

ESMA



European Securities
and Markets Authority



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Shortening the Settlement Cycle in the EU – Update for AMI-SeCo

AMI-SeCo, 25 June 2024

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ESMA's mandate



- (a) Assessment of the appropriateness of shortening the settlement cycle
- (b) Assessment of the costs and benefits
- (c) Detailed outline of how to move to a shorter settlement cycle
- (d) Impact of international developments on EU market participants



Call for Evidence in October 2023
Feedback Statement in March 2024
Final report in January 2025

Key takeaways from the feedback received

- 81 replies received to the Call for Evidence
- Limited quantitative evidence
- Preference for T+1 over T+0 and consensus on “Big bang” approach
- Strong call for alignment in Europe (EU-UK-CH)

ESMA has continued its work focusing on:

- Gathering further data to assess costs and benefits of shorter settlement cycles
- Identifying required steps to define the roadmap for the EU to reach faster and more efficient settlement
- Engaging with stakeholders (authorities, industry, retail investor representatives) in the EU and beyond
- Learning from international experience on T+1

Costs and benefits of a shorter settlement cycle

Costs

- IT upgrades
- Human resources
- Need for further harmonisation of industry standards
- Potential increase of settlement fails (and cash penalties)

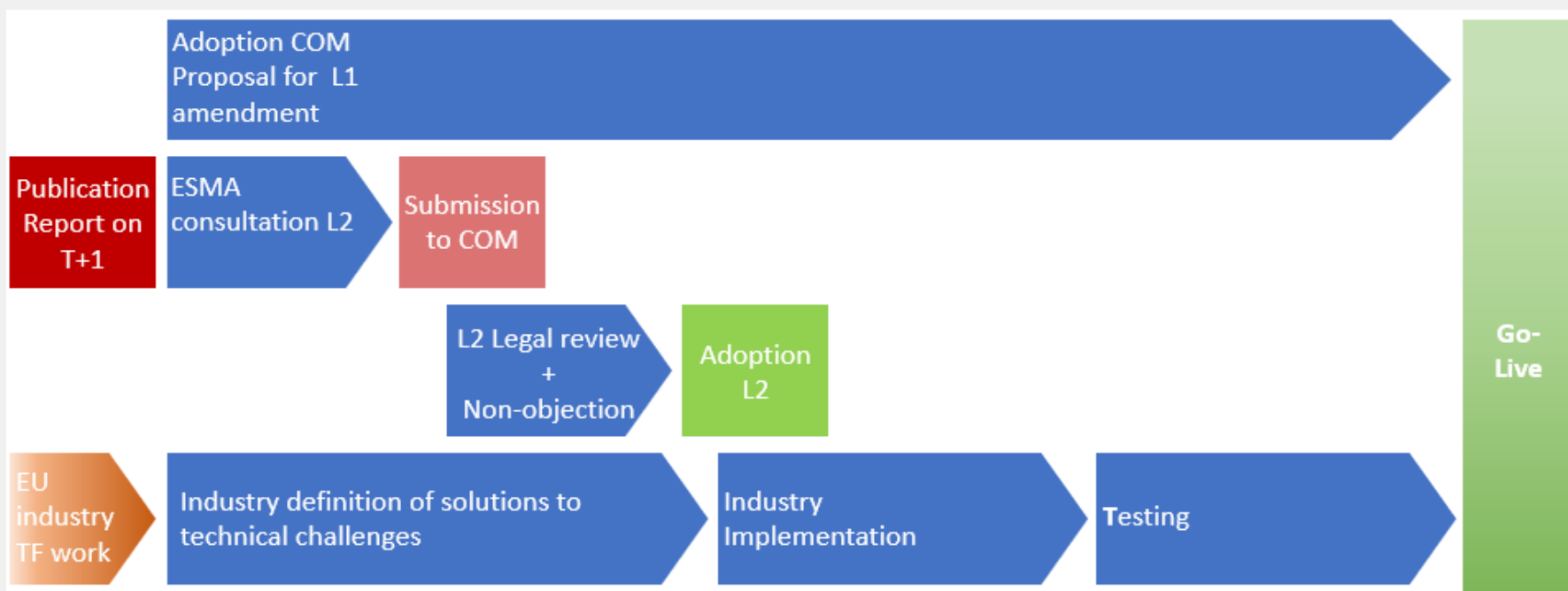
Benefits

- Eliminating costs created by misalignment with North America (including for funds and for dual listed securities)
- Higher innovation and efficiency
- Competitiveness of EU markets
- Counterparty risk reduction, hence margin reduction

- Not all costs and benefits are easy to quantify
- Potential uneven distribution of costs and benefits in the short term, but longer-term benefits for EU markets as a whole

Potential roadmap to T+1

- Complex process involving legislative and regulatory changes, as well as adaptations of market practices
- Need to define adequate governance to tackle EU specific settlement landscape
- Importance of regional coordination in Europe (EU-CH-UK)



International experience

- Clear global trend towards shorter settlement cycles
- US, Canada, Mexico, Jamaica and Argentina moved to T+1 on 27 & 28 May 2024
 - Close monitoring by ESMA to learn lessons with initial positive feedback overall (authorities and industry)
 - No major impact in the immediate term, high rate of affirmation on T0 (90%+), low rate of fails (even lower than before in the first days following the shift – to be monitored in the longer run)
 - First benefits: *decrease in NSCC Clearing Fund by USD3,7bn (29% from past quarter average)*
 - Resource intensive for all entities
- Consultations with stakeholders in APAC
- Increasing work on move to T+1 for global alignment (ongoing discussions in Australia, Japan, ...)

Recent developments in the EU - corporate events

- Misaligned settlement cycles in the US and in the EU result in different key dates for corporate events of multi-listed securities
- The magnitude of the issue had not been flagged in the months leading to the shift in the US
- Regrettable lack of a harmonised solution by market players in different jurisdictions in the EU

Next steps

- ESMA's public hearing on shorter settlement cycle for the EU (10 July 2024)
- Finalisation of ESMA's assessment
- ESMA to publish its final report ahead of legislative deadline (17 January 2025)

Thank you!