ASSOCIATION FRANÇAISE DES MARCHÉS FINANCIERS

FINANCIAL MARKET PROFESSIONALS

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AMAFI'S GENERAL COMMENTS
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On ESMA'S call for evidence on shortening the settlement cycle

AMAFI is the trade association representing financial markets' participants of the sell-side industry located in France. It has a wide and diverse membership of more than 170 global and local institutions notably investment firms, credit institutions, broker-dealers, exchanges and private banks. They operate in all market segments, such as equities, bonds and derivatives including commodities derivatives. AMAFI represents and supports its members at national, European and international levels, from the drafting of the legislation to its implementation. Through our work, we seek to promote a regulatory framework that enables the development of sound, efficient and competitive capital markets for the benefit of investors, businesses and the economy in general.

AMAFI would like to thank ESMA for this consultation on the shortening of the settlement cycle to T+1/T.0, as this topic is very important to its members.

The answers to the questions were prepared in cooperation with other French associations, notably *France Post Marché* (FPM) and *Association Française de Gestion* (AFG).

GENERAL COMMENTS

AMAFI would like to stress the following points:

- We consider that the transition to T.0 would imply a technological change (DLT) that we believe is unattainable in the medium or even long term. For this reason, we have not studied this scenario.

- We strongly believe that in a purely European context, there is no advantage in moving to T+1. However, we must consider the international environment and the attractiveness of European markets. Yet, in our opinion, Europe's attractiveness does not depend on settlement/delivery timeframe. Indeed, there is no evidence that an issuer relies solely on settlement/delivery timeframe to raise capital in a given jurisdiction. Moreover, it should be assessed whether maintaining a T+2 settlement cycle could present some advantages for the EU market in terms of attractiveness (notably for Asian investors due to time zone difference).

- The move to T+1 in Europe will require a radical change from EU market participants including market infrastructures (trading venues, CCPs, settlement and payment systems). For these reasons, the move from T+2 to T+1 cannot be compared to the previous move from T+3 to T+2.

- This radical change will demand considerable resources while these resources could probably be better used for instance to achieve the UMC (investing in financial education, in financing the European economy or in addressing environmental issues…).

- Furthermore, it should be stressed that the European market has many specificities compared to other markets. Europe has 18 CCPS, 31 CSDs and 14 different currencies, while for instance the US have only one CCP, one CSD and one currency, like in Canada, the UK and some Asian countries. As a result, the operational difficulties and costs involved in switching to T+1 in Europe are much higher than in jurisdictions where the markets are much more integrated.

- We foresee that the shortening of the settlement cycle is not compatible with the trend to enlarge trading hours, notably for the benefit of retail clients in the EU. Moreover, moving to T+1 could cause EU trading venues to close their markets earlier than today, at the expense of the overlap between US and EU markets.

- We anticipate that the transition to T+1 in other jurisdictions would have consequences for European stakeholders (investment firms and management companies) that should not be underestimated, as stated in our answers to the consultation. It will be easier to assess the costs and benefits of a move to T+1 in Europe once the other markets (particularly the US market) have moved to T+1.