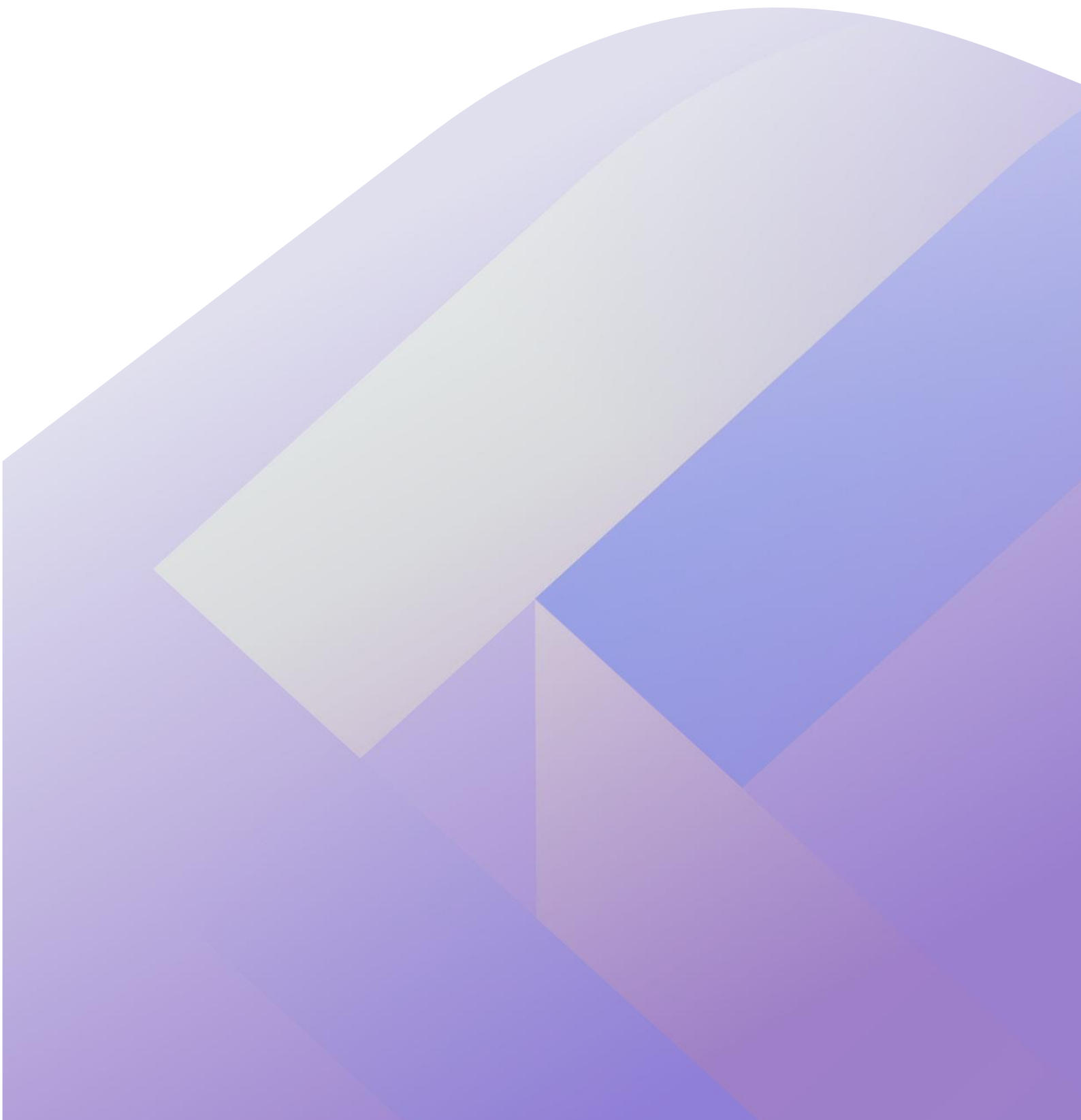


# Reply form

**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	Bundesverband der Wertpapierfirmen (bwf)
Activity	Associations, professional bodies, industry representatives
Are you representing an association?	<input checked="" type="checkbox"/>
Country / Region	Germany

## 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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

- (i) The whole process of pre-matching would become considerably more difficult, if not impossible.
- (ii) In particular, the settlement of ETFs and mutual funds would become extremely difficult, if not impossible in a T+1 environment. For instance, an ETF creation with shares from the APAC

region will cause delays due to the time difference between EMEA and APAC. On the mutual fund side the different valuation dates between the markets and the issuers are the main concern. Realignments between NAFTA and EMEA markets most likely will not be able to be settled in time in a T+1 environment without substantial adjustments to the overall trading and settlement landscape for this asset-class.

Furthermore, for the settlement of stock exchange transactions in mutual funds it is paramount to keep T+4 in order to keep them in line with primary market trading via the investment management company (KAG). In trading with the KAG the settlement is currently T+2, sometimes T+4 or T+5.

However, the described problem is a particularity of this asset-class and exists within the T+2 environment already and simply needs to be taken into account as an exemption if T+1 should become the general rule.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

We don't see an increase in hedging and FX transactions.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Reported current STP rates by bwf members are around 95%. Exchange traded transactions are often fully STP, whereas the STP rate for OTC trades are lower but still can reach around 90%.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

On the technical side adjustments would be necessary to be able to settle T+1. Since bwf members are not self-clearing technical adjustments for the settlement process would have to be made in accordance with the requirements set by their clearing agents.

On the regulatory reporting side we don't see considerable problems since transaction reporting is already required on T+1 today.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Back- and Middle-Office systems and processes will need to be adjusted (e.g. by new software releases) and some need might need to be supplemented or replaced - for example with respect to FX integration. Additional HR costs (one off and on an ongoing basis) are likely to occur in order, e.g. to cover the extended daily operating hours.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

By bwf members' estimates market fails could increase in total by 30-40% in the short term, medium 25% and long term 10-15% approximately.

Moving to T+0 does not seem to be a realistic option for the time being and for the near future, in particular, if the still fragmented settlement and CSD landscape within the Union is taken into account.

However, remaining at T+2 does not seem to be a desirable option either, since the fail rate for cross border transactions with the US as result of the settlement-cycle mismatch would inevitably increase. This problem woul, inter alia, affect in particular EU market makers in US securities, which would not be able to deliver the shares for their US trades on time.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes, bwf members expect that settlement fails would increase in the short and medium term. Long term effects would be most likely less severe and manageable due to higher automation rates and adjustments.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Educated guess by bwf members suggests that the manually workload would increase by around 10% resulting from the implementation of T+1. There might be a requirement to hire new qualified staff which might be difficult and costly to accomplish since qualified Middle- and Back-Office personnel is already in high demand and difficult to find.

As already mentioned above, the settlement of ETFs and mutual funds will be in particular challenging and unrealistic to be moved to T+1. The problem already was raised within the discussion regarding the CSDR settlement-discipline enforcement regime and certainly would need to be revisited in the course of discussing and designing a workable environment for a transition to T+1 as a general rule. As stated above, an appropriate exemption for ETFs and mutual funds would be needed because on-exchange/secondary market in these instruments



otherwise would be de facto rendered impossible, with the attractiveness of EU financial markets and investors' choice being reduced accordingly.

Another specific aspect is the CSDR penalties charged on failed settlements. In the past years, when the ECB deposit rate was negative anyone with a positive cash balance was penalized. The CSDR penalties solved the problem by compensating the buyer on the fails. Now with the refinancing rate around 4.5% and above the original problem currently is neutralized since a positive cash-balance is beneficial (since it generates additional interest-based income). However, this situation does not contribute to market efficiency.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes we agree with the mentioned benefits such as reduction in counterparty- and collateral-risk, higher automation and liquidity.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Educated guess among bwf member firms suggests estimated expected savings of around 20-40% for collateral requirements for both, cleared and non-cleared, transactions.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Educated guess among bwf member firms suggests estimated benefits resulting from more automated processes in the range of 10-15% in the long term.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

bwf member firms clearly expect a positive liquidity effect in the long term driven by various factors such as reduced counterparty risk, lower spreads and a more effective monitoring due to less open trades.

<ESMA\_QUESTION\_SETT\_12>

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

<ESMA\_QUESTION\_SETT\_13>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Retails clients would possibly benefit from a faster booking-cycle and timely money movement would be possible. Also corporate actions would possibly be faster to process. However many retail clients might not even recognise the difference since they de facto (also often without even recognizing) live in a contractual-settlement-base environment.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Only in the long term the benefits would pay off for T+1. In the short and medium term the costs would exceed the benefits. However, the benefits of less collateral requirements would kick in also in the short term.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

i. Earliest in Q2 2024 to start coordinating discussions among clearing agents/custodians and their customers to address the open issues for a switch to T+1

ii. Testing starting in Q3 2024

iii. Technical adjustment of processes and automation where possible

iv. Earliest possible switch to T+1 in Q4 2025

However, the most optimistic projected timeframe presented above would require at least a foreseeable and sufficiently detailed legal framework which does not exist yet.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

This would depend on the speed of adjustment of the overall framework and institutions involved (settlement agents/custodians, CSDs, CCPs, ECB, national Centralbanks etc.) in creating the condition for a move to T+1.

As already mentioned above, we do not think that moving to T+0 is a viable option for the EU in the foreseeable future.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes, we see the CSDR scope adequate for T+1 but not for T+0.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes different settlement cycles for different instruments are not only feasible but in some cases desirable and necessary (please see the discussion on the settlement ETFs and mutual funds in our previous answers).

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

We think that different migration times would be feasible. The answer to the question whether such a differentiation would be desirable depends on various technical and political factors.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

We don't think that there is need for more regulation as of now. In the contrary, in justified cases exceptions should remain possible (and the need for exemptions might even increase in a compressed T+1 cycle).

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Educated guess among bwf members clearly suggests that settlement fails would increase if EU markets would stay at T+2 (as a result of increasing cross border settlement-cycle mismatches). Cash backlog and liquidity would be impacted - meaning that more funds would be needed in order to facilitate on time settlement.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

In general, the US market would remain more attractive from an overall perspective since the the market cap to gdp is higher, the ivnestor base (liquidity, market depth) is completely different and the fragmented EU CSD landscape is more affected by the move to T+1 compared to the US market. Therefore, a real unified European CSD (which is realistically not in sight) would have the potential to solve many problems.

<ESMA\_QUESTION\_SETT\_22>

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

<ESMA\_QUESTION\_SETT\_23>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes there definitely would be benefits such as less fails and less costs for margins , more liquidity and less need to hold cash in advance. In general, cross border transactions would be easier to process when the settlement cycles are homogeneous (even though, challenges remaining from different time-zones and currency conversion would obviously remain).

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

If EU markets would switch to T+1, the EU would benefit from a harmonisation/keeping on track with the largest securities market - the US. This would positively affect the attractiveness of EU markets and and their international/global competitiveness.

<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>



*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

Yes, broad harmonized move to T+1 would be desirable and significantly reduce the implementation challenges. The switch for EU markets would be easier and more efficient.

<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>

*bwf answers follow/adopt to a high extend the assessments and analysis by our member firm Baader Bank AG. However, in the course of ESMA's evaluation of the CfE responses, they should be weighted as an individual contribution.*

As mentioned above, we are of the opinion that different settlement cycles would be technologically feasible. However, we strongly support a coordinated and harmonized approach in the move to T+1.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_27>