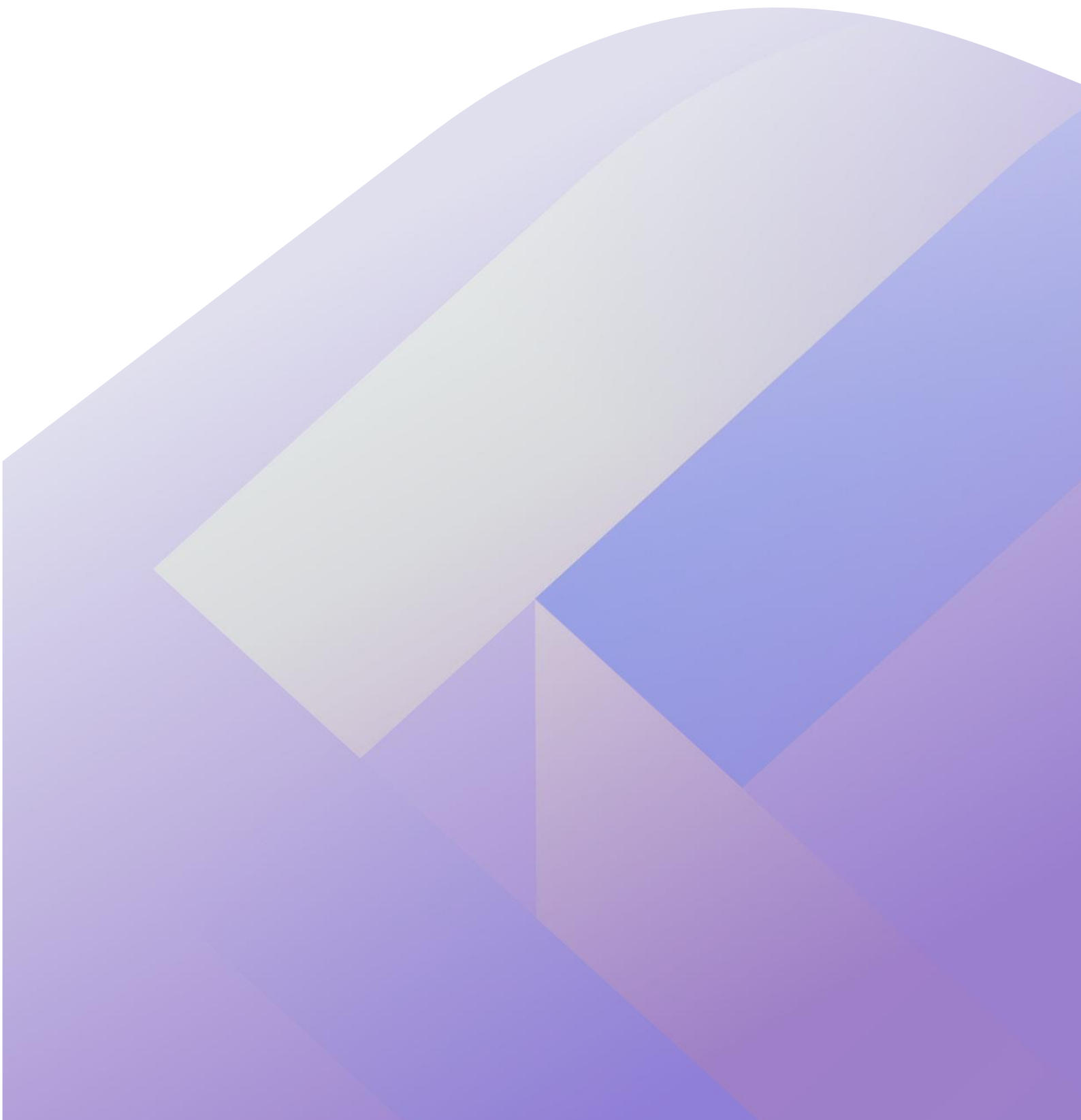


# Reply form

**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](http://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](http://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](http://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	Deutsche Börse Group
Activity	CCP, CSDs, market operators
Are you representing an association?	<input type="checkbox"/>
Country / Region	Germany, Luxembourg

## 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>

### General/Intro comments

- Deutsche Börse Group (DBG) appreciates ESMA's **evidence-based and open-ended** approach.

- Please note, that we as DBG have several legal entities and therefore present our views from different perspectives including, i.e. from a trading (**Frankfurter Wertpapierbörse, FWB**), **CCP (Eurex Clearing)** and **CSD's (Clearstream, Lux CSD)** perspectives.

- The **political decision** to reduce settlement cycles from T+2 to T+1 **should ideally not be rushed** as a potential move seems to have **implications for the financial sector**.
- XETRA, Börse Frankfurt (trading venues of FWB), Eurex Clearing and Clearstream are technically capable of **supporting all “T+n” settlement cycles**. However, shortening the cycle to **T+0 is unrealistic** (esp. due to the **loss of netting efficiencies**).
- DBG believes it is **up to market participants (like custodians, clearers, brokers etc.)** to decide whether it is **beneficial and if they are operationally ready**. Many of **changes to procedures and schedules might have to be implemented**, if market participants deem this necessary.
- Neither should it be done for competitive reasons, as the landscape in **Europe is very different to that of the US and Canada, as it is much more fragmented with numerous CCPs, CSDs and custodians**.
- Nevertheless, Europe should incorporate **lessons learned from the US and Canadian actual move in May next year** as it could help the EU to better assess and evaluate what is crucial for such a big change.
- Further, ESMA should consider in their impact assessment that the **EU is a global market and any potential frictions with Asian markets**.
- For future products on **fixed-income securities the settlement date of allocated physical deliveries in government bonds should ideally be kept two business days** after the last trading date of the fixed-income futures **due to their large size** as the timing is already today very tight.
- **At the clearing level** the move would impact CCP margins: **conceptual impacts on CCP margins**: backward-looking margins are **impacted in more than one way**. With respect to forward-looking margins, two aspects need to be differentiated: overall **margin level per transaction expected to remain unchanged**, time period for which margin is held is expected to reduce, depending on settlement discipline.
- **At the settlement level, we currently have some operations settled in T+1 and T+0**, if a CSD participant wishes to do a delivery-versus-payment (dvp) on T+0 or T+1 – hence it is possible from a settlement perspective.
- Reducing the settlement cycle, would **consequently impact settlement efficiency rates to rather decrease**, as well as the corresponding Settlement Fail Penalties (SEFP) and Late Matching Fail Penalties (LMFP) to increase: i.e. given the **reduced time to instruct**, to

**manage the resources, to solve incidents and discrepancies or to conduct the reconciliation mechanisms** in custody processes.

- Some **market participants might be forced to move their activities from cleared space into the OTC space or towards systemic settlement internalisation** due to the impracticality of adapting certain practices in a T+1 system – this might have unintended consequences for regulated markets.

- **Opportunity costs** of the move T+1 should be **considered in a detailed impact analysis** – important **business initiatives could be impacted since customers would focus on being ready for the move rather than investing on other projects** e.g. settlement efficiency or innovation. Nevertheless, a move to T+1 could also be seen in the long run as an opportunity for automation, modernisation, digital readiness and long-term cost savings.

- The proposed move **towards T+0 seems not to be a realistic option** – this is especially true for the “traditional” world (esp. due to the loss of netting efficiencies), but also too early for a “DLT” world (esp. due to the loss of netting efficiencies).

- **Any move to T+1 in Europe should be ideally harmonized with the UK** – companies active in the UK have the same systems and back offices for EU and UK and transitioning at different times would be challenging and costly. This would strengthen the capital market in Europe.

- We suggest a **“big bang” approach** versus a “staggered” approach to facilitate the migration.

- The move from T+3 to T+2 could act as **a framework for a “best reference guide”** i.e. to facilitate the migration in the different Member States of the EU in a well-prepared, consistent and structured manner – however, keeping in mind that **a potential move from T+2 towards T+1** would be of a **different magnitude than the move from T+3 to T+2** has been

- A potential **shift of T2S schedule** should be considered so that instructions sent by CCPs can be included in the first cycle of the NTS.

### **Financial markets infrastructure could support all “T+n” settlement cycles**

From our market infrastructure perspective, it is to a large degree up for market participants to assess, whether and which timeline they are operationally ready to move from T+2 to T+1. CSDs or CCPs or trading venues, will be only one part of the overall process chain, custodians, banks, brokers having typically a higher degree of process complexity on their side.

From a technical perspective FWB, Eurex Clearing and Clearstream would be capable to support all “T+n (n>0)” settlement cycles and would not see hard showstoppers. It is worth noting that the current technology and processes used by financial market infrastructures and their participants today, are capable of processing transactions for same-day settlement in specific asset classes.

### **T+0 is not a useful path to follow for the traditional world**

DBG believes it is important to maintain a high level of ambition to shorten the settlement cycle while keeping expectations realistic. As such, analysis and proposals on how to shorten the settlement cycle should focus on a move to T+1, instead of T+0. While, in the long run, a move to T+0 could intend an instant settlement, it seems today rather detrimental to market efficiency in various asset classes, and it is imperative in our view to first solve the current challenges with reference to T+1. It is clear that the concerns with regard to T+1 would be even exaggerated in a potential T+0 environment.

The reasons to shorten settlement cycles are mainly put on the table for reducing risks in securities markets. An immediate move to T+0 settlement would require a fundamental transformation of current pre- and post-trade processes and risk management frameworks could result in the creation of new risks.

On trading level, T+0 would drastically impact trading strategies in cash equities/ETF. The result, factoring in also the post-trade aspects outlined in the following, would be higher costs and less liquidity, with no clear gain.

From a **netting efficiency** point of view, **T+0 would not make much sense**. CCPs conduct the **netting of transactions (Trade Date Netting)** which not only **reduces the risks** of transactions but also **reduces the costs** for settlement per transaction, as only the netted position of transactions needs to be settled and no settlement instructions need to be generated at all because they could be netted in the level of Trading Members and Clearing Members – this makes a **huge difference in financial settlements** with e.g. millions of transactions. In a potential T+0 scenario with instant settlement, every single transaction would need to be settled on a gross-basis – increasing the settlement costs of each transaction and leading therefore to **less efficiency**.

From a cash perspective, **in case of instant settlement** transactions would have to be ‘pre-funded’ – i.e. the settlement amount **must be available in the correct currency prior to settlement or even before order entry**. This represents a radically different approach to funding and treasury operations for buy- and sell-side firms, compared to today’s environment. It is also likely to introduce significant additional costs and complexities.

Furthermore, DBG supports the arguments put forward by AFME in its cross-industry letter.

### **T+0 in a DLT world – at early stages**

With the **adoption of DLT/blockchain technology** the assumption is to create more efficiency and streamlining of processes, however it seems that the proof of concepts for the use of DLT technology in settlement is at early stages – so not be able to replace the current legacy systems in its total scale. Therefore T+0 on DLT is rather in the testing phase and could not realistically be used on a general scale, in the upcoming year, but maybe a far future to be seen notwithstanding the choice of technology implementation and consequences thereof, the risk management and liquidity considerations discussed above would persist.

### **Trade Date Netting and effects of a move to T+1**

Currently, Eurex Clearing performs Trade Date Netting (TDN), sends out settlement instructions to (I)CSDs and generates reports, depending on the end-of-trading of connected trading venues.

When trading ends late, i.e. at 22:00 CET, this processing starts only after this. If Clearing Members opt for cross-venue netting between trading locations, the later end-of-trading is decisive.

Having settlement cycle T+2 in place, Clearing Members and Settlement Institutions can use the period between matching of instructions at the settlement location (and reception of related matching confirmation from the (I)CSD) in the evening after trading day T and the start of settlement in the eve of the Intended Settlement Date (ISD = T+2) to organize their funding of securities and cash payments to ensure a timely delivery. On T+2 they have time to complete the settlement until 16:00 CET (DvP settlement time) to avoid a settlement fail.

Please note that several Clearing Members use omnibus settlement account and apply the hold/release mechanism at the CSD complying with the German Depository Act (Deutsches Depot-Gesetz) to ensure that no securities belonging to one client is used to fulfil the delivery obligations of another client. Clearing Members can only release their delivery instruction after disposition of the client holdings to the correct delivery.

Switching to T+1 cycle means that Clearing Members only have time for the same processing until 16:00 CET on the directly following business day.

From a CCP perspective Eurex Clearing may be required to make certain changes:

One measure may be to exclude trades from late trading hours, i.e. trades concluded after a certain point in time, e.g. after 18:00 CET, from the main Trade Date Netting (TDN) run. With such an approach, the vast majority of trades concluded during the trading day could be netted in the early evening. Settlement instructions could then be sent out earlier to the (I)CSDs and



CCP reporting on the so far netted trades could be provided to Clearing Members earlier than today. For trades concluded before the deadline at different trading venues a cross-venue netting could be performed.

Trades concluded after this deadline could be netted in a separate run – and would enter the settlement process later accordingly while the Night-time settlement cycle at T2S is already in progress. A separate CCP reporting run would be required, which could be provided to participants during the night.

A downside of this approach is the loss of netting efficiency because sell and buy trades concluded before and after the deadline would no longer be netted. They would be included in separate, opposing settlement instructions sent to the (I)CSD, causing additional load in the settlement systems and costs for settlement.

Eurex Clearing would face significant one-time costs for design, implementation, and testing for the adjusted and extended netting and end-of-day processing – and increased running costs for the inflated netting, the additional reporting and the increased transaction load.

With respect to (ii) the impacted processes from a CCP perspective are

- linking of single trades by Clearing Members,
- Trade Date Netting,
- sending of settlement instructions,
- generation and provision of CCP reports and
- calculation of initial margin.

The challenges apply to equities (incl. ETPs) and bonds in the same way. For governmental bonds to be delivered as a result of quarterly notification/allocation of Eurex fixed income futures. It will be a big challenge for Clearing Members to fund and allocate the bond deliveries in only one day – as transactions often amount to several 100 million EUR.

In general, a shorter time between sending the settlement instruction and the start of the intended settlement day would reduce the buffer for Eurex Clearing to react in case of technical or operational issues. Any incident that occurs in the evening at the trade date will lead to a delayed start of settlement for impacted transactions. The impact if instructions or CCP reporting are sent out late will hit Clearing Members harder than today.

### **Rescheduling of T2S schedules**

Further, the process/scheduling with regards to T2S needs to be aligned (possible delay of day/and obviously night-time settlement, delivery-versus-payment cut-off times, increased day-time settlements). A later start-of-settlement in T2S agreed by all stakeholders could ensure that CCPs can send settlement instructions for trades concluded on trade date T before and that all these instructions are considered already in the first settlement run. On the other hand, this would further reduce the total time to fulfil settlements before settlement cut-off on T+1.

### **Market participants need to be operationally ready for T+1**

Smaller market participants in the EU will find it even more difficult to adapt their systems to a shorter settlement cycle and will require support from industry and national regulators.

The transition will require proper time to allow the re-engineering of front and back-office processes by the entire value chain to allow a smooth compression of the settlement timelines without detrimental impacts in terms of market liquidity and settlement efficiency.

We would recommend reviewing market practices and applicable standards in industry working groups to smoothen a potential transition towards T+1.

It is important considering the operational impacts with a shorter settlement cycle, as there would be obviously significantly fewer hours between all industry layers along the entire value chain (trading, clearing and settlement). All post-trade operational processes and other activities should be performed in a shorter time with assuming the same efficiency. Common working hours would be drastically reduced. This would negatively impact the possibility to solve operational issues.

### **Constraints on automation and coordination**

From a cash activity perspective, there could be constraints on automation and coordination between the dedicated treasury and securities teams.

### **Changing timelines for corporate actions necessary**

Beside the impacts on settlement activities, the corporate action management would also be affected: in a T+2 environment the current convention is that there are three different dates which facilitates the management of the corporate events as follows:

- Ex Date (D-2)
- Record Date (D-1)
- Payment Date (D)

This order of the key dates is part of the CEJWG [Corporate Event Joint Working Group] standards defined for all European markets and published on the AFME and EBF websites.

The expectation is that the issuer and/or its agent are following the above rules while announcing the corporate actions to the Issuer CSD and on the market. The key dates announced for a given ISIN should be followed without any change or adjustment by any intermediary in the custody chain regardless the investor base or trading venues (e.g. multi-listed securities issued with the same ISIN, depository receipts versus underlying shares).

As many other CSDs, Clearstream/LuxCSD rely on supplied key dates information from various sources such as issuers and/or its agents, depositories and vendors. Their reference data related to ex-date and record date calculations needs to be correctly configured and this should be part of an external readiness exercise. As long as, the key dates for given securities are applied in line with the Standard across all sources and markets, there will be no impacts on Clearstream/LuxCSD.

In T+1, it is key that the event information between intermediaries is to be relayed in a timely manner. The settlement teams would need access to the corporate action notification more quickly, especially for settlement around the event key dates. This is to know if the trade is impacted by a corporate action to, amongst other actions, identify the eligible positions, to resolve a blocking issue or identify eligibility market claims/transformation.

Clearstream/LuxCSD notifies its customers with the corporate action notifications and with the entitlement advices on both settled, new and pending positions. Additional needs and impacts to be assessed with the participants.

### **Change in the buyer protection key dates**

For the elective corporate events, the shorter settlement cycle will impact the period of the guaranteed participation of the buyer. As a matter of fact, in line with the CEJWG standards, the date on which the buyer protection is guaranteed will become closer to the market deadline leaving less time for the buyer, having a pending trade, to react. It is important that on the market where the buyer protection is supported, the dates are adjusted accordingly prior to being notified to the buyer.

As Issuer (I)CSDs, Clearstream/LuxCSD will have to adjust its systems to populate the buyer protection key date considering the T+1. This is to avoid financial risk. However, as many Investor CSDs, Clearstream/LuxCSD rely on the BP key dates information provided by the market. Therefore, no change for those links.

### **Impact on the market claims**

It is expected that in the T+1 environment, at least during the adaptation period, the volumes of late pending trades around key dates will increase and hence the volumes of market claims. This represents most probably the highest impact on (I)CSDs especially if they have not yet implemented or automated its processes in line with the CEJWG standards. Not all markets support the market claims and greater adoption across Europe would be highly suitable.

Clearstream/LuxCSD is already following the CEJWG standards and has the automated processing of detection, processing and reporting of market claims and therefore should not be impacted too much. Additional needs and impacts to be assessed with the participants.

#### Impact on the exception management and reconciliation

The shorter settlement lifecycle will, as a consequence, increase the volumes of fails and rejections which should be dealt with the restricted timeframe.

The exception management processes that currently require a manual intervention and the reconciliation workflows/systems will have to be reviewed for processing in T+1 settlement.

Clearstream/LuxCSD needs to re-assess their processes and workflows to be adjusted for T+1.

### **Impact on taxes**

We can indeed anticipate tax related impacts, if there are discrepancies on cross-border transactions with different settlement periods. This will impact market claims/compensations and related tax implications.

## **Impacts on different asset classes**

### **Forex (FX) markets impacted**

Besides the Euro – in Europe we have the coexistence of other currencies – which are currently settled on a T+2 basis.

Should this FX cycle remain, foreign investors in different currency zones may need to pre-deposit cash, would see increasing liquidity costs and risks, on top of an increase in operational processes complexity and risks - a harmonization and alignment of the FX settlement cycle and the securities settlement cycle would be recommended.

### **ETFs and asset classes with less liquid markets**

Some asset classes, such as ETF, already have a significant lower settlement efficiency than others. We would propose to assess in detail the potential bottlenecks in the markets where these assets are traded. Alignment with issuers on global creation / redemption processes will be required to assess whether an impact on the settlement efficiency of these asset classes can be mitigated and will not add even more stress than they experience nowadays.

### **Less time to solve fails with securities lending**

Securities Lending market participants shall face operational challenges in identifying their fails coverage requirements, decrease of ability to monitor the actual settlement of lending activity coupled with inventory management. As part of the lending activity, the recall process and timelines shall be challenged due to shortened timelines which could result in participants holding an additional buffer of securities leading to the removal of liquidity from market space. If there is a shorter settlement, there is a risk that a trade could fail and the market participant has less time to match the trade with the security, meaning that the lender needs to have full liquidity (i.e. inventory of securities ready to lend) on short notice).

### **Time horizon for the liquidation period**

With respect to the relevant regulation applicable to the clearing of settlements, it should be addressed if Art. 26 1(b) of [2] is still applicable for settlements if the settlement period is shortened to less than two days.

<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>

The move to a shorter settlement cycle will bring these consequences on for hedging practices and for transactions with an FX component:

**Consequences on cash:** The abbreviated settlement cycle may necessitate alterations to hedging strategies. With a T+1 cycle, the timeframe for arranging hedging contracts becomes more limited, possibly requiring a more proactive risk management approach.

**Prefunding practices:** In a T+1 environment, as the cash leg is to be settled one day earlier compared to the T+2 cycle, the buyer, in a securities transaction, would need to have the funds (for the seller) available on the settlement date, earlier than today. Therefore, ensuring that funds are received in a timely manner and available on the accounts to meet the payment obligations is more time-sensitive than currently, requiring better cash and more efficient liquidity management to facilitate the faster transfer of funds.

A CCP also has to prefund the “sell” transaction (from member perspective) one day earlier. For EUR this might not be an issue, but maybe for foreign currencies (USD, GBP, CHF, SEK).

In addition, the buyer of the securities might also choose to pre-fund the transaction by ensuring that the necessary funds are available in their account prior to the settlement date. By pre-funding, the buyer ensures that the funds are readily available for settlement, eliminating the need for a cash transfer on the settlement date, but the cost of this cash management (in normal circumstances with positive interest rates, as today) is significantly higher.

**Forex (FX):** The current settlement cycle settles today on a T+2 basis. Should this FX cycle remain, foreign investors in different currency zones will have to pre-deposit cash, increasing liquidity costs and risks, far higher than the cash management costs in the same currency.

**Securities Lending:** In addition, the shorter settlement cycle could have an impact on collateral management in securities lending. Borrowers would need to ensure the timely availability of acceptable collateral at the right location mobilised to secure borrowed securities, while lenders would need to efficiently manage collateral receipts and recalls within a much more compressed time frame. Shortening of the timeframe shall not only put additional pressure on the borrowers’ community and also could cause the beneficial owners to withdraw liquidity from the system in light of potential operational inefficiencies during transition period. On both

securities and collateral sides, inventory management shall require close monitoring and technology enhancements to optimize the positions.

Auto-collateralisation: This service offered by both NCBs and banks in general, to payment/settlement banks to facilitate the automatic provision of intraday credit, secured with collateral, will be increased in T+1 regarding the need of cash for settle in a shorter settlement cycle. Increasing the automation of these processes would be relevant to mitigate, at least during the beginning of T+1 implementation, the negative impact on liquidity availability.

Potential side effect on cross-border transactions: in a T+1 environment, the cross-border activities can even be more negatively affected compared to domestic activities as more processes are needed (e.g. realignments or management of the securities holdings, moving from one market/CSD where they are held to the market/CSD where the sale is going to be settled) and larger chains of intermediaries need to settle the trade. This impact cannot be considered residual and could affect all European markets. On the positive side, it will be beneficial to have the US and EU settlement cycle aligned again.

<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>

CCP: Generally, the system is designed to process 100% if there are no settlement failures, or technical issues or issues with corporate action processing.

- Eurex Clearing's system is designed to process regular clearing and settlement fully STP.
- Manual settlement is only required in case technical issues (i.e. wrong account data provided by a participant) or for procedures to handle settlement failures after several days, i.e. pair-off, buy-in, cash settlement or the manual enforcement of a partial delivery shortly before an impending buy-in.
- Considering such manual interventions, current average STP rate from Eurex Clearing's perspective is still 99.9 %.

As the procedures to handle settlement failures apply only several days after the intended settlement day, a change to T+1 would only indirectly impact Eurex. If settlement efficiency decreases due to T+1, the market will face a higher number of buy-in candidates and thus an increase in manual operational effort.

CSD: For Clearstream there needs to be a differentiation between the percentage of STP is from a technical perspective at close to 100% (when it comes to income events, plain vanilla corporate actions, and market claims). However, the STP rate is lower for complex corporate actions mainly due to an unstructured input received from the issuer/agents and various paperwork requirements.

<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>

Generally speaking, certain positive aspects from a T+1 cycle in trading could be expected, such as somewhat reduced collateral requirements on the CCP layer. Also, a re-harmonization with the US, which will move to T+1 in May 2024, should be beneficial in trading and for liquidity of certain instruments (e.g. ETFs).

Shortening the settlement cycle to T+1 means de facto “end of calendar day T+0”, as CSD / T2S batches for next day already start of on the evening at ~ 20:00 CET. However, retail trading in the DACH region uses extended trading hours to 22:00 CET. Hence, it should be considered if a CSD / T2S start of settlement for Intended Settlement Day can be postponed to late in the evening. The DTCC is doing a similar shift with US T+1, to ensure market post-trade efficiency can be maintained. A cut for the (retail) business day at e.g., 18:00 CET and shift to value date “T+2” for evening trading - or send the evening trading into daytime - would both not be ideal, as it poses the risk of certain inefficiencies.

<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>

CCP: At this stage it is not possible to provide any cost estimates as this would require a proper impact analysis including interdependencies to any down-stream systems that may need to be adjusted. As outlined in Q1 depending on the potential changes that the CCP will have to make the expectation is that we will have most likely significant one-off costs expected. There will also be increased running costs due to higher operational efforts to process more buy-ins in case settlement efficiency declines.

CSD: Defining the costs related to the technology and operational changes depends largely on what exactly is needed (by the broader industry) to be modified in order to accommodate for a new settlement cycle (in the settlement and other processes) by the CSD industry.

We estimate some efforts, as any T+n cycle is supported already today for any transactions and instrument types. Further impacts may arise on the CBF or T2S system level for example for trading on German stock exchanges (possible until 22:00h) transactions files processing (files are received after NTS for T+1 already started by T2S and CBL – to allow for NTS settlement, file sending or NTS start/ end dates may require adjustment).

<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>

Trading: Settlement fails are likely to increase for EU ETFs on underlying markets with settlement windows longer than T+1. The end users (buy-side) will have to bear extra costs from settlement fines.

CCP: Eurex Clearing expects that settlement fails will increase noticeably as Clearing Members have significantly less time to prepare the deliveries. Especially, where realignments across settlement locations are required, the time between end-of-trading and settlement cut-off on the next day is very tight.

We observe that many settlements on the Intended Settlement Date (ISD = T+2) do not happen right at the start of night-time settlement (NTS) but rather later during the day. This suggests that these intraday settlements on T+2 would result in settlement failures following a settlement cycle T+1.

CSD: We expect that major impacts are short-term. Until automatization is not fully implemented, it's clear that a shorter cycle will lead to higher settlement fails.

<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>

The general assessment is that settlement penalties have not significantly contributed to higher settlement efficiency.

CCP: Eurex Clearing believes that settlement fails will initially increase as the timeframe is shortened by one day. Market participants will be required to automate and streamline their processes, hence move away from manual processes which means that settlement efficiency should go up again, i.e. the initial increase in settlement fails/cash penalties will not remain permanent but would gradually improve over time once the rate of automation goes up.

However, where realignments across settlement locations are required, more time is needed, and the level of automation is limited.

With respect to cash penalties this applies not only to CSDR financial penalties, but includes CCPs penalties for settlement failures, for example on dividend record days. Again, we believe that initially these will go up, but over time with a higher degree of automation it should decrease again.

CSD: Fail rates should normalize in the medium term. The question is if the baseline of T+2 can be reached again and by when.

<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>

Trading: Currently, FWB offers trading hours on from 8:00 CET to 22:00 CET. Shortening the settlement cycle could suggest earlier post-trade cut-off times on T+0, however moving end of trading earlier in the day would not be an option in respect to retail investor needs.

Accordingly, a shift to a later point in time during the evening/night at CSD layer should thus be considered, see above. Offering extended trading hours in the evening is valued by retail clients, so an orderly value chain should still be feasible as otherwise there is a risk that this part of retail could move to less regulated products or markets – retail investors having to bear the higher implicit costs.

Entitlement to Corporate Actions: As a market's standard settlement period plays a key role in determining the entitlement to any corporate action, regardless of the nature of the asset, any change in the former has an impact on the valuation of those securities across these dates. An impact on valuation of these securities also implies that derivatives having these securities as the underlyings are impacted. The impact should at least be two-fold:

(a) Terms and conditions of derivatives are usually set up to align to the relevant market to allow for consistent valuation, settlement, and hedging. E.g., for stock options traded at Eurex it is defined as:

Contract specifications

Settlement

Physical delivery of underlying shares two exchange days after exercise, e.g. an example of the definition of the delivery obligation of a derivative.

(b) valuation is impacted whenever the determination of the date for the entitlement to a corporate action is relevant for the valuation of the derivative. E.g., if the maturity date of a European stock option is the ex-date of the underlying stock under a T+2 regime, it becomes

the cum-date when switching to a T+1 regime, increasing the forward value of the stock and thus impacting the value of the option.

While (a) is more of a legal nature in how to adapt such terms and conditions minimizing market impact, (b) is expected to have an impact on the valuation of existing derivatives' positions and should be specifically addressed. Aside from the pure impact on participants' profits and losses, reflection of (b) requires system changes, which might split into configuration and implementation. Both are one-off costs the industry would face if the securities settlement cycle will be shortened.

CSD: Any T+n settlement cycle is supported already today for any transactions and instrument types. Potential impacts on ancillary services like FX, cash management, securities lending or collateral management need to be assessed. Impacts are much more relevant on CSD participants' level than the CSD itself.

<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>

From a trading perspective we agree with the benefits mentioned.

Eurex Clearing also agrees with the mentioned benefits such as the reduction of counterparty risk, encouraging additional automation and STP, elimination of issues associated with unharmonized settlement cycles, promoting international harmonisation, and increasing the attractiveness of EU markets. However, those benefits may be of less value, if settlement fails go up and settlement efficiency decreases, but overall, the pressure to automate will hopefully lead to higher settlement efficiency eventually. In general, a lower throughput time for settlements is beneficial for the overall market.

Last but not least if other European countries outside the EU such as the United Kingdom will move to T+1, the EU might lose out by not moving.

An inverse relationship exists between netting effects and settlement frequency for offsetting transactions.

The benefits listed will likely need a more comprehensive view and is highly dependent on the set of settlements to be processed. These only hold if these sets are mostly directional, i.e. sell or buy predominantly.

However, if these sets consist of mixed buy and sell instructions, netting effects on the payment leg are likely higher the more instructions can be netted. The more instantaneous settlement cycles become, the less netting can take place, which might also have inverse effects on intra/inter-day liquidity needs. E.g., also refer to a similar discussion in nature in the distributed ledger space, which is exactly facing these challenges on the other extreme.

Please find two simplified examples for a stream of directional and oscillating trades in Table 1 and Table 2, demonstrating that peak net positions sizes are not strictly lower under a T+1 or T+0 regime when compared with T+2.

	Day 1	Day 2	Day 3	Day 4	Day 5
<b>Trade</b>	Buy 10	Buy 10	none	none	none
<b>EoD net position under T+2 regime</b>	10	20	10	0	0
<b>EoD net position under T+1 regime</b>	10	10	0	0	0
<b>EoD net position under T+0 regime</b>	0	0	0	0	0

**TABLE 1 EXAMPLE OF TWO CONSECUTIVE BUY TRADES**

	Day 1	Day 2	Day 3	Day 4	Day 5
<b>Trade</b>	Buy 10	Sell 10	Buy 10	none	none
<b>EoD net position under T+2 regime</b>	10	0	0	10	0
<b>EoD net position under T+1 regime</b>	10	-10	10	0	0
<b>EoD net position under T+0 regime</b>	0	0	0	0	0

**TABLE 2 EXAMPLE OF THREE OSCILLATING TRADES**

<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>

Impact on margin requirements

Shortening the settlement cycle of transactions has the following conceptual impacts on clearing house margins:

Backward-looking margins are impacted in more than one way. Given that transactions are expected to be settled in a shorter period of time it allows for less market moves across the system lifetime ceteris paribus. I.e., a trade that was fair in T has higher likelihood to go into/out of the money with respect of a counter trade over 2 than over 1 day on a stand-alone basis.

Also, backward-looking margins are mostly assessed with respect to net security position size, as such the potential for position netting effects already mentioned in the reply to Q9 also impact the basis for the margin requirement. Effects can be in either direction, as netting on position level can increase or decrease depending on the individual decomposition of the stream of settlements across business dates as demonstrated in Table 1 and Table 2.

Furthermore, already today offsets for such resulting margin debits/credits are granted across transactions across different securities. On average rather a slight decrease is expected but individual cases can well be both ways.

With respect to forward-looking margins, two aspects need to be differentiated. Assuming the employed time horizon for the liquidation period remains two business days as is the minimum time horizon per “COMMISSION DELEGATE REGULATION (EU) No 153/2013 [ESMA]” of [2], the overall level of margin required for a given transaction would also remain unchanged. However, as the system lifetime of a transaction, i.e., the lifetime of the exposure, would be reduced (assuming positive settlement discipline), the time period for which the margin requirement is held likewise shortens.

On the other hand, as forward-looking margins are mostly charged with respect to net exposures, the potential for netting effects already mentioned in the reply to Q9 also impacts the margin requirements.

A simulation was performed on the effect of a reduced system lifetime of transactions by assuming a T+1 settlement regime on EoD forward-looking margins across historical productive end-of-day data over a two-month period (see Figure 1). The simulation and results below only include transactions and margins affected by a potential reduction in settlement

cycle to T+1. This yields a reduction in forward-looking margin between 15% - 70%, which corresponds to a reduction of between 0.3 - 1.5 bn EUR. This results in an average decrease of 40% of the margin for the affected group of transactions (corresponding to 0.45 bn EUR on average). The reduction is most pronounced on the day of major expiry dates of physically settled derivatives (here Sep 7 for fixed income- and Sep 15 & Oct 20 for equity derivatives). Under the current T+2 regime, settlements reside in the system for 2 days, whereas they would be gone on the next day under a T+1 regime.

Comparable results under a T+0 regime would result in a 100% decrease based on EoD figures, assuming a respective settlement discipline.

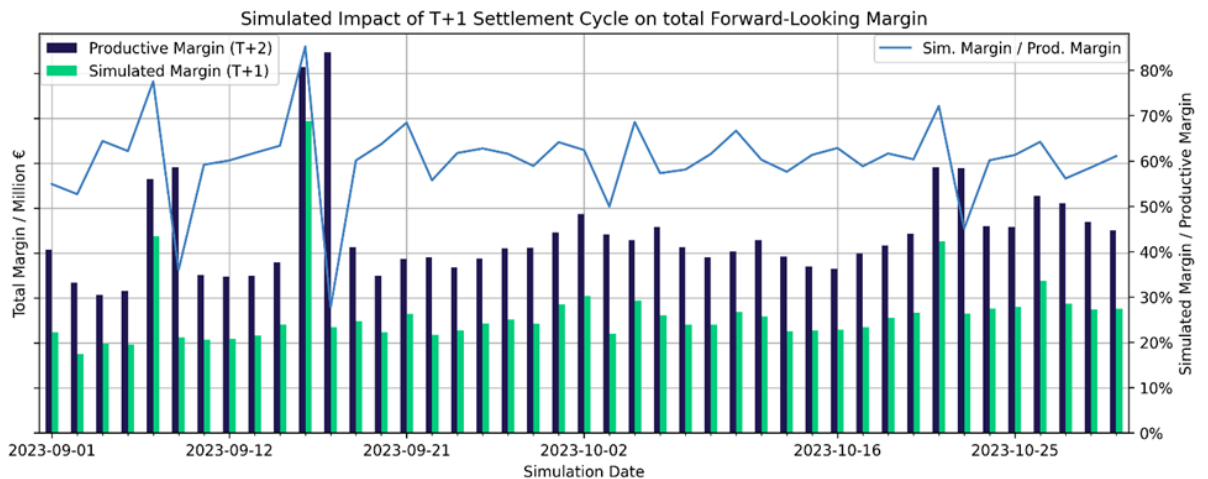


Figure 1 Comparison of historical productive (T+2) and simulated (T+1) end-of-day forward-looking margin requirements. The simulated margin requirements are generated by preponing settlements that were to occur on t+2 by one business day and assuming that settlements that were to occur on t+1 have already been performed (with t referencing the simulation date).

## References

[1] REGULATION (EU) No 648/2012 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL [EMIR]

[2] COMMISSION DELEGATE REGULATION (EU) No 153/2013 [ESMA]

11. 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.

<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>

The opportunity costs if EU continues to follow a T+2 settlement cycle, while other jurisdictions move to T+1 are hard to estimate, because the effect on the cleared volume is not predictable.

There might be benefits for other market participants.

<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>

Based on higher (required) end-to-end level of automation in a T+1 cycle in our industry, certain positive effects on liquidity may be there.

Based on higher (required) end-to-end level of automation in a T+1 cycle in the industry, and based on reduced risk cost (margin), certain positive effects on liquidity may be seen.

In terms of liquidity, since there are no real-time information flows between the trading, funding, and repo desks, secured funding desks rely on overnight maturity transactions.

In case of any operational disruption, a liquidity trap might force a higher cash buffer maintenance, increasing the cost of business for banks and their clients.



If it comes to T+1, trading participants would need to hold a larger amount of intraday as pre-funding; needs will grow substantially due to faster settlement (in a T+1 world the liquidity would need to be held already in anticipation of new trades).

We are committed to ensuring efficiency, market stability, and investor protection when organizing markets. DBG fully shares the general ambitions of MiFID II/R to increase trading activity in lit markets. For these reasons, it is imperative to ensure that a move to T+1 will not result in a shift of trading activity from regulated markets to bilateral trading. Without proper preparation and coordination prior to a move to T+1, some market participants might be forced to move their activities into the OTC space due to the impossibility of adapting certain settlement practices in a T+1 system. Liquidity would move away from lit multilateral trading because its post-trade environment cannot accommodate any more certain trading and post-trading practices. The public price-formation process would inevitably decrease in quality and representativeness.

As stated beforehand we suggest avoiding any rush in shortening the settlement cycle but prefer a “big bang” approach to make the move less complex.

Generally, DBG expects that trading activity, and the provision of liquidity, may be interrupted at least temporarily, especially in more illiquid and complex instruments.

<ESMA\_QUESTION\_SETT\_12>

**Q13 : What would be the benefits for retail clients?**

<ESMA\_QUESTION\_SETT\_13>

In general, implications for retail clients are expected to be limited with no immediate benefits, given that settlement activity should be largely invisible to retail clients. Indirectly, two effects might be seen:

- i) Retail clients are typically offered ‘contractual’ 0 settlement by their brokers today (i.e., shares and cash are immediately booked on T+2 to the end client accounts, cash is blocked actually directly on T+0).
- ii) On Frankfurter Wertpapierbörse (market: XFRA) retail clients trade in the evening. Should a change to T+1 require an earlier cut-off time for trading, then this would be negative for retail trading activity. Accordingly a shift of the CSD / T+2 start of settlement day is to be analysed.

However, there may be important consequences in terms of cost as the necessary up-front.

<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>

CCP: There are one-time costs for adjusting IT systems and procedures to T+1 plus the expected increased running costs due to higher operational efforts to process more buy-ins. It is difficult to weigh the benefits against the costs as this requires a proper impact analysis beforehand which takes time and cannot yet be conducted at this point in time.

For the industry the costs moving to T+1 will initially be higher than the benefits, as especially the change from legacy systems to state-of-the-art fully automated systems will capture substantial costs.

However, with a higher degree of automation the costs for running manual processes will go down and hopefully (almost) vanish over time. It is difficult to estimate at what point in time the benefits may then outweigh the costs. As explained in responses to some of the above questions settlement failures will initially also rather increase than decrease although this is in the long term to be expected the other way round.

Without fixing issues “down the chain”, T+1 or shorter will fail its purpose, but increase fail rates; hence, a joint industry effort is required to prepare for T+1 to avoid the cost/risk of shortening the settlement cycle outweighs the benefits by far.

<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>

Potential milestones could be:

Industry needs to align on potential adaptations to timelines for start times and deadlines, e.g. start-of settlement for Intended Settlement Day in T2S.

- Regulator proposes settlement cycle, product scope and timeline for implementation.
- Start of simulation phase.
- Readiness Statement by market participants.
- Go-live of T+1.

In case of a staggered approach, milestones might apply at different dates for distinct product groups, which make the move even more complicated.

A shorter securities settlement cycle would require a change of Art. 5 of CSDR. We would urge regulators to provide the industry with sufficient lead time, at least a minimum of 18 to 24 months after its publication in the Official Journal.

As explained beforehand a shortening of the settlement cycle should not foresee a move to T+0 but only to T+1.

With regards to industry milestones depending on the outlined scenarios in our response to question 1 CCPs would have to work on following steps:

- requirements analysis taking into account the requirements of Clearing Members and settlement schedule,
- assessment of impacts on procedures and IT systems,
- streamline the clearing processing between end-of-trading and start-of-settlement (if required by Clearing Members),
- alignment of target schedule with trading venues, Clearing Members and CSDs,
- adjust and potentially de-couple certain system and member reporting processes for the reduced lead up time to settlement (if required by Clearing Members),
- revise the timeline of reporting of pending transactions to their Clearing Members,
- potentially adapt methodologies for margin calculations,
- implement changes on operational processes,
- implement software changes and adjust IT infrastructures from T+2 to T+1 and

testing, internal and end-to-end with trading venues, Clearing Members and all settlement locations.

Furthermore, depending on the scenario as outlined in our response to Q1 it may be necessary for T2S to move forward the start of the overnight settlement cycle, to allow for CCPs to include all their trades in a net to settle and send them for the overnight process.

Additionally, market participants will have to upgrade/replace their existing systems and adapt their processes considering the change at the CCP.

<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>

Overall, DBG believes that a minimum of 24 months is required after respective changes have been published in the Official Journal.

<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 DBG's view all instruments already included in the scope of Article 5 of CSDR could be moved to T+1. We expect that OTC will follow. The impact on ETFs may require further assessments as explained in Q19. However, for future products on fixed-income securities the settlement date of allocated physical deliveries in government bonds should ideally be kept two business days after the last trading date of the fixed-income futures due to their large size as the timing is already as of today very tight.

<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 is possible to handle different settlement cycles across different instruments. Technically, trading venues define the settlement cycle on trade level. The impact on Eurex Clearing for the processing on the trade day evening would follow the instruments with the shorter settlement cycle, i.e. T+1 and the Clearing Member's requirements (see response to Q1). Therefore, from a CCP and CSD perspective a staggered approach per instrument or instrument type is not beneficial. Different settlement cycles might complicate the processing in respective handling of settlement failures and corporate action processing.

<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>

A difference can be made between T2S-eligible instruments and non-T2S-eligible instruments. If the T2S system cut-off and processing times are optimized for T+1 settlement, it will be easier for the whole industry to adopt.

The reduced operating window would be more challenging for certain asset classes, i.e., ETFs, where the current settlement efficiency is below average. This is partly due to the global composition of many ETFs, which contain underlying securities from several markets. The availability of newly created ETF's quantities is connected to the subscription of new units (and thus to the settlement of the underlying instruments), this can often lead to settlement delays in a T+2 context, due to time zone differences, market holidays and cross-border settlement challenges. Consequently, this process for subscribing to new units can become even more critical in a T+1 settlement cycle and would significantly impact timely settlement.

With reference to repo transactions, it is worth noting that when financial markets moved from T+3 to T+2 on 6th October 2014, repo trading was unintentionally covered. CSDR was never intended to apply to the start date of repo transactions and the ability to trade with a start date of T+3 or further forward. We recommend that any regulatory requirement to move to T+1 only covers cash trading (i.e. buy and sell), excluding repo trading.

From our perspective, instruments traded on organised cash markets consistent with Article 5 of CSDR “transactions in transferable securities which are executed on trading venues”, with the exception of repo trading as mentioned. It is important that collateral and credit market related trading is excluded, as we can see that this functions in response to requirements of repo books and hence we already see trades at T+0 and also at T+ >2.

In a more general sense, there is no benefit that this would apply to OTC “voice” debt trading. Since there are specials in these markets, they should remain out of scope and are already out of scope of both Article 5 of CSDR and of the US measures to be introduced in 2024.

<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>

DBG favours a harmonized approach for a settlement cycle due to complexity reasons. We understand that only transaction types in scope of Article 5 should be included with the exception of repo trading, whether conducted on clearing platforms or OTC.

<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>

The US and Canada will migrate to T+1 end of May 2024. It would be useful to learn from these moves and analyse the impacts next year. With regards to the UK, it should not move to T+1 without the EU (or vice-versa). All companies active in the UK have the same systems and back offices for EU and UK. Transitioning at different times would be challenging and costly.

With the US move to T+1 we expect that for US instruments also the record date for market claims will move back by one day so that the record date falls together with the ex-date. It is for the time being expected that trading venues in the EU will keep T+2 also for listed US and Canadian instruments, we believe that we may see an increase in market claims on US instruments, on all trades concluded on T= EX-1, without the possibility to fine the sellers. Trading of US and CA instruments on EU venues will increase market making cost, due to issues in hedging.

Cross-border transactions with different settlement periods (T+1 vs T+2) would result in differences in pricing across the same product (due to different settlement periods), which could lead to the securities, not being matchable anymore (buy vs sell match), or at least would increase funding costs to the trading desk (as when trying to match trades, one leg of the trade would have to be financed for one day). Since the liquidity provision could become more expensive for market makers due to the increased cost of securities lending, market spreads are expected to slightly widen, affecting trading activity as well. On the other hand, risks taken on the balance sheet can increase because long positions would be bought T+1 and sold T+2. That could cause severe risks for settlement failures.

CCP: Where choice of settlement is offered by the CCP, e.g. between CBF and SIX SIS for physical deliveries resulting from Eurex options and futures, it is crucial that the settlement cycle is consistent. Eurex Clearing might have to consider discontinuation of the settlement of choice, if regulation for the (maximum permitted) settlement cycle deviates and/or technical support for the shorter cycle is not provided by both involved CSDs.

CSD: We do not see any issues on the CSD level. In case of multi-listed assets, the move of assets to be settled within the same time frame might impact our custody position.

<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>

In order to avoid additional complexity, it will be necessary to ensure a harmonized approach throughout the EU and an orderly migration (even by asset type), preventing that some markets settle T+1 and others T+2 for the same ISIN/asset type.

There are two main aspects for which DBG believes industry alignment would be required:

- First any potential changes to T2S schedules should be discussed and aligned within the industry.
- The second aspect is that migrating at different points in times should be avoided, i.e. UK moving before the EU, as this would result in additional complexity arising out of non-harmonised settlement cycles.

<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, DBG sees benefits in harmonised settlement cycles with other non-EU jurisdictions such as having consistent processing and cut-off times – as today, consistent processing of settlement and corporate action processing. Diverging settlement cycles would increase the complexity of post-trading processes, especially for cross-border transactions, and also increase operational issues.

<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>

There is the chance that the transition to a shorter settlement cycle T+1 will change the mind set of market participants who still have manual processes in place. A transition to T+1 would enforce the pressure to automate post-trade processes which in the end could result in an even higher settlement efficiency than with T+2 and CSDR settlement discipline regime as of today. However, it is worth indicating that this could also be achieved at the high cost of initial technology implementation supported by enhanced operational coverage.

<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>

It will certainly increase the pressure to adopt T+1 in order to avoid misalignments between settlement cycles. Having different settlement cycles in Europe would lead to higher levels of complexities. Eventually the pressure will increase if market participants confirm that T+1 will work, and benefits materialize.

<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>

DBG believes market participants and market infrastructures would, after some time, adapt to a two-tier system, differentiating between the different settlement cycles. This has already happened in the past when EU was T+2 and US T+3.

From clearing perspective for securities clearing different settlement cycles can be handled, if no cross-border settlement is involved. Given the disadvantages outlined in our response to Q21 a harmonized settlement cycle is favourable in the medium/long run.

<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>

No comments.

<ESMA\_QUESTION\_SETT\_27>