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Chair of the European Securities and Markets  
Authority

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*sent via email*

## **The AMI-SeCo's views on the potential impact of shortening the standard settlement cycle**

Dear Ms Ross,

I am writing to you in my capacity as chair of the Eurosystem's Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo). The AMI-SeCo represents a wide community of financial market stakeholders including national and international Central Securities Depositories (CSDs), market participants, Eurosystem central banks and industry associations. In addition to fulfilling its governance responsibilities with respect to the Eurosystem's TARGET2-Securities service (T2S), the AMI-SeCo focuses on fostering harmonisation of securities settlement, collateral management and post-trade services in Europe, thereby covering the European Economic Area (EEA) markets, Switzerland and the United Kingdom (UK).

The AMI-SeCo has been following the developments in the North American markets (United States, Canada, Mexico) to shorten the standard settlement cycle from T+2 to T+1. The AMI-SeCo welcomes the discussion in Europe on whether European securities markets should follow the US move. In particular, the AMI-SeCo appreciates ESMA's call-for-evidence<sup>1</sup>, the work undertaken by the UK's Accelerated Settlement Taskforce<sup>2</sup>

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<sup>1</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-potential-impact-shortening-standard-settlement-cycle>

<sup>2</sup> <https://www.ukfinance.org.uk/system/files/2023-08/Accelerated%20Settlement%20-%20July%202023.pdf>

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as well as the work carried out by the industry task force created by the leading European and global industry associations<sup>3</sup> on this matter.

The AMI-SeCo's response focuses on T+1. The AMI-SeCo takes the view that T+0 (and in particular in the sense of 'atomic' trade settlement, i.e. settlement basically occurring simultaneously with the execution of a trade) could have a fundamental impact on the structure of the wider ecosystem of trading, clearing and settlement of financial markets (including IT systems and market infrastructures). Hence, migration to T+0 is not viewed currently by the AMI-SeCo as a plausible scenario across the whole environment in the foreseeable future.

The AMI-SeCo supports the approach of analysing the business case in Europe of a potential shortening of the standard settlement cycle to T+1 on the basis of a thorough investigation of the costs, benefits and adaptation needs for all relevant stakeholders.

The necessary adaptations resulting from a potential shortening of the standard settlement cycle would, to a large extent, concern the steps preceding settlement (i.e., the activities to be performed between trade and settlement) that would need to be concluded within a significantly shorter time-window<sup>4</sup>. A set of areas which are affected by a potential changeover to a shorter standard settlement cycle for securities transactions is highlighted in the annex. The ongoing investigation of the business case of a potential shortening of the standard settlement cycle should rely on broad market input.

Furthermore, if a decision were taken for the EU to migrate to T+1 at some point in the future, the AMI-SeCo is of the view that implementing such decision would require strong coordination with contributions of all relevant stakeholder groups (CSDs, CCPs, brokers, market-makers, custodians, buy-side, issuers, etc.). The lessons learnt from the discussions between the industry and the authorities that took place in the period between 2011 and 2014 in relation to harmonising the standard settlement cycle on T+2 within the EU could be built upon<sup>5</sup>, while noting that a potential migration to T+1 would be more challenging than the 2014 migration

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<sup>3</sup> <https://www.afme.eu/news/press-releases/details/afme-announces-establishment-of-t1-industry-taskforce->

<sup>4</sup> Industry analysis estimates a more than 80 % reduction of the time available between trade and settlement to prepare, confirm, match settlement instructions and to finance securities positions (e.g., borrowing securities to secure settlement via repos or securities lending).

<sup>5</sup> In that regard the harmonisation work of the T2S Community in the form of a set of proposed best practices for T2S Markets' Migration to T2S and the alignment of the plans of the different markets (converging in a Big Bang approach by deciding to make the move on the same date) were considered highly beneficial for the successful move to T+2 of 29 European markets (see following reports: [2011 report by the CESAME Harmonisation of Settlement Cycle Working Group](#); [Annex to the 2011 report on T+1](#); [2014 report by the T2S AG Harmonisation Steering Group on convergence on T+2](#)).

and convergence to T+2. Ultimately, should a decision be made to shorten the settlement cycle in the EU, industry coordination should identify the pre-conditions for a potential move to a shorter standard settlement cycle (e.g., necessary or expected efficiency improvements at individual stakeholders, further harmonisation / standardisation needs, regulatory steps, etc.) and produce a consensus view on a feasible timeline.

Coordination is also necessary across jurisdictions. Given the interconnectedness of the European capital markets industry and the presence of global investors, it is in the EU's interest to take into account the impact on stakeholders in different time zones and jurisdictions with a particular attention to the links between securities and FX markets. In particular, a coordinated approach between EU and UK stakeholders and policy makers would be necessary in order to avoid market fragmentation. In this spirit, this AMI-SeCo letter is also shared with the UK's Accelerated Settlement Task Force and the relevant UK public authorities.

Finally, the AMI-SeCo believes that the EU would benefit considerably from a careful analysis of the lessons learnt from the North American implementation and transition to the T+1 standard settlement cycle before taking any further steps in this regard.

The AMI-SeCo stands ready to provide its continued support with respect to coordinating market discussions, analysis and input the EU authorities on this topic based on the extensive technical and operational expertise of the community of financial market stakeholders represented in the AMI-SeCo.

Yours sincerely,

Ulrich Bindseil

AMI-SeCo Chair

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Cc:

European Commission: John Berrigan, Ugo Bassi, Jennifer Robertson

Bank of England: Victoria Cleland, Sasha Mills

HM Treasury: Holly Snaith, Timothy Maloney

UK Accelerated Settlement Task Force: Charlie Geffen

## **Annex: Considerations on the areas of post-trade processing affected by a change to a shorter standard settlement cycle for securities transactions**

- T2S (similarly to most real-time securities settlement platforms) attempts settlement as soon as instructions are received/matched and the intended settlement date (ISD) is reached, irrespective of the trade date, instruction or transaction type. Therefore, a shorter standard settlement cycle can already be supported from a T2S / core securities settlement infrastructure perspective. Modifications/adaptations in the schedule of the T2S business day and key cut-offs may become desirable/necessary to address potential changes in the behaviour of CSD participants (such as a shift of settlement volumes from night-time settlement to real-time settlement due to shorter time-frame to prepare settlement instructions). The identification of necessary adaptations to T2S would require, inter alia, an impact assessment by the CSDs and their participants on the basis of their usage of T2S (e.g., impact on the use on schedule of the settlement day, change in peak processing times).
- In the clearing domain shortening the settlement cycle may affect margining and collateral management practices. Ceteris paribus collateral needs to cover counterparty risk for centrally and bilaterally cleared transactions would decrease. However, CCPs may need to review and adapt their clearing cycles and margining rules which might limit these savings. Due to a potential increase in settlement / delivery fails in central clearing CCPs may need to rely more on exception handling related to margin and default processes. The European CCP community could be invited to analyse the impact in detail also with the help of their well-established risk management models.
- In line with previous industry analysis, the AMI-SeCo considers the significantly less time available for the preparation for settlement and for ancillary securities financing and FX transactions as the biggest challenge for stakeholders. The primary cause for settlement fails today is the lack of securities available for settlement on the intended settlement date. Ceteris paribus (i.e., without significant adaptations throughout the custody chain and the trading / securities financing ecosystem to achieve a higher efficiency) the shortening of the settlement cycle is expected to exacerbate existing issues with settlement efficiency and – due to the cascading nature of fails – may lead to a sharp deterioration. Furthermore, without the required adaptations and higher efficiency, market stakeholders may need to rely more on pre-funding securities and cash before trading takes place which may lead to more costly and less efficient financial markets. Any repercussions on the trading hours would require particular attention since long trading hours are crucial for market liquidity and accessibility, allowing market participants to engage effectively and without constraints.

- Concerning the processing of corporate events, a T+1 standard settlement cycle would make the 'ex-date' the same as the 'record date' for many corporate events, and this would have a variety of effects, both direct and indirect. On the positive side, there is the potential for a greater alignment between traded and settled positions. On the other hand, challenges may arise in the processing of these corporate events (once they are raised) as, for example, the time window for execution will be significantly shorter, and any increase in the ratio of settlement fails will increase the volume of market claims and buyer protection instructions. The AMI-SeCo's Corporate Events Group will analyse the impact on the corporate event standards and processing in detail.
- From a foreign exchange (FX) market perspective, it would need to be examined how the misalignment between a shorter standard securities settlement cycle and the settlement cycle of FX spot markets (which is globally set at T+2) can be managed. In addition, the trading and settlement of FX swaps (a key financing market segment for cross-border securities transactions) would need to adjust accordingly.
- Finally, careful considerations need to be made regarding the exact scope of a move to a shorter standard settlement cycle. It is important that necessary market segments (OTC vs on-venue trading) move in line and without any frictions while it is also important to allow sufficient flexibility for ancillary / financing market segments (e.g., repos, securities lending) to adjust organically to the new environment without undue restrictions stemming from future regulatory requirements.