlement efficiency and is not applying penalties in case of settlement fails, on which we would expect a substantial increase if Europe adopts T+1. **The European market has already achieved important milestones towards making its market infrastructure more efficient and stable through rigorous regulations**. Therefore, a move to **T+1 should only be considered for the right reasons, in the interest of EU markets and investors, justified by a documented cost/benefits analysis and not be based on a "follower stance".**

<ESMA_QUESTION_SETT_27>