

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:

- a) respond to the question stated;
- b) indicate the specific question to which the comment relates;
- c) contain a clear rationale; and
- d) 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	Association of the Luxembourg Fund Industry (ALFI)
Activity	Associations, professional bodies, industry representatives
Are you representing an association?	<input checked="" type="checkbox"/>
Country / Region	Luxembourg

2 Questions

a) : Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please:

- a) 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.
- b) 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>

For this question, we cover the impacts and corresponding operational remedies. In case operational remedies do not suffice, we will develop targeted legislative forbearance request.

I. Trading on secondary markets

****Impacts - for US T+1***

Pressure will be added along the value chain: from execution, matching/affirmation and settlement. Additional attention and focus will be brought on the impacted markets, leveraging of US based resources to resolve issues in a timely manner.

T+1 cut-offs will be hardly met when the custodian banks are located in Asia, unless they provide a full follow-the-sun process 24/24 - 5/7

*** Impacts - for EU T+1**

We don't anticipate any significant impact to our trade processing in the event of a shift to T+1 in the EU. Exceptions-based trade processing structure and "follow-the-sun" operational model has generally allowed us to achieve high STP rates.

*** Remedies - for US T+1**

- The asset manager should check how its custodian is able to settle the financial instruments at T+1.
- Implement the DTCC affirmation/confirmation process recommended by local market infrastructure.
- Ensure that execution information is sent without delay to custodians i.e. prior to their cut-off times.
- Ensure staff responsible for the settlements is able to operate within the US time zone.
- Agree on different settlement cycle with trading counterparties.

II. Securities lending

However, we do foresee market barriers in the securities lending space, where the infrastructure is likely behind other spaces. The prevalent use of less efficient communication methods (like emails) indicates a lack of automation which is inadequate for the quick turnaround required in T+1 settlements.

*** Impacts (on the securities lent recall process)**

- a. Borrowers of securities (lent by Asset Managers as part of EPM techniques) will have to comply with a shortened period of recall.
- b. It may potentially impact the pricing of the lending agreement, and the operational cost with the securities lending agent (at the detriment of the Asset Manager).
- c. The induced complexity might put pressure on the lending agent¹ processes, which may potentially pass on to lenders the "increased operational costs".
- d. Collateral re-use will have to comply with the shortened period.

*** Remedies:**

- Ensure the lending agent receive and process recall instructions before their cut-off time.
- Closely monitor the lending agent operational efficiency, including collateral management, and potential issues with certain borrowers.

- Ensure that regulatory obligations (e.g. SFTR, EMIR) are still correctly fulfilled in case of process changes.

III. Corporate actions

*** Impacts:**

The window between ex-date (date from which a security trades without entitlements) and record date (last eligibility date to entitlements) will be shortened.

*** Remedies:**

Ensure custodians have adjusted their processes with regard to the new reference dates for corporate actions.

IV. Primary market transactions

*** Impacts:**

On subscriptions, the liquidity mismatch created by timing differences may create a need for a specific funding (e.g. cash or borrowings). Some funds that typically settle at T+3 may face a shortage of cash if they have to invest in US Securities at T+1 .

On redemptions, the liquidity mismatch may create a need for at least one more day of cash management to ensure diversification (from current T+2, between T+1 and T+3)

Overall, there is a confirmed risk of breaches of investment restrictions within the meaning of the UCITS framework as regards Cash, Time Deposits, Borrowings, with a mechanical impact on leverage increase.

*** Remedies:**

On subscriptions: Adjust the settlement processes to align investment and subscription dates, could be envisaged i) at portfolio level, and/or ii) at investor level:

i) Portfolio level

- a. Agree a bespoke settlement cycle with the concerned broker
- b. Maintain a “cash buffer” on the US accounts

ii) At investor level

- a. Anti-dilution mechanisms such as swing pricing could be leveraged to ensure that existing investors do not bear costs specifically generated by the liquidity mismatch from new entrants.
- b. Should the asset manager decide to bring the fund settlement forward (i.e. to T+1 or T+2), this implies to check:
 - whether a prospectus modification is necessary, as well as any other marketing documents, and check any possible impact on reporting and on costs for investors;
 - the impact on distributor(s) and fund clients, for example can they easily accommodate that sub-funds within an umbrella may have different settlement cycles, are they able to transfer funds within the reduced settlement cycle, etc;
 - the impact on the workflow with distributors, for example the impact on contract notes timing.
 - Potential reduced ability to switch between funds.
- c. Bring the investor cut-off forward (e.g. to T-1):
 - Allowing a reasonable time for the administrator to clear exceptions prior estimated cashflows deliveries to the Asset Manager;
 - Allowing more time to the asset manager to reviews its projected positions (for example settled cash vs pending cash).

On redemptions and as regards the overall risk of investment limits breaches specifically due to T+1 impacts

- i. Upgrade monitoring of cash position³
- ii. Use of cash forecast to foresee investments

** Request for forbearance from EU policy makers:*

According to a survey performed by ALFI, only 1 of the asset managers consulted has planned to bring forward the settlement date of the fund from T+3 to T+2 or even T+1. Hence the vast majority is still evaluating what actions to take to ensure they minimise impact to underlying clients and the funds that they manage.

In Luxembourg, this scenario implies an active breach of the cash/borrowing limits set by the UCITS Directive, pursuant to the CSSF FAQ on the Circular 02/77. An active breach does not lead only to a reporting obligation to the NCA. In Luxembourg, it also potentially triggers a compensation mechanism to the investor in accordance with the provisions of the Circular 02/77.

In other member states of the EU: this scenario implies a passive breach.

Against this background, we recommend that EU policy makers grant a forbearance as regards the likely breaches of the cash/borrowing limits pursuant to the UCITS Directive, specifically due to the T+1 impacts. The asset management industry is undergoing such impacts with respect to the imposed moved to T+1.

This forbearance would target only the portion of EU domiciled investment funds that have a significant exposure on US securities. These breaches of the current UCITS Directive cash/borrowing limits would be mainly due to the combination of 3 factors: 1. High % of exposure of the fund on US securities, 2. Medium/Small size of the fund, 3. Large size of the order (subscription/redemption).

EFAMA Factbook 2023 indicates that UCITS equity funds have a 42% exposure on US equities, and UCITS Bond funds have a 28% exposure on US bonds (see in annex V.). Therefore, not all EU domiciled investments funds would benefit from this exemption.

The forbearance would be temporary and would naturally stop when asset managers have established the cost-efficient mechanisms to manage the liquidity mismatch.

Please also refer in annex to the details mentioned in sections I. Q1 3-7.

This forbearance request is the result of a lengthy work that ALFI has performed to define business/operational remedies with regards to the identified impacts. The forbearance request is aimed at dealing with cases where no possible business remedy was sufficient.

<ESMA_QUESTION_SETT_1>

- b) : 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>

Transactions in foreign currencies (FX)

However, we do foresee market barriers in the FX funding space. The current cut-off times in the Continuous Linked Settlement (CLS) system may not align well with a T+1 settlement cycle. The shift to T+1 would pose significant challenges for transactions involving different

time zones. International time zone differences will impact the feasibility of same-day matching processes for investors outside Europe, reducing the time available to communicate and resolve any breaks or exceptions. This issue is particularly significant for cross-currency transactions with a FX component.

** Impacts:*

- a. Funding need in FX, to settle at T+1 in FX
- b. Risk of overdraft if FX remains bought on the spot market based on a T+2 delivery.
- c. cash/treasury management processes will have at least one day less to transform the available cash into FX to buy securities on American markets.
- d. Risk of over/under hedging on UCITS hedged share class

** Remedies:*

- Funding to be performed with or without using the custodian.
- Adjust all cash management (including FX) processes, including strict respect of custodian & CLS cut-off times.
- Ensure staff responsible for cash management, including FX booking, is able to operate within the US time zone.
- The portfolio managers need to carefully monitor their available cash positions, including the ability for same day T+0 FX.
- Ensure that regulatory obligations (e.g. EMIR) are still correctly fulfilled in case of a change in the FX trading, booking or settlement.

<ESMA_QUESTION_SETT_2>

- c) : 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>

We have a fairly high level of STP in our operational processes. In average, our matching ratio, across markets and vanilla instruments is higher than 95%. The industry challenge we see is to have CP/CDs matched automatically and possibly no longer using some brokers who are currently not matching trades electronically.

The vast majority of settlement fails is due to the counterparty being short (on T+2). It is expected that under T+1, the settlement fails will increase, and it may take months/years for all market players to come back to the current settlement efficiency.

<ESMA_QUESTION_SETT_3>

d) : 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>

1. We do not see any potential conflict Conflicts between T+1 and CSDR. Indeed, T+1 and CSDR are 2 disconnected initiatives, having no adherences.
2. During the transition phase (US T+1 / EU T+2), some trading arbitrages could occur on dual traded instruments (US and EU) leading to market manipulation (short selling in the EU at T+1 but buying at US T+1) in the meaning of MAR.
3. Hopefully existing regulations should not further shorten their reporting timeframes.

<ESMA_QUESTION_SETT_4>

e) : 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>

We expect both operational and technical increased costs. As regards the latter they should be specifically considered for the T+0 stage; hence they will be developed in this section.

We do not anticipate any direct benefits for the asset management industry.

- I. T+1 settlement

1. Cost of trading
 - a. The usage of new market infrastructures with the affirmation/confirmation/allocation process will increase the transaction costs (see the details of this process in annex I. Q1-1).
 - b. Securities lending transactions will be less favourable for asset managers with a one day recall period only versus two days currently.
 - c. Higher operational risk should be considered in light of the reduction of the available timeline.
 - d. Potential cost to relocate staff in the America have to be considered to process the transactions in due time on the America's time zone, combined with a loss of jobs in the EU.

2. Cost of funding
 - a. On primary market transactions, the liquidity mismatch created by the gap between the funding leg now at T+1 and the settlement/funding leg typically at T+3 for the Luxembourg market (see the illustration of this gap in annex I. Q1-2). This gap will be bridged by extra cash or additional overdrafts, more costly in light of the higher interest rate environment.
 - b. Funding in FX will be performed at a higher cost. Given the FX spot market is settling at T+2, buffers are envisaged to have enough foreign currencies to settle at T+1. Moreover, given the early positioning of the CLS cut-off time, a substantial portion of the end-of day transactions might have to be settled outside CLS, hence OTC with a higher counterparty risk.

3. Cost to repaper
Investment funds documentation/prospectuses will have to be updated to reflect the change of policy with a settlement/funding date brought forward.

4. Cost to isolate the T+1 effect on the higher cost of funding.
 - a. Identify the breaches of the UCITSD cash/borrowing limits specifically due to T+1.
 - b. Assess the increase in trading and funding in order to incorporate it into the swing factors. Existing investors should not bear these extra T+1 costs which should be charged to the entrants in the new T+1 regime.

II. T+0 settlement

1. Main challenges in T+0 settlement

- a) Real-time T+0 likely necessitates advanced technologies such as blockchain, which present substantial challenges in terms of infrastructure improvements and significant costs that are not easily quantifiable without adequate market-wide adoption.
- b) The DVP T+0 model involves the settlement of trades on the same day as the transaction but follows the conventional processes used in current settlement systems, albeit within a much shorter timeframe. Unlike real-time T+0, DVP T+0 doesn't necessarily require a complete transformation of the existing settlement infrastructure but rather an acceleration and optimization of current processes. Transitioning to a DVP T+0 settlement cycle, even though it leverages existing systems, would entail an increased workload due to the condensed time frame for processing trades. To efficiently manage this increased volume of transactions and the likelihood of more frequent exceptions, there would be a need for a larger workforce dedicated to handling these exceptions.

2. Cost dependent on speed and scope of implementation

- a) From a trading perspective, the overall magnitude of associated costs is acceptable.
- b) The different asset classes, instruments and trade-related aspects could be supported by the trading venue, from a market operator's perspective.
- c) Yet it depends and can increase to substantial amount if:
 - i. The implementation timeline is very short and is needed too fast
 - ii. Concerns a large scope of securities simultaneously.
- d) This cost dependency on time and scope is stemming from the fact that if the streamlining of all process, including procedures review and solutions migration, needs to be done under a short time, the implementation will need to rely on extra resources that are inherently costlier.

3. T+0 is not T+1

- a) Some may assume that moving from T+2 to T+0 is closely related to moving from T+2 to T+1 calling from economies of scale in the implementation.
- b) However, from a technical and technological point of view, the two situations fundamentally diverge.
- c) Accordingly, in term of implementation costs, a phased approach with an initial move from T+2 to T+1 and later on to T+0 would be substantially more cost efficient than a direct implementation from T+2 to T+0.
- d) Indeed, additional challenges would need to be addressed in moving to T+0, with specific focus on processes for cancelation of order, time zone management consideration in a context of global trading and potential liquidity bottlenecking (potentially exacerbated through the use of LMTs).

- e) In addition, in term of available technologies, T+1 could be achieved through incremental adjustments and parameterization to the already existing solutions while T+0 would require more of a technological disruption.
4. Coordination / technology costs
- a) From a technological perspective, the ensuring interoperability is essential.
 - b) While interoperability is ensured for integrated models, other models relying on independent stakeholders create dependency.
 - c) In order to ensure interoperability this will either take time of induce significant costs if carried out expeditiously.
 - d) This again calls for a consideration on the timeline of implementation especially for non-fully integrated models.
 - e) Indeed, in case of reliance on counterparty, this involve an adaptation of the technological ecosystem, which takes time, or rely on facilitator (e.g. payment provider) that generates additional costs.
 - f) Repeatedly, since T+1 does not require an entire technology revolution the coordination with stakeholder would be more achievable.
 - g) Eventually and considering the various blocks of the chain would not necessarily all be inhouse, incremental migration is all the more important. Specific considerations to cyber security concerns and related cost should not be omitted.
5. Definition of costs
- a) It is important when costs are considered to include all costs and not limiting to financial costs.
 - b) Externalities and induced risks are non-financial costs associated with technological development.
 - c) As an example, enhanced cyber risk is an inherent part of the technological development, that needs proper addressing.
 - d) This consideration exists both for a move to T+1 or T+0, yet with greater perceived impact in the case of T+0.
6. Focus on implementation costs at this stage
- a) At this stage, market participants are focusing on the implementation costs but have a limited view the ongoing costs.
7. Technology agnostic view
- a) The ESMA call for evidence suggest explicitly that the technological development relates to the reliance on the distributed ledger technology. It is important to remind ESMA that this is one technology amongst others that can support a settlement model transition and that the technology agnostic view should be privileged.

- b) To this respect, the cost related to interoperability of systems should not be overlooked.

<ESMA_QUESTION_SETT_5>

- f) : 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>

This is hard to estimate, currently we have approximately 10% of trades unmatched on T0 in the US market. If there is no increased level of STP in the matching process (i.e. electronic matching for CPs/CDs, etc...) the T+0 settlement cycle will be adding more burden and complexity to monitor all the exceptions.

Increase in settlement fails:

We believe there would be an increase in settlement fails in the EU markets with a shift to T+1. However, it's difficult to quantify this. We think the U.S. market, transitioning to T+1 settlement with its singular CSD, will serve as a notable indicator, especially in contrast to the EU's market which operates with multiple CSDs.

<ESMA_QUESTION_SETT_6>

- g) : 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 mentioned above, we would expect more STP/automated process to support the T+0 settlement cycle. Brokers who do not use electronic matching platforms should not be allowed to do business in such short settlement cycle markets.

<ESMA_QUESTION_SETT_7>

- h) : 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>

We have mentioned all costs in the response to Q5.

<ESMA_QUESTION_SETT_8>

- i) : 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>

Official benefits are formulated from the perspective of the sell-side with less capital/collateral requirements mainly.

From the perspective of the buy-side, operationally speaking, we do not see direct benefits at this stage; to the contrary, more burden.

<ESMA_QUESTION_SETT_9>

- j) :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>

We are not in a position to assess this aspect yet.

<ESMA_QUESTION_SETT_10>

k) : 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>

Seeing benefits at this stage is a bit too soon. The T+0 environment will deliver benefits only if we can take advantage of fully STP processes/blockchain/tokenization.

I. Factors to reach benefits

- a) Assuming that all FMPS would be moving to T+1 settlement in a robust and effective way, the known list of benefits would be in particular:
- b) the streamlining of the process
- c) the adoption of new models (e.g. 'follow the sun' trading model)
- d) the reduction of the manual processes and corresponding operational costs
- e) the efficiency gains
- f) a global alignment
- h) The most critical requirement is that all market participants would move to the same cycle (e.g. T+1) and the same "technicality" (i.e. technology alignment of all players), allowing to reap the benefit above mentioned and leverage on the technologies.
- i) These remain strong assumptions but they are prerequisite for the existence of the benefits associated with the shortening of the settlement cycle.

II. Competitiveness

- a) One of the major benefits of the shortening settlement cycle is to maintain a competitive positioning (applicable to both for T+1 and T+0).
- b) Accordingly, an alignment of global standard is required from a settlement and technological perspective to position the EU global competitiveness.
- c) A laggard positioning would be very harmful for the EU in this sphere.
- d) In this context, the need of a coherent and aligned transition with a continuous and common momentum has been highlighted by past experience (e.g. buy-in regime implementation attempt).

III. Not the same benefits for all

- a) Past experiences have highlighted that the benefits of such transition are firm and business model specific.
- b) As a matter of illustration, notable in the context of transfer agency, it has been observed that the advantages of follow the sun model were only available to sufficiently large players acting globally. Economies of scale is a leverage that is highly dependent on the players' size.

IV. Outreach as a benefit

- a) It is important to consider the access of new participants to financial market.
- b) Some investors have yet a limited appetite for investing in investment funds through the traditional financial markets due to their preferences for decentralised and digital interface and instant trading. It is observed they would tend to invest in direct line securities through digital investment platforms.
- c) This among other refers to most recent cohort of investors favouring features that would be permissible by shorter settlement time. Hence reducing the settlement cycle for investing in investment funds would allow for catching these potential investors.
- d) A key indirect benefit would be to obtain a larger outreach and opening access.

V. Interoperability

EU players are currently able to deliver securities at T+0 through DLT, but the combination with cash is not already operating, as most DLT platform use their own currency on the cash leg.

<ESMA_QUESTION_SETT_11>

- l) : 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>

As regards T+1, the gap between the investment date at T+1 and the settlement/funding date typically at T+3 creates a liquidity mismatch that will need extra cash or extra borrowings to be bridged. These borrowings will be all the more burdensome to bear in a higher interest rate environment.

<ESMA_QUESTION_SETT_12>

- m) : What would be the benefits for retail clients?**

<ESMA_QUESTION_SETT_13>

From an asset management perspective retail investors subscribers as part of any other new investor in a fund exposed to US securities will have to bear the extra cost specifically due to T+1. There are no benefits for retail clients.

<ESMA_QUESTION_SETT_13>

- n) : 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>

In light of the costs detailed in the response to Q5, these costs outweigh by far the non-material benefits.

<ESMA_QUESTION_SETT_14>

- o) : 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>

After the milestone of the May 2024 US go-live is met, there will be a transition phase before the EU potentially goes live. This transition phase should incorporate the following tasks:

- assessment of the lessons learnt from the US go-live
- check the fund's concerned custodian can actually settle at T+1
- potentially align the funding leg (currently at T+3) with the investment leg (at T+1)

Please refer to the timeline in annex III-Q15.

<ESMA_QUESTION_SETT_15>

- p) : 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>

- I. Transition phase
In light of the above described works, we think the transition phase from US T+1 to EU T+1 should last at least 4 years (see timeline illustration in annex III. Q15).

- II. Speed of implementation
 - a) Although some players would be ready to move relatively fast, it is key to remind that implementation costs and risks are highly dependent on the speed of implementation.
 - b) Sufficient time should be left for testing.
 - c) For instance, the technological alignment across stakeholder requires thorough testing and cannot be expedited without significant costs or risks.
 - d) Additionally, the move should take all players on board as shortened settlement cycles are highly dependent on all actors of the ecosystem being aligned technologically and process-wise.

- III. T+1 or T+0
 - a) As clarified above, there is a substantial difference in the nature of the technical transition regarding T+1 and T+0.
 - b) Accordingly, more time would be needed for a T+0 switch compared to T+1, as it would undoubtedly require a more complete technological revamping.

<ESMA_QUESTION_SETT_16>

q) : 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>

No, CSDR in a shorter settlement cycle will bring more chaos and increased level of resources to support all the issues to resolve

<ESMA_QUESTION_SETT_17>

- r) : 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>

We do not recommend to follow this route, as it will further complexify the cash management process and investments decisions.

<ESMA_QUESTION_SETT_18>

- s) : 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>

Asset managers already settle money market funds at T+0, and some ETFs at T+1. Change the settlement cycle on non-institutional/ retail mutual funds will require more careful consideration to ensure that acceleration of settlement does not cause costs or risks on clients, that could be been avoided otherwise.

<ESMA_QUESTION_SETT_19>

- t) : 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>

To the extent possible, primary market transactions should remain out of the scope of the CSDR settlement discipline regime (see also annex III. Q17-20).

<ESMA_QUESTION_SETT_20>

u) : 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>

US funds having an exposure to EU securities will have to wait until T+2 to receive their investments (see also annex III Q21).

<ESMA_QUESTION_SETT_21>

v) : 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>

Moreover, given the current early positioning of the CLS cut-off time, a substantial portion of the end-of day transactions would be settled outside CLS, hence OTC with a higher counterparty risk. Against this background, we recommend that the daily CLS cut-off is postponed by 2 hours.

<ESMA_QUESTION_SETT_22>

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

<ESMA_QUESTION_SETT_23>

Potential benefits may be assessed with the UK. There would be benefits with the UK were moving to T+1 simultaneously with the EU.

<ESMA_QUESTION_SETT_23>

- x) : 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>

A reduction of the settlement cycle would probably have a limited effect on large players that have the resources to minimize impacts, and probably harm negatively smaller players in terms of their “cost of doing business”.

<ESMA_QUESTION_SETT_24>

- y) : 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>

Agility can only be a facilitator.

<ESMA_QUESTION_SETT_25>

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

<ESMA_QUESTION_SETT_26>

We do not think that introducing such flexibility would help decreasing the complexity of the settlement landscape.

<ESMA_QUESTION_SETT_26>

aa) : 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>

1. On the longer run, Net winners of the T+1 move will be the brokers who will decrease their capital requirements. Asset managers will be part of the net losers, as the T+1 initiative does not generate direct benefits for them.

2. There are opportunities to further harmonise the EU market infrastructures.

- a. Tackle remaining market fragmentation, in line with the barriers described in the EPTF Report
- b. Harmonise settlement practices, e.g. the transfer agent model:
 - i. Integrated with the CSD (accelerates the treatment)
 - ii. Separated from the CSD (facilitates the AML controls)

<ESMA_QUESTION_SETT_27>