5 October 2023
ESMA74-2119945925-1689

Reply form

on the call for evidence on shortening of the settlement cycle

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.

1 General information about respondent

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

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>

Finance Finland (FFI) welcomes the opportunity to put forward our comments on the Esma's call for evidence on shortening the settlement cycle. FFI is very supportive of all initiatives towards harmonising the transition to shorter settlement cycles in the EU to increase the competitiveness of EU businesses.

The primary focus of our comments is on the specificities of the Finnish market and the challenges/opportunities that Finnish market participants can face when trading in the EU or with non-EU third countries. Otherwise our views are aligned with those of the European Banking Federation (EBF).

Because our member organisations send in their own responses to the consultation, and because the interpretation of competition law is fairly strict in Finland, we cannot collect or disclose numerical data or any information that is potentially sensitive for individual companies.

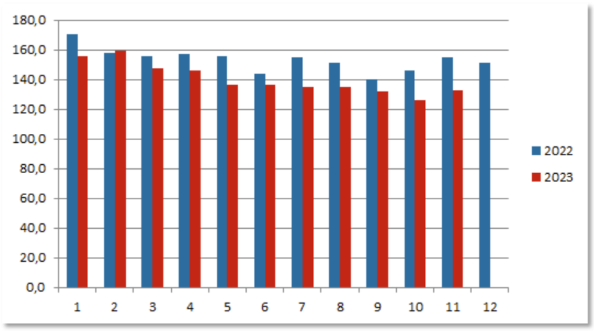
Here are the main points of FFI's position:

- We are in favour of shortening the settlement cycle to T+1 instead of T+0, which we do not consider a realistic option.
- The EU area transition should be harmonised and should at the earliest take place at the same time as in the UK (provisionally scheduled for April 2026).
- Before the transition to a shorter settlement cycle is decided, it is important to consider the lessons learned from how the USA T+1 shift impacts the EU market.
- We are in favour of moving all FX transactions and derivatives as well as all instruments that are in the scope of the CSDR to a shorter settlement cycle.
- When a fund makes the decision to transition (or not) to a different settlement cycle, this decision should be market-led, not driven by regulation.

Background:

Finnish securities trade is characterised by the fact that a significant proportion of Finnish companies' and retail investors' foreign investments flow to Sweden, Norway, Denmark, the USA and the UK. Finland, on the other hand, receives more investments from outside rather than inside the euro area. Finnish and Nordic retail investors are much more active in the equity market than other EU retail investors are. The following graph by Euroclear Finland shows the proportion of foreign investments to Finland (30%). In equities alone, foreign ownership is nearly 50%.

Market value of foreign ownership, BIO €



The following statistics shows the proportion of the market value of foreign investors in relation to the whole market value. The value of shares traded in Nasdaq Helsinki is based on current prices. The value of unlisted companies is calculated based on nominal value or share capital per share.

Information is based on the last trading day of the previous month. A comparison is performed to the corresponding period last year.

Source: Euroclear Finland

The foreign markets most favoured by Finnish investors and from which Finland receives the most foreign investments use a different currency than Finland. The foreign currency transactions that these trades involve are problematic if time difference reduces the time frame for settlement to only one or two hours, for example. Additional challenges besides time difference are presented by the shorter office hours of some markets (e.g. Denmark), which also shorten the available settlement time. Finnish market participants have very few subsidiaries or branches in the USA and other locations to which settlement activities could be moved if a transaction occurs at night in the Finnish time zone. Shifting to overnight settlement in Finland may require amending the sector's collective agreements or working time legislation, which would be a long and challenging process. Foreign investors would also encounter problems.

The transition to a shortened settlement cycle may result in market operators no longer offering Finnish investors access non-EU markets as the increased costs of the extended opening hours that operative activities require may make the entire operation unprofitable.

T+1 or T+0?

When the shortening of settlement cycle is considered, it is important to take into account how it impacts different asset classes, instruments and types of trade. Some instruments are currently quite complex and lacking standardised operating principles.

If the settlement cycle is shortened to T+1, it is necessary to examine whether central securities depositories and European central banks are able to extend their office hours, and whether market participants have the capacity to continue settlement to the evening or night hours. The cut-off times for payments must also be taken into account. DVP settlement needs more time than FOP settlement, and shortened settlement cycles will also affect the office hours of central banks when the clearing and settlement is done in the ECB's TARGET2-Securities system.

If settlement is shortened to T+0, lending securities to compensate for delivery failures may become challenging and might necessitate the implementation of an automated securities lending functionality at the market level. The redemption and execution times of derivatives trade processes can be difficult to make shorter due to the CCP collateral they involve.

It would not be particularly difficult for the Finnish market to transit to T+1 settlement at this point, because the challenges will not arise until a Finnish investor makes a foreign investment or a foreign investor invests in Finland. Retail investors would not pose a problem either, because Finland utilises the direct ownership model which ensures that a retail investor will receive the security (when buying) or the funds (when selling) on their account on the trade date.

Asset managers may run into problems if fund units are settled under T+2 but the underlying securities have a shorter settlement cycle. It would be preferable to harmonise the settlement cycle of funds with the cycles of other securities. However, this should be a market-led decision and not driven by regulation, at least for the time being.

Many transactions that take place in Finland involve an FX component. It would be preferable to harmonise the settlement cycle of FX transactions with the settlement cycle of securities.

At this time, it seems wiser to transition to T+1 than to T+0**.** Whichever is chosen, it must be taken into account that market participants need sufficient migration periods for the functional, technical and potential legislative changes required by the transition. There must be adequate time to test all systems, and the transition must be controlled and harmonised across the EU and preferably also with the UK and Switzerland. It would also be advisable to watch and learn from the USA when it moves to a shorter settlement cycle in 2024.

We do not think the decision to reduce the settlement cycle should be taken before the USA has completed its transition and more information on the success of the process and its impact on EU-area entities is available. When global entities adapt their own systems and operating processes to a shorter settlement cycle, it makes the transition easier for EU entities: the need for investment is smaller when we can utilise (and already utilise) solutions that have been developed for other markets.

It should be noted, however, that the more other markets reduce their settlement cycles, the more pressure this puts on the EU to follow suit. The attractiveness of the EU market, for example, may diminish, and activities may shift to other markets with shorter settlement cycles. But if the other markets make no move to shorten their cycles, there is no pressing need for the EU to do so, either.

<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>

It is important to note that the consequences of moving to a shorter settlement cycle may vary depending on the asset class, instrument and trade type.

Many transactions that take place in Finland involve an FX component. It would be preferable to harmonise the settlement cycle of FX transactions with the cycles of securities.

A shorter settlement cycle impacts transactions with an FX component. For example, a shorter settlement cycle may lead to an increase in the use of same-day settlement services, which could help reduce the risk of currency fluctuations. However, same-day settlement services could also be more expensive and less efficient than traditional settlement services. Accelerating EU securities settlement to T+1 could increase the risk that the funding of the security transaction (which is dependent on FX settlement) may not occur in time. It is therefore critical that any changes which could impact the ability to safely execute and settle FX transactions are carefully considered.

A shorter settlement cycle could lead to an increase in pre-hedging practices, which involve hedging trades before they are executed. This could help reduce the risk of failed trades and improve efficiency. However, pre-hedging practices could also lead to market manipulation and increased volatility.

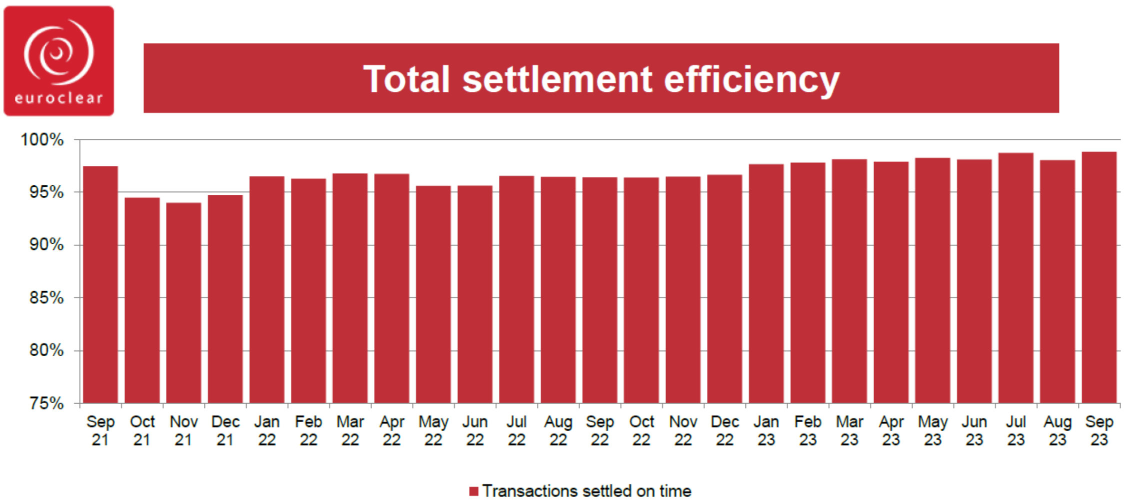
<ESMA_QUESTION_SETT_2>

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>

Finland already utilises STP trading unlike Sweden, Norway and certain other EU states. If these countries increase their RTGS or batches, it would increase the amount of time that is available for settlement. If it is not possible to settle all transaction types in real time, cross-border trade with these countries is difficult. Moving to a shorter settlement cycle may make market participants more reluctant to accept orders for securities that are listed in several marketplaces, especially if the other marketplace is located in a time zone that would require the market participant to carry out settlement outside of its usual office hours. Banks and dealers could incur additional costs from having to adapt their processes.

The STP trading model enhances the efficiency of settlement, and the STP settlement rate is fairly close to the general settlement rate in Finland.



	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23
Transactions settled on time	96,43%	96,41%	96,47%	96,66%	97,65%	97,82%	98,14%	97,91%	98,25%	98,11%	98,72%	98,05%	98,83%

	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22
Account allocation	3 892	94,48%	93,99%	94,73%	96,51%	96,29%	96,78%	96,75%	95,60%	95,63%	96.56%	96,45%

Source: Euroclear Finland

The problems in matching processes become more evident when the time available for settlement decreases. Fixing matching errors takes time, and the longer the chain of transactions is (e.g. in chained trades), the more vulnerable it is to fail from message errors, delivery failures and delays. This may increase the number of unmatched trades and lead to failed trades and thus increase costs to the parties e.g. with sanctions. For companies to tackle this problem, they may need to invest in new technology and new processes to ensure efficient and correct matching.

<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>

On the functioning of markets (trading): Shortening the settlement cycle could improve the efficiency and liquidity of the markets, as it would reduce the time and costs involved in clearing and settling trades. It could also reduce the counterparty, operational and systemic risks, as it would lower the exposure and uncertainty between the trade and settlement dates. Moreover, it could enhance the harmonisation and integration of the global markets, as it would align the shorter settlement cycle across different regions and asset classes.

However, shortening the settlement cycle also poses some challenges and costs for the industry. It would require significant changes and investments in the systems, processes and practices of the market participants, such as broker-dealers, custodians, issuers, and investors. This may lead to:

- Cut-off access to non-EU markets, as transitioning to a shorter settlement cycle necessitates longer office hours in operative functions and can thus increase costs to an unprofitable level.
- Pressure on the buyer side: some have less automated processes, which may put a strain on the staff that handles the securities settlement.

Shortening the settlement cycle is therefore not a simple or straightforward decision. It requires the careful assessment of costs and benefits, readiness and feasibility of such a change.

We have not identified any material expected impact (either positive or negative) on retail investors from shortening the settlement cycle to T+1.

<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>

Finland migrated to the T2S platform for EUR settlement in September 2023, and the many processes at CSD level are therefore already harmonised with European T2S standards. CSD already supports the T+1 and T+0 schedules, and many market participants already have the readiness to move to a shorter settlement cycle. The technology exists, but operative changes will be needed to support bigger volumes under a tighter timeframe. The operative changes are bigger than the technical ones.

Due to the diversity of our member organisations and their instruments and operative processes, we are unable to provide a more detailed answer.

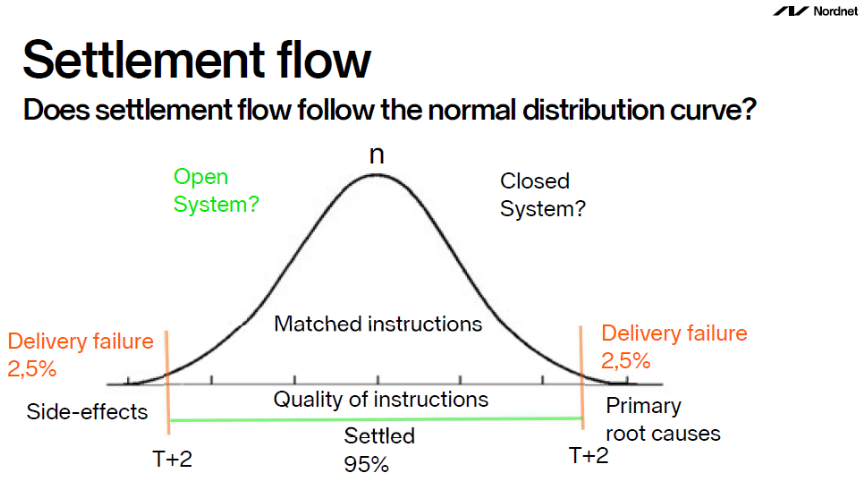
<ESMA_QUESTION_SETT_5>

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>

In Finland (in the T+2 world), most of the trades that can be settled by S+1 are successfully settled, and less than 5 transactions per month exceed S+1.

Nordnet analysed the settlement rate of the T+2 cycle by analysing the settlement rates published by Nordic securities depositories over the past few years:



As the graph indicates, the quality of instructions is the biggest factor when it comes to the timely settlement of trades. The other 5% of delivery failures are linked to side effects and primary root causes. Settlement instructions are influenced by legislation, score standards, the information needs of different instrument classes, processes, guidelines and established processes, as well as by the rules and operating processes of marketplaces, depositories and platforms. It is unlikely that all side effects and primary root causes can ever be weeded out for a 100% settlement rate, but the rate could be improved by clarifying and harmonising instructions.

A summary of the findings:

- STP trading process increases settlement efficiency.
- Sub-custody chains decrease settlement efficiency.
- Simple/Omnibus account structure increases settlement efficiency.
- Value-based rates are lower compared to transaction-based.
- Settlement of bonds is not decreasing settlement efficiency.
- Multilateral CCP settlement increases efficiency in general, settlement efficiency is a question mark.
- Time variable: T+1 settlement is possible.
- It seems that settlement efficiency (random variable) is close to normal distribution.
- CSDR doesn’t fix all primary root causes of settlement failures.
- To fix this, we should investigate further and clarify all types of quality of instructions and find the primary root causes.
- Settlement efficiency will never be 100%, but a fair system is possible to achieve.

If we move to a shorter settlement cycle, a dip in the settlement rate is to be expected at least in the beginning due to e.g. shortages in supply. It is important to give the market a sufficient migration period to enable the careful testing of systems and new market practices.

<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>

We addressed this question partially in our response to Q6.

The matching process can be expected to become more complex and time-sensitive as the settlement cycle is shortened. This could lead to an increase in the number of unmatched trades, which could result in failed trades and increased costs and affect settlement efficiency negatively, at least in the beginning.

A significant proportion of failed settlements are caused by inadequate instructions. If increased automation helps to improve the quality of settlement instructions, this potentially also improves settlement efficiency.

The compression of the settlement date could also have an impact on the interdependencies between different processes and systems. For example, changing the settlement date impacts the timing of other processes such as collateral management and liquidity management. To address this issue, firms may need to review and adjust their processes and systems to ensure that they remain aligned with the new settlement date.

<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>

N/A

<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>

Yes. The benefits we recognise are:

- Improved efficiency and liquidity of the markets
- Reduced counterparty, operational and systemic risks
- Enhanced harmonisation and integration of the global markets
- Faster access to cash and securities for investors
- Lower margin requirements and opportunity costs
- Increased transparency and confidence

Cross-border trade would become easier if the EU moved to the same settlement cycle as the USA (and the UK, as currently planned).

<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>

N/A

<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>

N/A

<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>

On the positive side, a shorter settlement cycle could improve the liquidity by:

- Reducing counterparty risk and credit risk, as the exposure and uncertainty between the trade and settlement dates would be lower. This could increase the confidence and willingness of market participants to trade more frequently and/or in larger volumes.
- Freeing up the funds and securities faster, as the settlement obligations would be fulfilled sooner. This could enhance the availability and allocation of capital and collateral, allowing market participants to reinvest or withdraw them more efficiently.
- Aligning the settlement cycle with other major jurisdictions, such as the USA, which are planning to move to a one-day SSC (T+1). This could facilitate cross-border trading and settlement and reduce the settlement discrepancies and inefficiencies across different markets.

On the negative side, a shorter settlement could impair the liquidity by:

- Increasing operational risk and settlement risk, as the post-trade processes would be compressed into a shorter time frame. This could result in more errors, delays and failures in the settlement, especially for complex or cross-border transactions.
- Raising costs and margin requirements, as the market participants would need to upgrade their systems, processes and practices to cope with the SSC. This could

reduce the profitability and the liquidity buffer of the market participants, especially for smaller or less sophisticated ones.

- Disrupting market equilibrium and price discovery, as the market participants would need to adjust their trading strategies and behaviours to the shorter settlement cycle. This could create volatility and uncertainty in the market and affect the supply and demand of securities.

The impact of a shorter settlement cycle on the liquidity for EU markets is not clear-cut. It depends on the trade-off between the benefits and the costs, as well as the readiness and the feasibility, of such a change. The shorter settlement cycle could be beneficial for the liquidity of EU markets in the long run, if it is implemented in a coordinated and gradual manner, with the involvement and support of all the relevant stakeholders. However, in the short term, it could pose some challenges and risks for the liquidity, which need to be carefully assessed and addressed.

<ESMA_QUESTION_SETT_12>

Q13 : What would be the benefits for retail clients?

<ESMA_QUESTION_SETT_13>

We have not identified any material expected impact (either positive or negative) on retail investors from shortening the settlement cycle to T+1.

<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>

N/A

<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>

Bigger market participants already have the technical capacity to move to a shorter settlement cycle. In fact, certain transaction types in Finland are already settled under the T+1 or T+0 cycle. However, the operative changes of a full shift will be more extensive and will require a sufficient migration period. Otherwise there is a risk of settlement fails increasing.

Regulators may consider invoking a temporary suspension of the cash penalty payments regime around the migration period, until fail rates normalise. Regulatory scrutiny of settlement fail rates and consideration of changes to the current settlement discipline rules (including potential mandatory buy-ins) should take into account the anticipated short-term disruption that could arise from a move to T+1.

(ii) the time needed for each milestone and the proposed ultimate deadline:

We will not be able to catch up with the US transition to T+1 settlement but may still have time to align our implementation with the UK schedule. As pointed out above, there is as of yet no pressing need to move to a shorter settlement cycle. It would be wise to monitor how the USA succeeds in its transition and use it as an example. Roughly estimated, it will require at least 1.5–2 years to develop standards and market practices and submit them to controlled testing. The challenges of custodians (also non-Finnish ones) may take even more time to solve (consider global custodians: what measures are they taking for the US transition, and will the EU transition need other adjustments?).

In any case, Finland will not be making the transition to a shorter cycle under a different schedule from the rest of the EU, nor do we have any pressing need to shorten the settlement cycle at the moment.

<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>

See our answer to Q15 above. T+0 will require a much longer migration period than T+1, and we do not think the market will be ready to move to T+0 for a long time to come.

<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>

In addition to the CSDR scope, we recommend considering moving the settlement of FX and derivatives transactions to the shorter settlement cycle at the same time.

The eventual scope of an EU move to T+1 should consider the exclusion of UCITS funds as it currently is in the CSDR. The settlement cycle of the fund should be left to the fund manager.

Traditional funds should not be in the scope of a shorter settlement cycle either. That decision should be made by an individual fund manager, likely informed by their global footprint and the need to accommodate global investors.

<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>

It would be preferable if there were no differences in settlement cycles among instruments, but different instrument types vary in complexity. Instruments in the CSDR scope, derivatives and FX would benefit the most, and it is very important that derivatives and FX have the same settlement cycle as securities.

However, funds are more complex, and laws, underlying instruments, settlement cycles, etc. vary between fund types. The eventual scope of an EU move to T+1 should consider the exclusion of UCITS funds as it is today in CSDR. The settlement cycle of an UCITS fund should be decided by the fund manager. Traditional funds should not be in the scope of a shorter settlement cycle either. That is also a decision that should be made by an individual fund manager, likely informed by their global footprint and the need to accommodate global investors.

<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>

It is preferable to adopt a single migration date for all in-scope markets, transaction types and asset classes.

<ESMA_QUESTION_SETT_19>

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. Such regulation was not necessary when moving from T+3 to T+2, either. Nothing prevents the market from moving to a shorter settlement cycle voluntarily if that is what the market wants. There was no need to regulate internal transactions and bilateral agreements, and neither is there any pressing reason to do so now, either. Of course, nothing prevents them from using a shorter settlement cycle voluntarily.

<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>

A shortening of the settlement cycle in other jurisdictions (US/UK...) will require changes to the operational processes and technology systems used by financial institutions that connect to those markets, including EU-based firms. A misalignment of settlement cycles across different jurisdictions will impact several process areas. In the event of the EU moving to a shorter settlement cycle, some issues will still occur.

<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>

As per Article 83(2) of UCITS, a UCITS fund may not borrow more than 10% of the fund's net asset value. The move to T+1 in the USA creates a one-day settlement funding gap for EU-regulated funds with exposure to US securities.

EU authorities should consider amendments to UCITS borrowing limits, e.g. to create an exemption for breaches due to settlement cycle mismatches. This will enable EU funds to continue facilitating end investors' access to US markets.

<ESMA_QUESTION_SETT_22>

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

<ESMA_QUESTION_SETT_23>

Yes: The UK, Switzerland, Norway and the USA are important market partners, and their settlement cycles should be harmonised. Trade with the Asian market is lower in volume, and it is therefore not as significant to us. We do not, at the current stage, see a move to T+0 feasible with the current infrastructure.

<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>

Having a different settlement cycle would be harmful, as our market could be considered less attractive than the markets that have reduced their settlement cycle.

<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>

When global entities adapt their own systems and operating processes to a shorter settlement cycle, it makes the transition easier for EU entities: the need for investment is smaller when we can utilise (and already utilise) solutions that have been developed for other markets. The more markets make the shift to shorter settlement cycles, the more pressure this puts on the EU to follow suit. But if the other markets make no move to shorten their cycles, there is no pressing need for the EU to do so, either.

<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>

No. European jurisdictions cannot move to T+1 in May 2024, and therefore market participants must be prepared to manage a period of misalignment between Europe and the USA. We can, however, adapt to this misalignment. Our most important foreign markets are the USA, the UK, Switzerland and Norway, and it would be preferable to align our transition with theirs, even if we cannot catch up with the USA at this point.

<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>

N/A

<ESMA_QUESTION_SETT_27>