

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:

- (i) respond to the question stated;
- (ii) indicate the specific question to which the comment relates;
- (iii) contain a clear rationale; and
- (iv) 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	Cboe Clear Europe NV (CCE)
Activity	Others, (Cash equity) CCP
Are you representing an association?	<input type="checkbox"/>
Country / Region	Europe

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>

T+1

- (i) For CCE as CCP, little to no issues would emerge directly at CCE as T+1 settlements can and are already processed. Making T+1 the standard requires parameter changes for CCE rather than large system or process changes. Therefore, the change is relatively simple to implement.
 CCE notes that market participants may face issues when the settlement cycle is shortened and calls for a thorough end-to-end analysis where the settlement ecosystem can be improved to limit any negative fallout from the shortening of the settlement cycle. Especially where opening hours for trading platforms for T and opening hours for CSDs on T+1 overlap, it might be contemplated to re-arrange the opening hours. For possible

improvements, please check also the response of EACH under question 1 as EACH provides a number of detailed suggestions.

It is not for CCE to provide the attention points for other parties and so we refrain from further detail on those items. We note that the implementation of CSD settlement Power of Attorney (PoA) for CCP settlement instructions facilitates the efficiency for clearing members for the CCP leg of the transaction and is used voluntarily by some clearing members. Not all clearing members are in a position to make use of the PoA though.

Anecdotally, it is advised that matching rates for OTC settlement instructions can be improved whereas we can see matching for CCP settlement instructions is close to 100% matching rate. We welcome the efforts by the industry to find solutions to increase the matching rates for OTC instructions but like to caution that such solutions should not lead to additional efforts/costs related to CCP instructions. Furthermore, earlier and more frequent settlement-splitting cycles in CSDs would be welcomed.

One point CCE likes to make is regarding DCP set-up in T2S – At the launch of T2S, all T2S markets needed to offer DCP (Direct Connected party) facilities to members. Although this was mandatory at the launch of T2S, it has since been relaxed for some CSDs (Euroclear Finland, Euroclear Bank). The DCP set up allows members to directly connect to T2S and remove third party actors, thereby streamlining the process and reducing the risk of latency/technical issues in the settlement chain when having to indirectly connect. CCE notes that those issues have been experienced in the one market where it is not allowed to be a DCP (yet).

As a final point: for corporate actions, the market practice is to have record date one business day after the ex-dividend date. When the settlement cycle is shortened this market practice is to be shortened as well to record date equals ex-dividend date in a T+1 environment. Failure to do will mean that for every corporate action corrections will need to be made for settlement instructions that settle as intended.

- (ii) Restricting ourselves to the products we clear, CCE does not see products that are severely impacted with the exception being exercises and assignments of single stock options (as clearing members are only informed on the assignment in T after the close of trading). If the opening hours for CSDs/T2S are kept the same and if the exercise/assignment process does not change, the resulting positions from exercise/assignment will not be instructed at the start of the T+1 settlement cycle but only later in the (settlement)day.

T+0

- (i) Although there are many discussions with respect to the potential of technology to support T+0 settlement, it is unclear at this time what the actual benefit would be and

whether T+0 would result in a better ecosystem. There is a fundamental impact to the question of clearing i.e. the ability to remove counterparty risk, ensure capital buffers are in place at times of stress etc. Also, the FX requirements / FX funding for high volume and instant activities would need structural changes in the ecosystem or create additional costs and resource commitments.

CCE notes that part of the uncertainty around the T+0 change, stems from the fact that the meaning of T+0 is not uniquely defined. CCE is aware of three definitions:

- a. Atomic settlement, meaning that each trade (for example on an exchange) would be settled immediately. This will lead to increase of settlements (for CCE it would mean 7 million settlements versus 50K settlements today) as the netting benefits would be lost. In addition, CCE expects to see a large reduction in exchange trading liquidity and a widening of Bid-Offer spreads as the cost of trading increases due to reduced settlement efficiency as netting is no longer possible and pre-funding costs. See further question 4 on the impact it will have on trading at markets in the EU.
- b. Batches of settlements during the day, meaning that at various intervals during the day, trades are netted and settled accordingly. This definition tries to balance the loss of netting benefits with the reduction of the counterparty exposure but ends up neither here nor there. In other words, this solution is not going to make anyone happy.
- c. End of day net settlement. Essentially this is the same the implementation of T+1 assuming that the CSD opening times do not change and that the calendar date and business date remain in sync. Currently T+1 starts in T2S at 20:00 CET on T. If T2S (and T2) would remain open till midnight on T (and not pretend that it is T+1), it would be a T+0 settlement.

CCE does not think that definitions a. and b. are market wide feasible for reasonable costs. Definition c. could work but extraordinary effort will be needed to make sure that settlements actually take place on T+0. To make a sound judgement on the feasibility a thorough analysis needs to be performed by the whole industry. This is not a solution that can be rushed as it requires fundamental changes to the industry.

- (ii) Restricting ourselves to the products we clear, CCE sees no products that are not severely impacted by shortening the settlement cycle to T+0. Especially atomic settlement would create issues due to the loss of the netting benefits.

If the settlement cycle is shortened to T+1 and afterwards a change to a T+0 cycle is contemplated, CCE calls for the possibility of a consultation on that proposal so that the lessons learnt from introducing T+1 in the EU can be taken into account for a decision to change to T+0.

<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>

This question is not applicable for CCE. As CCP it does not involve itself in hedging practices and/or transactions with a FX component.

<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>

As a CCP, our systems process settlement instructions a 100% STP rate. Manual intervention is only needed in case of buy-in transactions per the Regulation Short Selling and for some corporate action handling (ISIN changes). The number of non-STP transactions is negligible that way.

<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>

T+1: Similar to the shortening of the settlement cycle from T+3 to T+2: shortening the settlement cycle from T+2 to T+1 will likely not impact the functioning of markets (trading) or the access of retail investors, etc. This assumes that there will be no fundamental changes to the post-trade ecosystem as we know it today besides efficiency.

T+0: With the caveat that we do not know the actual form that T+0 will take (see response to question 1), we remark the following:

- (i) Pre-funding of purchases (e.g. as required in many ID markets where each underlying fund has its own bank account that the exchange can check/validate) creates an extensive operational burden and must be avoided, but would also likely have a negative impact on liquidity of European markets.
- (ii) Increased use of stock loan / autoborrow programmes to ensure that settlements to take place.
- (iii) Any atomic trading/settlement model requires pre-funding, and it's very hard to draw a boundary to limit the impact of this to a subset of participants – and would likely require banks/brokers to deploy significant capital to facilitate customer trading. If this is about capital efficiency, we are not sure that the atomic approach will deliver.
- (iv) Hybrid settlement cycles – it might be attractive to explore a hybrid approach, where firms that are ready to deliver shares on T0 are able to do so, but only to the extent that there are other parties happy to take delivery on T0 (e.g. the intermediary should not have to provide funding). The big impacts from a trading perspective are diluted/split liquidity and market data changes for firms to be aware of what is addressable liquidity for each settlement model in the hybrid set-up. We note that currently no EU platform offers a hybrid model as no market interest is seen for such a model. This hybrid model should be entirely optional and not mandated.
- (v) In crypto markets, we observe a move away from atomic settlements to end of day netting and settlement for operational and capital efficiencies. Given that technologic developments in crypto markets are often cited, this is a telling illustration that operational and capital efficiencies will not necessarily accompany a continued shrinking of the settlement cycle.

<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>

T+1: One-off costs: In itself the change to T+1 settlements requires parameter changes for CCE, rather than large system changes. However as the markets that CCE clears, close currently about 30 minutes

before T2S opens for night-time settlements, it is expected that the post-trade world will change as well to allow more time between the end of the trading day and the begin of settlements per the next business date. CCE will need to adapt to such changes and consequently incur (currently not quantified) costs.

On-going costs: If nothing changes in the post-trade infrastructure except the settlement cycle, no additional costs are expected to be incurred whereas changes to the post trade infrastructure might cause additional costs for CCE. We also note that currently many settlements settle in the cheaper night time settlement period, a change to more day time settlements will increase ongoing costs.

For comparison the shortening of the settlement cycle from T+3 to T+2 did not create additional costs for CCE.

T+0: one-off and on-going: given that the actual form of T+0 implementation (see question 1) is not clear, it is hard to advise. Fundamentally, the role and need for a CCP would be in question and there is a danger of increasing counterparty risk which is opposed to the policy direction of increasing CCP clearing over recent years. In case of atomic settlement, whereby buyer and seller directly interact, one could argue that there is no need for a CCP anymore. In case of batch settlements during the day, there would be significant costs to change from an once per day settlement cycle to a more frequent cycle. Finally, in case of end of day netted settlements, the current process will run at a higher speed whereby the one-off costs are driven by the timing between end of trading and start of the settlement cycle. Note that CCE hereby assumes that the other parties of the post-trade infrastructure can work with these timeframes as well.

<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>

CCE considers that the settlement fails rate under a T+1 settlement cycle will depend on how market participants handle their post trade processes in the future. With matching rates for settlement instructions close to 100% (over 99.99%) for the current T+2 settlement cycle, CCE expects to replicate that in a T+1 environment through the use of settlement PoAs (where possible) but matching rates might be lower in case if market participants cannot instruct their settlement instructions before the settlement cycle for T+1 opens.

Settlement fail rates for CCP settlements are driven by lack of securities at the side of the clearing members that need to deliver securities. In a shorter settlement cycle, clearing members have less time to secure and mobilise the securities in the correct CSD at the right time. As such, settlement fail rates are likely to increase in the short term and reduce over time as parties get used to the new 'normal'.

Estimates are difficult to make as they depend on the preparation and readiness of the market when the change is introduced. Over the last 15 years CCE has seen CSD infrastructure changes that caused almost zero impact in the market (Finland joining T2S in 2023) to changes that caused a halt in settlement in the first days after the change. An unscientific estimate, assuming the right level of preparation by the market, would be an increase of fails from 5% to somewhere between 15% and 20% in the first days followed by a quick recovery to around 10%. Going back to current T+2 fail rates would require the complete infrastructure to be as comfortable under T+1 as it is currently under T+2.

For T+0, the settlement fail rate depends on the actual model that is chosen. In case of atomic settlement whereby the availability of securities and money is checked/guaranteed before a trade is executed, there should be no fails at all (and perhaps starkly reduced trading as well given the increased cost of settling). However, there would be a trade off in terms of reducing the level of counterparty risk management provided by a CCP. If T+0 means end of day (netted trades) settlements, the same reasoning as under T+1 above is followed: first an increase in fail rates followed by decrease over time.

It is also noted that short outages of systems for any party in the post-trade infrastructure will have an immediate and potential material effect on the settlement performance of that party and the infrastructure as a whole. This might exacerbate stress levels for the market during times of high (settlement)volumes.

<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>

As advised in question 6: settlements fails at CCPs are overwhelmingly caused by a clearing member needing to deliver securities to the CCP. Without improvements/investments (automation, streamlining) in the post-trade infrastructure and perhaps at individual institutions, the chances of the clearing member lacking securities to deliver will increase when the settlement cycle is shortened. CCE also notes that in the US there are discussions about buy side automation, standardisation and process improvements. It is assumed that those discussion are to be held in the EU as well.

As a permanent increase in settlement fails would not be tolerated by the market and its regulators, action will be taken to reduce the percentage of settlement fails. This is likely a combination of carrot and stick so more improvements/investments in the post-trade infrastructure and additional or higher penalties. It is noted that investments should have a return and that additional penalties not

necessarily drive enthusiasm to participate in a market so too much of both might drive parties away from the EU markets.

<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>

For T+1 no changes are expected as advised under question 3. However a T+0 set up could mean that the post-trade infrastructure of the EU will be completely different compared to today (see also question 3). As on-exchange trading might be quite transformed in a T+0 environment (pre-trade checks, no CCP), it should be considered carefully what version of T+0 is on the table.

For the shortening of the settlement cycles to T+1 global harmonisation is advocated as an important reason. As such, it might be worth considering T+0 only as a global endeavour rather than an EU-only endeavour.

<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>

Implementing a T+1 settlement cycle combines a reduction of credit risk (only one day of counterparty risk and on average a reduction in margin requirement) with an (hopefully temporary) increase of operational risk (only 30 minutes between end of trading day and start of settlement cycle on T+1 as expressed by increased settlement fails).

So an agreement with the benefits, means also an agreement to reduce the operational risk in the current and future post-trade infrastructure. This will require time and it will require efforts by all stakeholders to reduce barriers in the current post-trade infrastructure in combination with automation and streamlining of processes for individual parties.

As such, CCE beliefs in the mentioned benefits on the condition that such belief allows for a credible implementation timeline in order to let the post-trade industry improve the efficiency of the current processes.

<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>

T+0:

The calculation of a margin requirement for a portfolio is based on two components: the margin methodology (parameters, formulae, etc.) and the positions making up the portfolio.

The margin methodology does not change when the settlement cycle is shortened as the default handling procedure and minimum horizons (MPOR) do not change.

The positions making up the portfolio do change. If the settlement efficiency were to be 100%, a T+2 settlement cycle means that the portfolio would contain the netted positions stemming from the transactions executed on T and T-1. In a T+1 settlement cycle, only the transactions from T are part of the portfolio.

The influence of shortening settlement cycles on the margin requirement for a clearing member can be quite different depending on the profile of the positions in the portfolio. In some extreme examples (portfolio A long 10 ABC on T-1, short 10 ABC on T, portfolio B: long 10 ABC on T-1 and long 10 ABC on T), we can see that that the effect can range from infinite increase (portfolio A) to halving the margin (portfolio B). Anyone can make other examples to create the percentage they like.

In practice, the average portfolio will look like something in between the two sample portfolios and it is likely to create a margin decrease of something between 10% to 30% whereby consideration should also be given concentration add-on's. A preliminary and limited simulation yielded a margin reduction of 14.15%.

Another point to make is that by replacing the portfolio at the CCP each day (new trades coming in, all settlements going out), there will be no longer a relationship between today's and tomorrow's portfolio. As such the changes to the margin requirements may become more volatile as parties do not have similar trading patterns each day. One day they may be flat, another day they may be directional.

Based on this we expect on average lower margin calculations with a larger standard deviation or daily change in the margin requirements. Clearing members may leave excess collateral in their account to avoid meeting multiple margin calls (collateral movements) which would encumber capital.

T+0: Depending on the definition of T+0, the margin requirements might be replaced by pre-funding the transactions (option a) which would mean that the funding needs to be in place two days earlier or the margin requirements are the same as under T+1 (option c).

<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>

In both T+1 and T+0, CCE expects no benefits in the form of on-going savings as the processes are already completely automated, thereby assuming that there will still be a CCP required in the T+0 settlement cycle. In the T+0 case, additional costs might be incurred to support the T+0 settlement cycle.

<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>

For T+1 no impact is expected in the medium to long term. In the short term, liquidity might reduce as parties verify that the work to keep the settlement fails rate under control will be manageable on a day to day basis. A good preparation by all stakeholders for the transition to T+1 should make this period really short term.

For T+0 the impact will depend on the form of T+0 that will be implemented. Pre-funding of each transaction might actually reduce liquidity as the cost per trade will go up in case of atomic settlement whereas an end of day netted settlement might not be that different compared to a transition to T+1 (again assuming that the operational risk can be managed).

<ESMA_QUESTION_SETT_12>

Q13 : What would be the benefits for retail clients?

<ESMA_QUESTION_SETT_13>

CCE is not in a position to respond as it does not directly serve 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>

CCE expects no benefits or costs regarding T+1. For T+0, there are again no benefits while costs depend on the form of T+0 that is implemented (see question 1). Overall CCE facilitates the market as central counterparty and will adopt and adapt as needed. Eventual costs will have to be absorbed or passed through to the clearing members (and in the end, their end-clients).

<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>

Given that most of the work to meet either T+1 or T+0 is outside the remit of CCE, we only provide a high level response.

For both T+1 and T+0, CCE envisages the following steps:

- (i) A statement from the EU to move to a T+1 or T+0 timeline accompanied by a request for an EU industry task force
- (ii) An EU industry task force to look at both options holistically and comprehensively including timetables, ecosystem changes (e.g. FX and CSDs), buy-side automation and readiness and market practices.
- (iii) Based on the report of the task force, a decision by the EU to intent to move to a shorter timecycle by a certain date.

- (iv) Adequate lead in time to meet a decision for the market and to enable detailing and (preparation for) implementation of the various items defined by the task force
- (v) (various rounds of) Testing to check implementation of the items defined under (iv)
- (vi) Readiness statements by market participants where applicable ahead of the go-live date
- (vii) Go-live

Throughout the process, there should be continuous monitoring of the progress towards meeting the implementation date and where necessary, mitigating measures should be contemplated, including delay of the implementation date. To the extent policymakers proceed with T+1, we would strongly recommend sufficient time to analyse the impact and benefits of a T+1 ecosystem prior to seriously considering a move to T+0. For instance, T+2 was introduced in 2014, which has given markets nearly a decade to understand the costs/benefits of a potential move to T+1. A move from T+1 to T+0 is considerably more difficult and the potential benefits more theoretical.

<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>

A change to T+1 can be accommodated by CCE when necessary as it is not more than a parameter change for CCE. However as part of the wider post-trade industry, CCE notes that the whole industry should be ready to adapt to prevent an unacceptable and prolonged increase of the settlement fails rate.

To adapt to a T+0 cycle, it depends on the actual form of T+0 that is proposed. In some forms (end of day netted settlement cycle), CCE can adapt relatively quickly whereas in others (atomic settlement) and an unclear role for CCPs the change would need significant implementation time to avoid financial stability issues.

<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>

CCE clears only cash equity (like) securities and has no problem with those being included in the scope for a reduced settlement cycle of T+1. For a T+0 settlement cycle, it depends on the actual form of T+0 that is proposed, see question 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>

CCE currently handles different settlement cycles for both the same instrument and for different instruments. It is believed that this is also true for many parties in the post-trade industry (CCE does not settle with itself). As such, it is feasible to have different settlement cycles across different instruments.

CCE acts as a facilitator in this area and as such cannot create a ranking of instruments that benefit more or less.

<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>

CCE predominantly settles cash equity instruments traded on exchange and OTC. As such CCE cannot reflect on this question based on its own experience. It is noted that settlement cycles can be different across instruments/transaction types in the current environment so there is no reason why migration has to be at the same time. It would be helpful to migrate on the same date but only if that is realistically feasible and does not lead to a prolonged project to wait for the last class of instruments to be ready.

This is a question of market functioning and trading and therefore would require input from trading firms and maybe corporates who raise financing via the market.

<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>

CCE has no opinion on this question as it does not involve itself with such transactions.

<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>

CCE has no first-hand experience with a transition from a T+2 to a T+1 settlement cycle.

<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>

CCE has not identified EU legislative or regulatory actions that it recommends to be taken.

<ESMA_QUESTION_SETT_22>

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

<ESMA_QUESTION_SETT_23>

CCE sees benefits in the harmonisation with other non-EU jurisdictions, especially regarding cross-listings and inter-connected markets.

Cleared trades on securities that are also traded in non-EU markets with different settlement cycles may be negatively impacted if the settlement cycle is not harmonised. Especially, the possibility of UK/EU not being harmonised would create issues given the number of cross listings and inter-connected markets.

For example: There are Irish securities that are cross-listed in Ireland and in the UK. Transactions in these securities settle in the EU and in the UK in different CSDs. In the current world there is already complexity in the settlement process due to this split and having different settlement cycles in the EU and in the UK will only increase this complexity.

Although harmonisation between jurisdictions is helpful in general, it will not remove all inconsistencies when (national) holidays are (not) taken into account. For example, the 4th of July is unlikely to be celebrated in the EU or UK and hence inconsistencies in processing dates will remain despite having harmonised settlement cycles (or will we harmonise holiday calendars globally?). Note that these inconsistencies exist in the EU today as well, although far less compared to 15 years ago.

<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>

T+1 and T+0 could function as a trigger to further harmonise the post-trade landscape in the EU across member states. Such further harmonisation is in line with (SCoRE) programs already in play but the ambition and urgency might have to be increased. Further harmonisation is deemed beneficial for the CMU and the EU's position internationally.

Furthermore the shortening of settlement cycles might require post-trade parties to review their systems and processes in order to ensure that they can meet the (increased) settlement efficiency targets of the industry. Higher efficiency rates should be beneficial as well for the CMU.

<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 there is experience from other jurisdictions with the effort to shorten settlement cycles, this experience might be leveraged to facilitate adoption of T+1 or T+0 in the EU whereby it is noted that such experience might be limited as it concerns experience from a different jurisdiction with likely less CSDs, with different systems and regulations. Furthermore, not every EU market participant is exposed to other jurisdictions so the exchange of the experience to non-involved parties should be on the agenda. Furthermore, it might be an idea to wait for the actual implementation of T+1 in the US before committing to a change of the settlement cycle in the EU to understand the extent of market changes and market impacts that arise from such a change.

<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>

This is a viable option as this is the current world we live in. Different non-EU jurisdictions already have different settlement cycles for some instruments. Also the transition to T+1 in the US will be on a different timeframe compared to the transition (if any) in the EU.

Given the relatively high interconnection of the EU and UK securities markets, CCE would appreciate that the period during which the EU and UK have different settlement cycles is as short as possible.

<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>

As the leading pan European cash equity CCP providing services for 47 trading platforms, having direct connections to 18 CSDs in Europe and being a top participant measured by transactions in those CSDs, CCE is an essential part of the European post trade infrastructure.

CCE stands ready to facilitate a change to shorten the settlement cycle to T+1 but has significant concerns on the feasibility of a shortening to a T+0 cycle given the lack of clarity regarding the actual form it might take, the cost and benefits of such a change and a possible increase in counterparty risk due to removal of clearing.

We caution against a rushed implementation of either T+0 or T+1 as both changes require investment in time and resources by the industry for development of a market implementation plan and to be ready for such a transition. The perceived reduction in credit risk should not be outweighed by the potential increase in operational risk.

<ESMA_QUESTION_SETT_27>