ESMA Call for Evidence

Impact of the reduction of the securities settlement cycle in the operations of market players

Q1. Please describe the impacts on the processes and operations which could result from compressing the settlement cycle 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, focusing on 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, types of transaction or settlement instructions (e.g. DvP , FoP) or financial instrument class that would be severely impacted or no longer feasible in a T+1 and in a T+0 environment.

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

T+1

For some members, the IT infrastructure is almost ready for the T+1 settlement cycle, with only minor changes needed. While members could handle a shortened settlement cycle operationally, it would require structural changes to processes and systems over 1-2 years.

A shortened cycle could add to market stress by reducing the time available for settlement. With regards to CCP and OTC transactions, switching to a T+1 settlement regime would mean these transactions should be received and reconciled in near real-time at T. Multi-listed assets should be realigned on T for a T+1 settlement. Settlement instructions should be pre-matched on T EOD. Similarly, the Securities Lending market needs to switch from T+1 to T+0 for returning positions to lenders.

Liquidity sourcing, CCP margin calls, and DVP/RVP transactions in Target2Securities are areas of particular concern. A T+1 move should be preceded by harmonisation and consolidation, including supervision of market infrastructures.

The market will still benefit from netting and nightly batches for repositioning trades. However, challenges are expected in acquiring foreign currency, especially during currency runs. A legislative deadline for T+1 implementation would help market participants prepare. The rules should be similar to those implemented by the SEC in the US and Canada.

T+0

T+0 would require significant investments across the entire financial infrastructure, including new or upgraded IT systems. Before a switch to t+0 could be considered, several questions need to be answered by the market, such as how FX will be processed for settlement and how the benefits of netting will be preserved.

While harmonisation, consolidation, and distributed ledger technology (DLT) initiatives can contribute to reducing the settlement cycle and paving the way for a viable T+0 infrastructure,

implementing T+0 would necessitate a comprehensive overhaul of current business and operating models, a task of considerable complexity.

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?

See Q1

Q3. What 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?

T+1 itself is not expected to improve this.

Q4. Do you expect the shortening of the securities settlement cycle to have any other impacts on the functioning of markets (trading, liquidity formation) and on the access of retail investors to financial markets? If you identify any negative impact with a legislative or regulatory root cause, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation, etc.) and elaborate on possible avenues to address it.

Efficient securities markets depend on the liquidity provided by market-makers and Authorised Participants. These entities continually inject liquidity into the market by quoting buy and sell prices, enabling immediate transactions. To achieve this, they must be able to trade securities even if they don't physically hold them. Robust and liquid securities financing markets underpin well-functioning cash securities markets.

The transition to T+1 settlement is achievable without harming retail investors, in normal market conditions, but may impact liquidity during market disruptions or extreme volatility. While such risks exist in the current T+2 settlement cycle, the additional time allows for corrections, often unnoticeable to retail investors due to the extended timeframe. However, the shorter T+1 window could hinder prompt FX trade execution, potentially impeding a market participant's ability to secure sufficient liquidity for settling the cash component of a trade.

T+0 settlement risks disrupting the willingness to lend securities, as they would lack the flexibility to promptly sell securities that have been lent out. Furthermore, in EU markets, holdings of the same instrument are often scattered across multiple CSDs. A T+0 cycle would complicate inventory management and necessitate realigning securities before trading. This is particularly challenging given the EU's vast network of over 30 CSDs and 40 trading venues, where equities may follow different routes between CSDs.

Market makers could face difficulties sourcing liquidity and hedging promptly under T+0. These challenges would be exacerbated during stressful market conditions, reducing overall market liquidity.

The accelerated transition to T+1 in the United States, imposed by the SEC, has implications for global market participants who must make substantial adjustments to keep pace with the US market and potentially with other markets that will soon follow. This is because approximately 46% of global securities trading takes place in the United States (Jan 2023). In addition, SWIFT data shows that European users send approximately 23% of their daily settlement instructions to the United States.

In short, the US market plays an essential role in the European market, and losing access to this market can lead to financial losses and customer dissatisfaction.

Reducing counterparty risk by halving the risk (on default) seems a good idea, but it shifts towards operational risk to ensure timely settlement. Another way of achieving less counterparty risk is by promoting central clearing. Counterparty risk will be prolonged in case of overdue settlements. As such the benefits are not that clear.

Forecasting liquidity (cash) will get harder as there is less time to compile all data required to forecast. In non-stress situations, this might be sufficient, but during stress, it's likely to amplify already existing liquidity risks. Liquidity sourcing around expiry will be better aligned (currently, a funding gap exists between cash settling the derivative (T+1) vs the stock (T+2)). US T+1 while EU is still on T+2: it will be cheaper to collect USD, however, we need to borrow more shares. This disparity will disappear when both markets are on the same cycle again.

Costs and benefits of a shorter securities settlement cycle

Q5. What costs would you have to incur in order to implement the technological 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.

Implementing T+1 will primarily require time and effort to modify IT systems, but significant financial investments are unlikely to be necessary. However, a more thorough assessment is needed to determine the exact costs. The financial impact of T+0 implementation requires further investigation.

The quantification and comparison of costs and benefits depend heavily on the agreed-upon roadmap, scope, technical changes, and timeline. We anticipate that the costs will not be distributed evenly, and smaller, less sophisticated market participants may generally need to undertake more significant preparation for T+1. Quantifying long-term benefits, such as reduced systemic risk and improved resilience, is challenging and may materialize over an extended period. While long-term cost savings are expected due to lower collateral requirements and improved efficiency in post-trade processes, it is unclear at this stage whether and how these savings will be passed on to end investors.

Potential costs include:

- One-off/short-term: Investments in shortening IT processes (e.g., batches to start reconciliations) and procedures (e.g., pre-matching, liquidity sourcing).
- Ongoing/longer-term: Pre-matching, resolving issues between EOD T and SOD T+1, and other ongoing activities. This necessitates changes to the availability of IT systems and personnel. Follow-the-sun operational model should position it well to manage staff changes.

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

The market is prepared for T+1 implementation, but counterparty readiness is a concern. T+0 requires significant effort from all participants and might be a long-term goal.

T+1 leaves less room for error, necessitating earlier process completion. The on-exchange, OTC, and SBL businesses are tightly linked and currently tailored for T+2. However, SBL could benefit from borrowing and returning based on actuals rather than forecasts.

While T+1 settlement is feasible under normal conditions and wouldn't significantly increase settlement fails, market turmoil could hinder timely funding and matching for settlement and as such see a significant increase of settlement fails compared to T+1. T+0 would exponentially exacerbate the issues mentioned under T+1.

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.

Shorter settlement cycles put a strain on the operational infrastructure of market participants, increasing the likelihood of errors and reducing the timeframe available to resolve potential non-settlements with their clients.

Establishing a centralized repository for settlement failures, categorized by the failure's root cause, geographic location, and responsible party, could provide valuable insights into the underlying factors impeding settlement efficiency. This centralized approach would nurture a collaborative environment, fostering cooperation among participants to address shared challenges and achieve the collective goal of streamlined settlement processes.

Delaying cash penalties until the EU market has fully adapted to T+1 will promote a smoother transition and pave the way for long-term success.

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.

Shaping, which refers to partial settlements that can be automated or done manually, can result in a higher number of settlements and therefore higher costs. However, it can also improve settlement efficiency, which would benefit T+1 more than the current T+2 settlement cycle. This means that while settlement efficiency would improve, it would come at a cost.

It's important to note that not all costs can be measured in cash, as some costs may be transferred into other types of risk, such as operational risk or risk related to untimely liquidity sourcing during moments of market stress. We anticipate that existing risks will be amplified during times of market stress.

Reducing counterparty risk is beneficial, but it comes at a cost of more operational, currency, and rate risk. It's yet to be seen if the shift of risk is actually reducing or increasing the overall risk in post-trade activities.

Harmonizing settlement cycles across Europe (41 trading venues, 31 Central Securities Depositories (CSDs), 13 Central Counterparties (CCPs), and 14 different currencies across its 27 member states) to T+1 simultaneously is a delicate process, especially around multi-listed assets and related realignments.

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?

We agree with the mentioned benefits (see also answer Q13) but while there are certainly benefits in shortening the settlement cycle, we feel that those benefits could be achieved by other means and with less risk to the financial system. Shortening the cycle is likely to amplify risks in the system, especially in times of market stress. We would caution against a hasty implementation of T+1 in the EU.

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 noncleared transactions subject to margin requirements).

Instead of maintaining a 10% margin over two days, a 7% margin for one day could be implemented. This would result in a 65% margin reduction for all securities that settle on S. Under normal market conditions, this could be beneficial, depending on the specific changes applied to the margin calculation. However, under stressful market conditions, the advantages of such a margin reduction are less apparent.

Margin requirements at CCPs are projected to decrease slightly, but with an estimated EUR 3-5 billion reduction across European GCMs and CCPs related to cash equities, this benefit is relatively modest.

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

Hardly any benefits as most possible processes are already automated.

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

The impact of a shorter settlement cycle on the liquidity of EU markets is a complex issue with mixed opinions. Some argue that it could reduce liquidity due to increased operational challenges, reduced time to manage risk, and concerns about counterparty risk. Others believe it could improve liquidity by reducing settlement failures and increasing market activity. The experience of the US market suggests that a shorter settlement cycle can be successfully implemented, but the EU market is more fragmented and may face different challenges. Overall, the impact is uncertain and likely varies depending on the securities traded, market conditions, and operational capabilities. In theory, liquidity should increase in, as money becomes more available, but other factors also influence liquidity. "The extent to which you benefit from this increase in liquidity will vary depending on your position within the securities chain and the specific products and client groups you serve."

Q13: What would be the benefits for retail clients?

The proposed transition to a T+1 settlement cycle promises a host of benefits for retail investors, including:

- Quicker Access to Funds: Investors would receive proceeds from trades one day earlier.
- Reduced Risk: A shorter settlement cycle mitigates counterparty risk (if not already CCP cleared and netted).

- Potentially Lower Costs: Over time, T+1 could translate into lower transaction costs for retail investors.

Potential Drawbacks and Considerations

One potential drawback with T+1 settlement is the need for faster asset transfers between brokers. This could be more challenging for large custodians (GCMs) due to the complexity of their systems. While, this should not significantly impact retail clients or brokers, as trading can occur before positions are transferred, the additional costs of the GCMs could be passed on to the customer.

The shift to T+1 settlement might bolster the efficiency of the securities market, even though most retail trades are already settled through a CCP to mitigate counterparty risk and provide portfolio transparency. However, T+1 could negatively impact market functioning in times of turmoil (see Q4, Q8 and Q9).

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

Quantifying and directly comparing the costs and benefits of switching to a shorter settlement cycle has proven challenging. The precise implementation costs will depend on factors such as timelines, scope, international alignment, legal framework, and technical specifics, which are yet to be finalized. Moreover, assessing the certainty of key benefits, such as reduced systemic risk and enhanced resilience, is an intricate task. There is a potential for long-term cost savings stemming from lower collateral requirements and improved post-trade process efficiency, but at this stage, it is unclear how these savings will be distributed among investors and to what extent they will outweigh the implementation costs and operational risks.

The complexity and fragmentation of EU capital markets and post-trade infrastructure may pose challenges to successfully shortening the settlement cycle. A transition to T+1 should be preceded by harmonized European supervision across all CSDs. We believe that shortening the settlement cycle to T+0 would mean an exponential impact on costs, but not on the benefits.

T+1 Settlement: A Realistic Near-Term Goal

The transition to T+1 settlement is a sensible step towards enhancing market efficiency and reducing systemic risk. Adopting T+1 settlement is a feasible and achievable goal that can be accomplished with some effort. The current market infrastructure can accommodate this shift, and the necessary changes primarily involve IT adaptations and process refinements.

T+1 settlement offers several potential benefits, including:

- Reduced systemic risk
- Improved market resilience
- Long-term cost savings due to lower collateral requirements and improved post-trade efficiency

A shift to T+1 also contains some uncertainties and warrants further consideration. It is unclear how the mentioned benefits will be distributed among investors and to what extent they will outweigh the costs and operational risks. structural implementation would necessitate modifications to IT infrastructure and processes, particularly in areas like matching, funding, and operational risk management during periods of market stress. We anticipate that smaller, less established market participants will face higher costs. The fragmented nature of EU capital markets and post-trade infrastructure poses a challenge to shortening the settlement cycle. Harmonized European

supervision over all CSDs should precede the move to T+1. Additionally, a T+1 settlement cycle would require the securities lending market to adapt to a T+0 model, transitioning from forecast-based borrowing and lending to actuals-based transactions.

T+0: A Distant Horizon

Implementing T+0 settlement within the current market framework is impractical. Extensive IT overhauls across all market participants are necessary, demanding substantial investments and resources. Moreover, the securities lending market would need to transition to a T+0 model, requiring real-time borrowing and lending based on actuals rather than forecasts.

How and when to move to a shorter securities settlement cycle

Q15: Please describe the main steps that you would envisage to achieve a 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.

Securities vs. Cash: Distinct Challenges for T+1 Settlement

Transitioning to T+1 settlement necessitates a nuanced approach, addressing both securities and cash settlement separately. While securities settlement can be readily implemented, cash settlement poses a more significant challenge.

Securities: Ready for T+1

The securities leg of the settlement process is not a major obstacle to T+1 implementation. Existing infrastructure and processes can readily accommodate a one-day shortening of the settlement cycle for securities. We do think that the Securities Lending market needs to adapt to T+1 as per Q12024

Cash: The Achilles' Heel

Ensuring timely and adequate cash settlement poses the primary challenge for T+1 implementation. The current system allows market participants to delay cash transfers, leading to potential non-settlements.

A Case in Point: USD Settlement

Consider a scenario where a USD settlement is scheduled for Monday with a 1:00 PM CET cutoff (T+0). If a USD/EUR trade is arranged with a T+0 settlement, the counterparty has the entire day to deliver the USD. However, there is no requirement for immediate transfer of funds. This delay could lead to non-settlements.

Addressing Cash Settlement Challenges

To mitigate cash settlement risks, stricter regulations should mandate immediate delivery of FX trades. Additionally, CSDs can play a more proactive role in facilitating the settlement process.

Enhancing Settlement Performance

Optimizing settlement performance requires targeted measures such as:

- Reducing Voluntary Shaping and Partialling: Shaping and partialling should be less voluntary to ensure consistent and efficient settlement.
- CSDR Enhancements: Revising CSDR regulations can promote smoother and more timely settlements.

- Improved Penalty System: The current penalty system should be refined to discourage strategic delays and encourage simultaneous delivery and receipt of securities.
- Industry-Wide Commitment: Market participants must demonstrate their ability to handle T+1 settlement effectively.

Conclusion

Transitioning to T+1 settlement demands a comprehensive approach that addresses both securities and cash settlement challenges. While securities settlement is readily achievable, cash settlement requires stricter regulations, proactive CSD involvement, and enhanced settlement performance measures.

Q16: If the EU institutions were 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?

Implementing T+1 settlement would require approximately one to two years necessitating adjustments to their operating model, processes, and systems. We are deeply concerned about the intricacies of the EU's current post-trade market infrastructure. The necessary time needed to adapt to the new settlement cycle would therefore be heavily depend on the agreed-upon roadmap, scope, and technical changes, required to overcome the EU-specific challenges.

To transition to T+0, a more comprehensive evaluation would be required.

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 view a more adequate scope?

There are differing opinions on whether the current scope of the CSDR is sufficient for a shorter settlement cycle. Some believe that it covers all the most commonly traded securities in the EU, while others argue that it should be expanded to include derivatives and structured products.

However, broadening the scope of the CSDR could lead to increased complexity and cost in implementing a shorter settlement cycle. This is because certain securities, such as derivatives, can be more challenging and time-consuming to settle.

Another concern is that broadening the scope of the CSDR could result in market fragmentation. This is because different types of securities may have different settlement cycles, depending on the market in which they are traded.

Ideally, a harmonized settlement cycle should be applied to all instruments, but the decision of whether or not to broaden the scope of the CSDR for a shorter settlement cycle is a complex one, with both potential advantages and disadvantages

Q18: Is it feasible to have different settlement cycles across different instruments? Yes/No, please elaborate.

Yes, a phased approach like the one adopted by Euronext Clearing could be effective in migrating to a T+1 settlement cycle. This approach involves prioritizing the migration of equities and bonds, followed by derivatives in a subsequent phase. This strategy offers several advantages:

1. Reduced Complexity: Equities and bonds are generally considered less complex asset classes compared to derivatives. By focusing on these asset classes initially, the migration process can be streamlined and potential issues can be identified and addressed more effectively.

2. Learning Curve: The initial migration of equities and bonds serves as a learning curve for market participants, allowing them to gain experience and adapt their systems and processes before transitioning to the more complex derivatives market.
3. Risk Management: Derivatives often involve higher levels of risk due to their leverage and complexity. Delaying the migration of derivatives allows market participants to mitigate potential risks associated with the shorter settlement cycle and ensure a smoother transition for these asset classes.

However, there are also some potential disadvantages to having different settlement cycles, such as:

- Increased costs and complexity: Implementing and maintaining a system with different settlement cycles would be more complex and costly than a system with a single settlement cycle.
- Reduced market liquidity and efficiency: Different settlement cycles could make it more difficult to match buyers and sellers and could lead to increased transaction costs.
- Increased risk of operational errors: Different settlement cycles could increase the risk of operational errors, such as sending payments or securities to the wrong counterparty.

Overall, the feasibility of having different settlement cycles across different instruments would depend on the specific circumstances of each market and instrument, and the careful weighing of the potential advantages and disadvantages.

It is worth noting that most markets around the world have a single settlement cycle for all instruments. This is because the benefits of a single settlement cycle, such as simplicity and efficiency, tend to outweigh the potential benefits of having different settlement cycles. However, there are some exceptions. For example, the US has a T+1 settlement cycle for all equities, while it has a T+2 settlement cycle for all corporate fixed income securities. This is because corporate fixed income securities are generally more complex and time-consuming to settle than equities.

Public trades should be standardized and have a fixed settlement cycle to minimize miscommunication and ensure efficiency. Private trades can have agreed-upon settlement cycles that deviate from the standard cycle if necessary.

Stocks and derivatives have different settlement cycles without any significant issues, except for a potential one-day funding gap around expiry. However, for certain instruments, such as funds, having a standard settlement cycle across multiple assets is beneficial. This is because funds are composed of multiple stocks and may require equities to be purchased or sold, and an FX conversion may be necessary. Failure to standardize the settlement cycle for these instruments could lead to delays, additional costs, risks, and potential liquidity issues in the system.

Overall, the decision of whether or not to have different settlement cycles across different instruments is a complex one, with both potential advantages and disadvantages. It is important to carefully weigh the costs and benefits before deciding.

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? Would it be feasible/advisable to have different migration times for different products/markets/assets? If yes, please elaborate.

See answer Q18

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?

We think that private trades should be free of a fixed settlement cycle or should be able to be free to divert from a fixed settlement cycle.

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

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

We firmly believe that achieving a T+1 settlement cycle requires a unified and collaborative approach from the EU, including the UK and Switzerland. A coordinated effort across these regions will foster a cohesive regulatory environment and streamline the migration process, ensuring a smooth and successful transition for all market participants. This collaborative approach will also enable the identification and mitigation of potential risks associated with the shorter settlement cycle.

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.

TBD

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

The migration of the US market to T+1 is a fact but we do believe that achieving a T+1 settlement cycle requires a unified and collaborative approach from the EU, including the UK and Switzerland.

Harmonizing settlement cycles with non-EU jurisdictions would benefit market participants by enhancing efficiency, reducing risks, costs, and increasing transparency. Challenges include differing legal frameworks and settlement systems across jurisdictions. Failure to harmonize the European settlement landscape could lead to institutional clients leaving the EU, impacting the EU economy.

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

Probably not so much reducing the settlement cycle itself, but the harmonization of the EU settlement landscape would.

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.

The benefit that the EU has, is that due to the coming adaptation of the EU to other shorter settlement cycles, we are already thinking about the necessary adjustments that need to be made to be able to handle the shorter settlement. It will make the EU participants more prepared to adopt T+1.

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

We have the option to use multiple settlement cycles, which we have utilized in the past. However, it is not our preferred choice when we are striving to harmonize the financial infrastructure. While it is technically feasible, it is not desirable.

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.

The implementation of T+1 settlement within the EU could considered by ESMA , but successful implementation will remain heavily depend on the agreed-upon roadmap, scope, technical changes, and timeline set by the ESMA. A clear directive will provide all participants with a definitive timeline for action.

While transitioning to T+0 presents an opportunity for the ESMA and market participants to streamline and harmonize the EU market infrastructure, the cost benefit analysis makes the business case less clear. As all participants will be compelled to invest in new systems and establish new internal procedures, this collective effort will facilitate future adaptations and enhance the global competitiveness of the EU market.

While the ESMA hopes for self-driven harmonization within the market, we believe that a definitive push towards T+0 will accelerate this process.

T+0 has the potential to catalyse EU market maturation, provided we can devise solutions to mitigate the potential loss of benefits associated with T+1 settlement. This endeavour will undoubtedly demand significant investments and concerted efforts.

Some argue that transitioning to a T+0 cycle should be deferred until new technologies mature further, enabling faster handling of current procedures.

Potential changes to margin models by CCPs could introduce uncertainty regarding margin amounts required to be held. While there is a possibility of reduced margin requirements, it is equally plausible that they may remain unchanged or even increase.

Counterparty exposure will shift towards operational risk, necessitating a reassessment of risk management strategies.

In the context of NAV trading, the current practice of determining the deal price at T+1 or T+2 will no longer be feasible in a T+0 environment.

Conclusion

The fragmented nature of the EU securities market, with multiple CSDs, CCPs, trading facilities, and currencies, poses a significant challenge to the implementation of a T+1 settlement cycle. This

complexity necessitates a coordinated and harmonized approach to address potential obstacles and ensure a smooth transition.

Transitioning to T+1 settlements within the EU presents a unique opportunity to enhance market efficiency, reduce risks, and foster harmonization. While challenges lie ahead, the potential benefits outweigh the risks, making this transition a worthwhile endeavour. The impact of T+0 implementation requires further investigation.