T+1 AND OTHER POST-TRADING PRIORITIES

JULIAN REISCHLE

Director General Payments and Settlement Systems – Deutsche Bundesbank

Rome wasn't built in a day: the same goes for frictionless European post-trading

We all do very much appreciate the significant improvements in post-trading implemented over the past decades. However, further progress towards completing the CMU still needs to be made.

Ever since the initial impulse to begin the work of removing significant cross-border post-trading barriers almost two decades ago, the post-trade community has gone to considerable lengths to transform the formerly highly fragmented landscape in Europe into a much more efficient and almost seamlessly interconnected part of the securities value chain. Notably, the Eurosystem's T2S has achieved progress through the standardisation and harmonisation of various operational cornerstones. As one of the CMU's financial backbones, T2S provides overall frictionless settlement facilities for all European securities transactions. However, unless financial market players have already done so, it is now high time to exploit the full potential of T2S's core design by adapting their behaviour accordingly. Another vital push towards harmonisation – this time for European collateral management – is expected coming soon with the implementation of the "SCoRE standards" in the context of the go-live of the Eurosystem Collateral Management System (ECMS).

Besides this, current practice shows that several operational procedures still lack additional harmonisation in key regulatory areas such as law and taxation. From the stakeholders' point of view, fundamental divergences in those regulatory areas that come under national sovereignty are considered to be problem-prone per se and would thus result in post-trade inefficiencies. Furthermore, it seems to be that the post-trading industry has to put the spotlight on important weak points as well, i. e. ensuring open market access. Ideally it resolves these as soon as possible on the path towards timely CMU fulfilment, thereby improving and strengthening the efficiency and competitiveness of European capital markets.

> However, further progress towards completing the CMU still needs to be made.

Certainly, one of the most prominent of the upcoming challenges is the aim of introducing a shorter settlement cycle in Europe, working towards T+1. From a purely functional perspective, T2S is agnostic vis-à-vis the settlement cycle and a large number of big tickets are already being regularly settled on the very same day. Nevertheless, a concerted effort towards achieving T+1 could shorten the overall settlement cycle. We expect the bulk of the necessary adaptations to take place in the area of pre-settlement. The impact on T2S is believed to be manageable. Ongoing analysis at various levels has mainly focused on assessing the benefits to be reasonably expected, most notably risk reduction resulting in significantly lower margin and collateral requirements and improved capital flow, as well as on the thorough overall evaluation of other relevant impacting factors. From a general perspective, any ambitions that drive European post-trade actors towards even more efficient automated riskless processing, with all the positive effects this will likely have, are highly appreciated. Respective actors should ensure a smooth and rather noiseless transition to the shorter cycle by means of adequate European market readiness preparations. Moreover, they should duly consider – especially with regard to the timeline for such a shift – aligning with other relevant financial markets. What is by no means evident to all stakeholders is that the overall European setup is very different from a fully consolidated landscape like in the US.

Last but not least, many players perceive the emerging new technologies such as DLT or blockchain as some kind of panacea that will cure persistent frictions in the securities value chain as a whole by technically enabling the formerly inconceivable atomic processing of (simultaneous) procedural steps throughout the whole securities value chain (almost) all at once, especially via programmable features. Such ground-breaking innovations by nature harbour the intrinsic potential for a fundamental change in the entire ecosystem and therefore deserve more in-depth consideration.

NATASHA CAZENAVE

Executive Director – European Securities and Markets Authority (ESMA)

Moving to T+1 – 'not if, but when'

A decade ago, CSDR entered into force and set a harmonised securities settlement cycle within the EU at T+2. Since then, financial markets have evolved, driven by societal and technological changes that have prompted some countries around the world to consider shortening their settlement cycles to T+1. In the US, the 'GameStop saga' shed light on the severe risks associated with excessive volatility between trade and settlement, and acted as a catalyst for the industry, under the auspices of the SEC, to move to T+1. On the innovation front, the state of the art in IT has opened up for enhancements in traditional post-trade system architectures, while DLT solutions offer opportunities for improvements across the whole trade and post-trade lifecycle.

In the EU, the discussion on the compression of settlement cycles has recently gained momentum, in particular since ESMA released its feedback statement in March and even more so following the positive shift to T+1 in the US and other jurisdictions at the end of May. Overall, the views expressed in response to ESMA's call for evidence both highlight the substantial benefits that T+1 could bring and the acute challenges to overcome to ensure a smooth transition.

From the EU internal perspective, moving to T+1 would first and foremost deeply change how our financial markets work. All actors along the value chain would have to adapt their processes and showcase efficiency gains to meet tighter deadlines. Shortening the settlement cycle would be conducive to risk reduction in the system, which in turn should lead to lower margin requirements. Such advantages should not be underestimated.

From the international viewpoint, there would also be merit in addressing the misalignment with jurisdictions with which the EU is highly interconnected, especially the US. The complexity, costs and risks that EU stakeholders have to bear as a result of the current one-day delay will become harder to justify. Concerns for issuers seeking funding in the EU and in the US and the difficulties stemming from the misaligned settlement cycles for their corporate events have been raised. Issues for the asset management industry, for instance with regards to ETFs invested in securities in jurisdictions with different settlement cycles have also been mentioned.

Moving to T+1 would not only bring clear benefits for EU financial markets but also serve a broader and shared political purpose: international realignment, enhanced efficiency, reduced risk and lower margin requirements would support EU competitiveness.

Nevertheless, Rome was not built in a day. If not a change to CSDR, shortening the settlement cycle will require clear regulatory guidance to ensure alignment of all market participants. The timeframe for implementation will be of the essence. In this respect, as mentioned by many market participants, agreeing with the UK and Switzerland on a consistent timeline would be desirable. The onus will also be on industry players to cooperate closely with a view to ultimately adjusting market practices. Last but not least, it will be important to establish a robust governance framework that will help overcome the inherent complexity of EU financial markets.

The US have remarkably managed to switch to quicker settlement cycles. Although European capital markets feature different attributes – with notably several currencies, multiple market infrastructures – the smooth transition that happened across the Atlantic is somewhat reassuring. ESMA is committed to continue to duly assess the implications of a shorter settlement cycle for the EU, including by identifying the key factors behind the North American experience so that the Union can draw inspiration from them wherever possible. Its final report that will be submitted to the co-legislators by mid-January 2025 at the latest will also outline the cost-benefit analysis requested under CSDR Refit, as ESMA does its utmost to understand, evaluate and quantify the impact of a potential move to T+1.

Enhanced efficiency, reduced risk and lower margin requirements would support EU competitiveness.

The journey towards more efficient settlement started ten years ago when EU Member States followed diverging cycles. While awaiting the next phase to be officially kicked off, ESMA will continue engaging with the European Commission, relevant third-countries authorities and the market to provide its technical expertise and contribute to developing more attractive EU financial markets.

RICHARD KNOX
Director, Financial Services International – HM Treasury

Our path to T+1: building on the momentum in the UK and Europe

For two hundred years, the London equity market settled on a fortnightly basis. With the rise of electronic trading, settlement times have been progressively shortened. In 2001, the UK moved from T+5 to T+3. In 2014 this was reduced further to T+2. Each of these moves has delivered important benefits: reducing systemic, operational and counterparty risks, reducing liquidity and margin requirements, and delivering quicker access to returns for investors.

There is now significant global momentum towards even faster settlement cycles. The US, along with Canada, Mexico, Argentina and Jamaica, all moved to T+1 settlement on 28th May. India's equity market has been operating on a T+1 basis since early 2023, and since March has offered the option for market participants to use same-day settlement. Other countries such as Chile, Colombia and Peru are also moving to T+1 in 2025.

In the UK, the momentum towards T+1 is also building. The Accelerated Settlement Taskforce, the industry group that the government established in December 2022 to examine the potential for the UK to move to faster securities settlement, reported back in March.

The report highlighted the benefits that T+1 could bring to the UK market – such as improved market resilience, reduced counterparty risk, margin cost savings and a more efficient post-trade ecosystem. But it also noted the challenges that we face in making the move a success, and it will require a concerted effort from the industry, the government and our financial services regulators to address these.

The taskforce, chaired by Charlie Geffen, gave some clear recommendations – that the UK should move to T+1 by the end of 2027, that we should pursue collaboration on this move with other European jurisdictions where possible, and that a successor group of industry experts should determine the detailed operational and technical changes needed for a smooth transition to take place.

In response the government established a 'Technical Group', led by Andrew Douglas, to take forward the next phase of the implementation of T+1 in the UK. This group has been working hard over the past few months to drill down into how we can make the move to T+1 a success in practice. There are workstreams focused on the right scope of a UK move to T+1 and the potential for alignment with other jurisdictions, trading and liquidity issues, operational changes, lessons learned from the recent US transition and finally how the changes need to be implemented, whether through legislation, regulator rules, market standards or other means.

I want to record my thanks to everyone who has given up their time to get involved in this project – it has been impressive to see the industry come together to drive this work forward. This was highlighted at an event the Group hosted in June where the workstreams presented their initial findings, held panel discussions with representatives from different stakeholder groups including the European Commission, and also heard from SEC Chair Gary Gensler about lessons that could be learnt from the US move.

We expect the Group to report to government by the end of this year with recommendations on the next steps for the government, regulators and market participants to take in order to implement T+1 in the UK. This will include key timelines for the necessary technical and operational changes, and for the overall 'go-live' date when the full transition will take place.

Another important driver for T+1 is harmonisation across international markets. This is particularly relevant in the European context given how interconnected the UK, EU and Swiss markets are. While each jurisdiction has their own decision-making process to determine how to proceed, we recognise the importance of cooperating closely with the EU and Switzerland on T+1. This will help us to tackle key issues such as how we manage the transition for exchange-traded funds that are traded on two or more UK, Swiss, or EU exchanges.

Thinking even further ahead, increased use of distributed ledger technology (DLT) is something that could also transform securities settlement - instantaneous settlement of transactions has been regularly cited as a potential benefit of DLT. If industry were to implement this then I am sure that the need for coordination across the sector, both domestically and internationally, will become ever more urgent. What we learn from implementing T+1 will no doubt heavily influence future efforts to deliver even faster settlement and other changes to our post-trade ecosystem.

T+1 is coming, and there is strong momentum behind it in both the UK and Europe. Now we all need to build on this to prepare for a successful transition.

VAL WOTTON
Managing Director and General Manager, DTCC's Institutional Trade Processing (ITP) – The Depository Trust & Clearing Corporation (DTCC)

Proposed path for a successful T+1 transition in Europe

In May, the US was joined by Canada, Mexico, Argentina, and Jamaica in a successful move to T+1. In the US, the move to a shortened settlement cycle has driven reductions in risk and clearing fund requirements as well as greater operational efficiencies. At the same time, trade fail rates have remained stable despite some initial concerns that they might rise sharply.

Across the Atlantic, the UK and the EU are in the early stages of T+1 planning. There are several factors in these jurisdictions that will need to be considered when preparing for a T+1 transition. In particular, the EU has added complexity due to the different tax and legal systems across the 27 countries as well as a high number of stakeholders in different jurisdictions, including around 30 CSDs. There are, however, lessons that can be learned from the successful US transition that can support Europe's preparation for T+1.

First, industry collaboration is crucial to a successful transition to T+1. In the US, DTCC worked with SIFMA, ICI and the T1 Industry Working Group to outline key steps required for the shift and communicated those changes to the industry via educational materials such as the T+1 Playbook, T+1 Test Approach and T+1 Documentation. These types of initiatives are critical to ensure a smooth transition to T+1, and should be supported by ongoing engagement with, and education for, the industry. The UK and the EU are making some headway in this area and have established industry taskforces to coordinate preparations, with the UK on track to finalize its industry action plan by year end.

Second, efficient post-trade processes and automation are vital to achieving accelerated settlement. Trade-level matching is a critical part of the post-trade lifecycle that allows counterparties to identify exceptions that may cause the transaction to fail. By completing the allocation, confirmation, and trade matching processes on trade date, firms can increase the time available to address errors, thereby reducing the risk of settlement fails.

A crucial part of the US success was that, in the final T+1 rules, the Securities and Exchange Commission (SEC), included new requirements around same-day affirmation practices for broker-dealers to help ensure timely settlement. Similarly, we strongly recommend that the UK and EU markets consider mandating that trade confirmation, allocation, and matching take place on trade date. A mandate will provide regulatory certainty to the industry and encourage market participants to make the necessary investments to automate manual processes, increasing operational efficiency and resiliency.

Post-trade automation and standardization can increase settlement efficiency paving the way for T+1.

In the EU in particular, investment in straight-through processing must be a priority since there are more intermediaries and messages in the settlement process than in the US. Industry and regulatory bodies in the EU should also consider mandating these same-day processes ahead of T+1 implementation to ensure preparedness.

The benefits of automation are not limited to matching and confirmation, they also apply to standing settlement instructions (SSIs). The prevalence of manual SSIs and the absence of storing and sharing SSI data in a standardized, automated way remains an issue. Inaccurate or incomplete SSIs are one of the primary reasons for settlement fails, and with a shorter settlement cycle where there is less time to resolve fails, it is critical the industry moves away from manual processes. The EU and UK markets would also benefit from further standardization by using Unique Transaction Identifiers (UTIs) to increase visibility into a transaction's movement throughout the trade lifecycle, ensuring greater settlement efficiency. The good news is that both automated trade matching solutions which generate UTIs and SSI golden source databases are already available to be leveraged by market participants today.

The fourth important factor is global coordination. With globally interconnected markets, the risk of misaligned settlement cycles could affect end investors. While there is now an increasing consensus on the need for close coordination and alignment between the EU, UK, and Switzerland, it will be important for this to extend to other jurisdictions including Asia.

Overall, post-trade automation and standardization are critical to settlement efficiency, and they pave the way for T+1 settlement. By leveraging greater levels of automation, collaborating and coordinating across the industry and jurisdictions, firms will be best prepared for an accelerated settlement cycle. Doing so will not only decrease risks and costs, it will also help to increase the competitiveness and the attractiveness of financial markets, which are goals pursued by the Capital Markets Union (CMU).

At DTCC, we are actively participating in industry T+1 Taskforces with our peers globally and will continue to leverage the lessons we have learned in North America to help guide global markets in their own journeys to shortened settlement. The time to start preparing is now.

HAROUN BOUCHETA

Head of Public Affairs and Chief of Staff for Company Engagement & General Secretary, Securities Services – BNP Paribas

How T+1 could really be a catalyst to improve our European markets

In the context of the new legislative cycle soon to begin, it seems that the European Commission should consider the post-trading area as a major concern with the objective to remove remaining barriers, reduce fragmentation and promote further consolidation of post-trading infrastructures.

This focus should be part of a renewed Capital Markets Union (CMU) action plan in which, as always, competitiveness of EU markets and EU firms ought to be the main driver of the legislative agenda.

The central issue is to understand if the current pressure for the EU to move to T+1 fits with this objective and in particular if a rush to move to T+1 would not hurt EU markets and EU firms rather than an orderly transition. In other words, how could T+1 really be a catalyst to improve our European markets?

1. When? Do not rush a move to T+1 or it will ultimately hurt EU firms and EU markets.

Providing a cost estimate at industry level has proven a rather complicated exercise because the "how we move to T+1" has not been defined by authorities. The industry still does not know which T+1 scenarios will be chosen in terms of product scope and operational requirements and whether the ultimate aim is not in fact T+0.

But what we know for sure is that it will be a very costly project. It is difficult to identify comparable projects in terms of size and complexity. One could take T2S as a benchmark but even in this case we expect T+1 to be globally much more impactful on the entire trading, clearing, custody and settlement chain.

The expected benefits of shortening the settlement cycle – in terms of margin gains and potentially competitiveness – would probably not bring enough added-value to justify such massive investments. In addition, with the drainage of industry resources for a T+1 project, it will imply that less resources and investments for other strategic projects or innovations for clients are available.

We recognize that there is an opportunity to move to T+1 in the EU but the timing is critical. Given the magnitude of the transformation project as well as the specificities of the European market structure, a rushed transition could be detrimental to EU competitiveness and efficiency for years to come. A failed transition could be far more costly overall than any perceived negativity associated with a delayed transition compared to global peers. Moving too quickly to T+1 without taking into account the specificities of the EU environment would be far from giving a competitive edge to EU financial markets and EU firms.

We recognize that there is an opportunity to move to T+1 in the EU but the timing is critical.

2. Should the EU follow the UK? A coordinated approach is needed.

The move to T+1 in the US should shed some light on the real effects of misalignments of settlement cycles between jurisdictions. Although the exact impact of misalignment still needs to be determined according to real criteria such as the volumes of cross-border transactions between jurisdictions and the dependencies between markets, there are some merits in considering coordination of approach within a same region in order to reduce impacts on market liquidity.

The EU and the UK should therefore be encouraged to coordinate their approach to limit disruptions to the markets and avoid any unintended consequences. In terms of governance, the UK and the EU should put in place a governance to be able to discuss and assess whether having a coordinated approach makes sense, which might not be the same thing as moving together at the same time.

The UK has already indicated flexibility in its 2027 timeline to align with the EU. As 2027 is probably not a realistic timeline for the EU, the Commission and ESMA should leverage on this flexibility.

3. How? To be a real catalyst, T+1 should be part of the CMU roadmap

The EU should enhance its attractiveness and competitiveness to global investors. T+1, along with ongoing post-trade improvements to facilitate the CMU, presents a significant opportunity for the EU to strengthen its infrastructure for future growth perspectives.

Whether T+1 is able to improve the highly fragmented post-trade settlement environment in the EU remains quite unsure but it could help create the conditions for the removal of some post-trade barriers and help harmonisation. Forcing market players to adapt their operational set-up in order to move to T+1 should encourage to tackle some of the root causes of fragmentation like national diverging laws, standards and services along the trading and settlement chain.

To truly achieve CMU, the European Commission may decide to create an expert group composed of relevant industry representatives and authorities to operationalise the need for greater harmonisation. Its objective would be to define a realistic timeline to move to T+1 but also to identify the relevant preliminary steps and establish priorities to truly increase interoperability, the competitive landscape and consequently decrease post-trading costs in the best interest of investors.

STÉPHANE GIORDANO
Deputy Head of Public Affairs, Société Générale & Chairman, AMAFI

The Olympian challenge of the T+1 relay in the post-trade field

10 years after the shortening of the settlement cycle in Europe from 3 days to 2 days, European markets and authorities are now considering a further reduction of the settlement cycle to 1 day (T+1), taking inspiration from the transition recently implemented for the United States's (US), Canadian and Mexican securities.

So far, the feedback on the American move to T+1 is remarkably positive. For most actors, this issue has proven uneventful, on both the securities – with a slight bump in fail rates resorbed in a matter of days – and the Forex market. Although the consequences of shortened settlement cycles will need to be studied over a longer period, this positive result is a relief not only for the jurisdictions where it took place, but also for the United Kingdom (UK), Switzerland and the European Union (EU), all envisaging their own move to T+1.

These early results in North America are encouraging but should not blind us to the difficulties of implementing this change in the EU. The success of T+1 in the US for shares, ETFs and corporate bonds came after a long preparation and was preceded by a long T+1 experience on US government bonds. More importantly, the EU market infrastructure for securities, where fragmentation remains ubiquitous (29 CSDs, 16 CCPs and 14 currencies), can hardly be compared with the particularly simple and streamlined structure of the US, where unicity rules (1 CSD, 1 CCP, 1 currency). The EU preparation should therefore follow two principles: a. only fools rush in: the US took about 3 years to execute T+1, so we must ensure that the EU gives itself enough time; b. align the conditions for success: the US prerequisites will undoubtedly need to be multiplied to consider the difficulties inherent to EU fragmentation.

In the spirit of the Olympics season, I like to think of T+1 as a relay where team members bring their individual performance to the end-result, one after another. Similarly, in the move to T+1, where some Asian markets launched the race, followed by North American markets, and where all eyes now turn to Europe, each jurisdiction bears a responsibility in the stability and attractiveness of its own market, but also in the good functioning of the global financial markets. This makes it even more important, for EU authorities and the financial industry alike, to approach the T+1 project with a heightened sense of responsibility and care. Coordination is especially needed with the UK, to handle markets that present specific liquidity challenges (notably, corporate bonds and ETFs). We therefore welcome efforts by both the UK and EU authorities to build on the industry's views and gather forces.

Drawing from the fruitful discussions that took place within the EU industry taskforce, I believe that authorities should pay attention to the following:

- Harmonization of the EU landscape is a primary requirement. Failure to reduce disparities between countries (processes between CSDs, treatments of tax reclaims, transpositions of norms, etc.) would mean having to manage up to 27 T+1 transitions instead of one, undermining the intended benefits.

- Liquidity providers are expected to encounter challenges due to the shortened settlement period, particularly in the corporate bond market, with the most significant impact on the high-yield segment. It is imperative to carefully assess, and ideally find ways to minimize, the economic implications of a potential worsening of market liquidity due to T+1.

- Post-trade activities, which previously took about a day to complete, will now need to be compressed into a few hours between trading and the commencement of the settlement cycle. It is essential to ensure that this compression from a day to few hours can be handled.

- The settlement model that the European markets benefit from (via night cycles) offers a high degree of optimization, so it is essential to establish the preconditions to avoid deteriorating it.

- The capacity to manage multiple large-scale projects concurrently is not infinite, which raises the question of which ongoing projects will need to be expedited or potentially abandoned to accommodate the time and costs associated with the transition to T+1 in the EU. This reprioritization should be carefully assessed, in terms of costs and benefits. Would it make sense to deprioritize such as ESAP, CSRD, FASTER?

Encouraging results in North America should not blind us to the challenges specific to the EU.

- In this light, and to ease the burden of the transition to T+1, it may be prudent to envisage a temporary suspension of the settlement discipline regime, and in any case to delay the implementation of a new penalty regime in Europe. Given the potential risk of increased settlement fails, the cautious approach is to maintain the current penalty framework until the T+1 transformation is successfully completed.

I am therefore looking forward to the ESMA report at the end of the year or in early 2025, which should build on the taskforce report to propose solutions, bearing in mind that haste and competitiveness do not necessarily go hand in hand.

ROBERT MOSCH

Head of Policy and Regulatory Affairs – Dutch Authority for the Financial Markets (AFM)

Post-trading improvements to support CMU – this time for real?

The European Commission adopted its first Capital Markets Union (CMU) Action Plan in 2015 in order to strengthen Europe's economy and stimulate investment to create jobs. Stronger capital markets will complement Europe's strong tradition of bank financing. Progress has been made since. The availability of data to market participants through the agreements on a European Single Access Point (ESAP) and a consolidated tape (CT); increased retail participation and investor protection; and enabling the single market through simplifying cross-border services. Unfortunately, there is still a lot to do as well. As the Letta Report highlights[1], the CMU needs to strengthen the European competitiveness, break down existing barriers, and promote consolidation and growth. In this contribution, the focus is on potential improvements for the post-trading landscape.

Over the last year, there has been much discussion on whether to move to a shorter settlement cycle in the EU, so-called T+1 settlement. The US recently moved to T+1, with the UK stating they will follow before 2027. A joint UK-EU-Swiss move would be preferable, and the EU needs to make up its mind soon. There are many benefits, for example, shorter settlement cycles lead to less counterparty credit risk, less need for collateral and thus less capital locked up in capital requirements, and cash and securities becoming available sooner for end investors. Whilst all these are all tangible benefits, they are not likely to lead to more consolidation or integration of EU post-trading. A shorter settlement cycle could however serve as a catalyst for more automation of the post-trading processes, which in turn could help improving the efficiency of EU capital markets. In the current world of "instant everything", and with the technical possibilities to facilitate this, it would be a missed opportunity not to go ahead with the move to T+1 settlement, staying aligned with other economies like the US and the UK.

Besides moving to T+1, the most recent conversations as regards enhancing post-trade in the CMU relates to updating the European Market Infrastructure Regulation (EMIR). This EMIR review is relevant from the perspective of enhancing the attractiveness of the European clearing landscape, while at the same time preserving financial stability of clearing in the EU. By simplifying and shortening procedures for EU CCPs and addressing some of the previous shortcomings, such as specific measures for non-financial companies, a clear improvement has been achieved compared to existing EMIR rules. However, more could be done to enhance the attractiveness and competitiveness of clearing in the Union further. Not by directly increasing prudential incentives for clearing members to move from third country CCPs to EU CCPs, but through constructive and pragmatic steps forward. For example, by increasing the range of EU CCPs' clearing product offerings: increasing and diversifying liquidity pools could greatly benefit the clearing landscape in the EU. Given that this is difficult for policymakers to achieve on their own, CCPs could step up their game to broaden their product base where needed. It takes two to tango when enhancing the attractiveness of clearing in the Union. This could even make the new active account requirements under EMIR 3.0 less 'operational', as clearing members could decide to move a bigger part of their clearing activities from third countries to the EU.

As market conduct supervisor, the AFM sees merit as well in further improving Europe's supervisory architecture, especially if this goes together with the afore mentioned goal of attracting more clearing activity towards the EU. As we wrote in our CMU position paper earlier this year[2], we deem the CCP and CSD environment as suitable areas for further centralization of supervision. It would break down barriers creating by potentially different supervisory practices and interpretations across Member States. In that regard, the outcome of the EMIR review has been somewhat disappointing and can only be perceived as an intermediate step, as the cross-border characteristics of the post-trade markets could benefit a lot from further increasing supervisory convergence. If cleared volumes would increase in the period ahead, cross-border and systemic risks can be better managed if supervision takes place on a more pan-European level.

For a true CMU & integration in the post-trading area, shorter settlement cycles are not enough.

In summary, these are three potential areas to improve the post-trading landscape to support the CMU: moving to T+1, increasing the attractiveness of clearing within the EU, and centralizing supervision of post-trade infrastructure where appropriate. With the global political landscape evolving, the CMU needs to become both more resilient and competitive. It is not option, but a necessity. These three areas would be a good starting point.

1. *https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf*
2. *https://www.afm.nl/en/sector/actueel/2024/februari/position-paper-cmu*

ILSE PEETERS
Head of Government Relations and Public Affairs – Euroclear S.A.

CMU – How fragmented is post-trading really?

Recent months have seen a renewed focus on securities post-trading as shown in the reflections on CMU, discussions on the shortening of the settlement cycle and various initiatives on digital assets.

These initiatives are related and interdependent as they touch upon the same ecosystem of CSDs and market participants. Yet, they also have their own objectives, adoption path and timeline. Finding out what is the better approach to designing a roadmap for EU post-trading in the coming years may require a fresh focus.

CMU – Putting the right focus

Recent reports from Enrico Letta, the Eurogroup, ESMA and Christian Noyer include recommendations on increasing the attractiveness of the European capital markets for issuers and investors and deepening liquidity in the region. These reports also include recommendations related to post-trading and generally point to the continued fragmented nature of the post-trade environment.

While it is true that the CSD landscape is fragmented – certainly by the metric that there are 27 EU CSDs authorised under the CSDR – we should avoid an excessive focus on this indicator. It provides both a limited and overly simplistic picture of the way the market operates in practice and understates the improvements brought over the last years. There are several other measures of market integration and EU strengths that paint a more nuanced and certainly a more positive picture:

- The Top 5 domestic CSDs in the EU account for more than 80% of the EU securities depot, the concentration of settlement activity is even more important with those 5 CSDs accounting for over 90% of the settlement activity in the EU.
- T2S, the EU's common settlement platform across 20 markets, has been an important driver for harmonisation and efficiency in post-trading.
- The EU hosts two international CSDs (ICSDs), which not only have a truly pan-European scope but also offer a gateway to global markets and international investors, thereby operating alongside the CSDs that are more domestic or regional in focus.
- Success of the Eurobonds, a market served by the ICSDs: with EUR 13.2 trillion, it is the largest debt market in Europe and number 3 world-wide (only surpassed by US and China).

Of course, the remaining fragmentation should be further reduced to increase scalability. To achieve this, CSDs need an environment that improves conditions for competition. While one of the objectives of CSDR is to increase competition for issuers and for investors and to ensure CSDs can establish efficient links, in practice this competition is often hampered by unharmonised rules across Member States. The upcoming European Commission study on trading and post-trading should provide reflections on the way forward.

T+1 – Date and governance decisions needed

With the US successful transition in May 2024, the attention now turns to the UK and EU. For the EU transitioning to T+1, the challenges are compounded by the fragmented nature of the post-trade sector. It is therefore important that preparation for the implementation of T+1 starts as quickly as possible, even before the ESMA report expected by early 2025 and formal decision on a transition date.

Digital assets – Avoiding unmanaged risks and new fragmentation

Euroclear, like many market players, is actively investigating, testing and using new technologies such as DLT. Euroclear launched its Digital Financial Markets Infrastructure with digitally native note in October 2023 and is participating in the ECB wholesale central bank digital currency (wCBDC) experiments with its D-FMI platform.

While the potential of digitalisation is widely recognised, it is not a silver bullet to fix all the inefficiencies and harmonisation challenges in securities post-trading. Certain risks and challenges will need to be managed to enable European markets to benefit from the full potential of new technologies and avoid the recreation of a fragmented landscape.

Designing a roadmap for EU post-trading in the coming years may require a fresh focus.

If not managed appropriately, this fragmentation could slow down the adoption of digital assets and discourage users from making the necessary investments and converging towards the most appropriate solutions. A transition to a digital ecosystem will also involve a long period of co-existence between digital and traditional networks, even if the latter may be fully phased out in the future.

These challenges require a continuous dialogue between the EU post-trade ecosystem players and public authorities to understand the challenges and opportunities and agree on the way forward to bring most benefits to the capital markets.