

SECURITIES POST-TRADING INFRASTRUCTURES: EFFICIENCY AND RESILIENCE



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Digitalisation, securities settlement efficiency and the role of central banks

Exactly one year ago, I wrote an article for Eurofi titled “Competitiveness and resilience of EU infrastructures”¹. One year later, I am delighted to elaborate in these columns on several important achievements which will contribute to make securities settlement in the EU safer and more efficient.

First, in March 2023, the Eurosystem successfully launched the TARGET2 - T2-Securities consolidation, allowing European participants to optimise their liquidity management across all TARGET Services. And we now look ahead to the launch of the European Collateral Management System in April 2024. Second, the recently completed review of the CSDR regulation has led to some important developments in regulatory provisions to enhance settlement efficiency and discipline, such as the reporting obligations on settlement fails or the mandatory buy-in rules. Finally, the Regulation on a Pilot Regime for

market infrastructures based on DLT² entered into force in March 2023. For a 3-year period, renewable once, the Pilot Regime will allow existing and new CSDs and multilateral trading facilities to use DLT in post-trade activities within a derogatory framework. This concrete, real-life test will enable the identification of the necessary regulatory developments, while guaranteeing investor protection, market integrity and financial stability. It will make it possible to clearly identify DLT’s advantages in post-trading, in particular for the efficiency of the settlement process.

Let me now turn to what I see as a key ingredient for the future of the post-trading landscape, namely digitalisation, and to the role that central banks can play in this field.

Digitalisation will be a game-changer for securities infrastructures, in the same way that it has impacted our daily lives, and this is only the beginning. Besides the immediate direct changes stemming from digitalisation of processes – such as faster access to information or lower operational costs – digitalisation will drive market players’ growing interest for new forms of financial instruments and technologies, such as tokenised assets and DLT, and their potential to enhance settlement efficiency – including of complex operations.

Digitalisation will also pave the way to meet the customers and financial intermediaries’ demand for immediacy. For instance, while most securities transactions are currently settled at T+2 (i.e. two days after the date of execution), some countries are pushing to reduce the expected settlement date in conventional settlement systems to T+1³. This medium-term strategy complements a longer-term perspective, in which DLT infrastructures should play an increasingly important role in reducing settlement cycles.

Tokenisation indeed offers the possibility of atomic settlement, with delivery-versus-payment taking place instantaneously, at T+0. While shorter settlement cycles could help the industry better mitigate counterparty risk and lead to operational efficiencies (e.g. by lowering margin requirements and therefore costs), this reduction will be gradual as it will require significant adaptations throughout the settlement chain to ensure proper reconciliations⁴.

Central banks have a key role to play to help reap the benefits of digitalisation for the

efficiency and resilience of securities post-trading infrastructures, while limiting their risks. This role encompasses a variety of actions, from facilitating an active dialogue with financial market stakeholders to being a leading actor of innovation. In the case of the Eurosystem, for instance, the AMI-SeCo⁵ is a forum allowing central banks to collect industry feedback and insights on issues related to the clearing and settlement of securities, including on the potential of DLT for wholesale settlement. Beyond promoting market dialogue, the Eurosystem has launched exploratory work on the settlement of tokenised assets using wholesale central bank money (wCBDC), with the input of a dedicated Market Contact Group.

Digitalisation will be a game-changer for securities infrastructures, and this is only the beginning.

The Banque de France looks forward to accompanying market initiatives to experiment potential solutions using wCBDC⁶ in this remit and in the context of the Pilot Regime.

And of course, in their role as service providers, central banks will have to keep their own post-trading infrastructures up-to-date with the latest technologies and functionalities tuned towards market demand and evolving practices and risks.

1. Denis Beau (2022), *Competitiveness and resilience of EU infrastructures*, *The EUROFI Magazine*.
2. *Regulation (EU) 2022/858 on a pilot regime for market infrastructures based on distributed ledger technology (DLT)*.
3. *India already uses T+1 for the settlement of equities, while the US and Canada recently confirmed the launch of T+1 settlement in May 2024. In Europe, discussions about T+1 securities settlement are still ongoing*, see *Association for Financial Markets in Europe (AFME)*, September 2022.
4. *In this regard, DLT can play a facilitating role, as demonstrated by DTCC’s project Ion, which used DLT to enable operators to carry out reconciliations among parties more efficiently*.
5. *Advisory Group on Market Infrastructures for Securities and Collateral*.
6. *Wholesale CBDC experiments with the Banque de France, July 2023*.



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AMI-SeCo's role continues to be critical for post-trade harmonisation in Europe

Safe and efficient financial market infrastructures and post-trade arrangements are essential for the transfer of payments and assets, smooth monetary policy implementation and financial stability. Fostering harmonisation of post-trade processes, including collateral management, is a key objective for the Eurosystem in the pursuit of financial market integration in Europe.

The Eurosystem keeps an active and open dialogue with all relevant financial market stakeholders. It uses its Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) as the forum for discussing with central securities depositories (CSDs), central counterparties (CCPs), banks, Eurosystem central banks, issuers and industry associations.

AMI-SeCo defines and maintains pan-European standards and market practices related to securities settlement, collateral management and corporate events. It monitors their consistent implementation across the so called AMI-SeCo markets (including

the European Union, Switzerland and the United Kingdom) and regularly publishes, on the website of the ECB, the results of monitoring exercises, thereby creating a certain degree of peer pressure towards harmonisation.

AMI-SeCo's 13th T2S Harmonisation Progress Report on the harmonisation of European securities settlement shows an overall very high level of compliance with the T2S harmonisation standards, even though some challenges remain in the corporate actions area. The report also includes a readiness assessment of markets preparing to join the T2S platform, namely Euroclear Bank (BE), Euroclear Finland (FI) and SKDD (HR). Although there is still work to be done, these markets are expected to comply with the majority of the T2S standards by the time of their migration to T2S in autumn 2023 - start of migration in the case of Euroclear Bank.

Regarding collateral management harmonisation, in the past, AMI-SeCo identified ten areas in which further action would be needed by relevant stakeholders to achieve a Single Collateral Management Rulebook for Europe (SCoRE). SCoRE defines common rules for managing collateral that replace the fragmented legacy standards and market practices existing across Europe today. AMI-SeCo has already endorsed harmonised standards in the areas of Corporate Actions, Billing Processes and Triparty Collateral Management, the implementation of which is foreseen by April 2024. The Sixth Compliance and Progress Report (SCoREBOARD) confirms the commitment of market stakeholders: although slight delays in current implementation milestones were reported, the majority of the markets are expected to comply with the agreed SCoRE standards on time. Efforts are now focused on the markets (including three euro-area markets for Corporate Actions Standards) that are lagging behind their adaptation plans and on the standards for which implementation requires adoption across the whole intermediary chain.

To address remaining and potential new harmonisation challenges in the most effective way, AMI-SeCo has recently reviewed its mandate to adopt a leaner, flatter and more transparent governance structure that provides clarity about responsibilities and scope of action. A survey has been launched within AMI-SeCo's membership to identify the remaining barriers to financial market integration that hinder efficient cross-border settlement, asset servicing and market access in the AMI-SeCo markets. To complement the already known gaps, the survey tries to expose practical, technical and administrative barriers at

detailed level. Additionally, AMI-SeCo is developing a strategy and roadmap for ISO 20022 adoption in Europe. A potential end date for the use of legacy messaging standards is currently under discussion: Corporate Actions could rely solely on ISO 20022 by November 2028, and coexistence with current standards could cease in all AMI-SeCo markets by November 2030.

Besides AMI-SeCo which advises the Eurosystem on post-trading matters, the Eurosystem has recently established a new market contact group, the New Technologies for Wholesale settlement Contact Group (NTW-CG). The NTW-CG will provide expert input on the potential use of new technologies, for example DLT, for settling wholesale financial transactions in central bank money. This helps ensure that developments in central bank money keep pace with digital innovation in wholesale and retail payments, and that central bank money remains a monetary anchor that supports the stability and integration of the European financial system and payments system. The Eurosystem's exploratory work in this field is planned to start in 2024.

AMI-SeCo has become a key forum for interaction, contributing to post-trade harmonisation.

Overall, AMI-SeCo is recognised as a key forum for interaction between the market and the Eurosystem in the post trade landscape in Europe, contributing to financial integration promoting post-trade harmonisation. The optimised governance and the ongoing mapping exercise on remaining barriers will contribute to the pivotal role AMI-SeCo is playing in the European efforts towards financial market integration now and in the future.



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EU post-trade in search of salvation?

Preparing for the Eurofi Financial Forum in Santiago de Compostela more than 20 years after the publication of the notorious Giovannini reports on EU clearing and settlement, one thought almost suggests itself: aiming at integrated, efficient and resilient EU post-trade markets sends you on a long pilgrimage.

As outlined in the Giovannini reports, major steps towards such an EU post-trade ecosystem have since collectively been taken by governments, regulators and market participants. The Eurosystem played a crucial role here, and the Deutsche Bundesbank is not only a member of it, but also part of a smaller group of central banks that developed T2S, run this integrated settlement platform smoothly and further improved it by consolidating it with the Eurosystem's new-generation RTGS system T2. One of the next steps in fostering the integration of EU post-trade markets will be the go live of the European Collateral Management System (ECMS) and the accompanying harmonisation initiative to create a Single Collateral Management Rulebook for Europe (SCoRE) in 2024, simplifying the European cross-border collateral handling. And yet another incisive change for EU financial markets is looming on the horizon: a wholesale

central bank digital currency (CBDC) could establish a truly European means of payment for multiple use cases.

To enhance settlement of digital or crypto securities, the Eurosystem already now explores how wholesale transactions on DLT platforms could be settled in central bank money, including by potentially issuing a wholesale version of CBDC or setting up an interaction with existing TARGET services.

All of the Eurosystem projects need to be supported by harmonisation or legislative initiatives, with legislators ideally not only forcing market actors to adapt, but rather seeking their input for the sake of safe, efficient and forward-looking solutions. For instance, the Eurosystem explorations on how DLT based financial transactions could be settled in central bank money may build up on the new EU DLT Pilot Regime, which as a regulatory sandbox aims at promoting DLT in securities trading and settlement, including via the combination of trading and post-trading activities within a single entity. A further imminent step on the regulatory agenda is the adoption of the CSDR Refit, under which the objectives of CSDR shall be met more efficiently and proportionately, as previously advocated in the 2020 final report of the High Level Forum on the CMU. For CSDs' banking-type services, access conditions, including through other CSDs, will be adjusted in order to facilitate cross border services for various currencies. In addition, a revised passporting regime will reduce barriers to cross-border settlement and ease administrative and financial burden on CSDs.

**Aiming at integrated,
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Moreover, EU convergence of CSD supervision will be improved, whereby colleges could play a more important role. Not surprisingly, this point is subject to discussion, as it touches on basic principles, particularly that responsibility and liability should be harmonised, or put in other words: being in charge of a decision and at the same time being liable for the consequences are two sides of the same coin. In addition, it should be noted here that the predominantly national supervision of CSDs has worked quite well so far.

In contrast to this, the settlement discipline regime established under CSDR only entered into force after considerable delays and has not yet brought about the desired improvements. Settlement efficiency rates in the EU are still lower than in other developed capital markets and a clear upward trend cannot be observed. As a mandatory buy-in regime would, with good reason, only be a measure of last resort under the provisional agreement on the CSDR Refit, it is likely that legislators will have to review the penalties system, including the penalty rates that are currently enshrined in the Level 2 measures under CSDR.

When discussing post-trade developments in other capital markets, it is impossible to overlook the shift to T+1 settlement around the world, particularly the changeover in the USA scheduled for 28 May 2024, and in fact, such evolution of market structures appears to be the next logical step in the common search for efficiencies and risk reduction. Nevertheless, it should be noted that this step requires careful preparation in order to avoid setbacks, including a potential drop in settlement efficiency. This may not go against the natural assumption that the UK and the EU will follow suit, but it will not be a short-term or haphazard move and happen only after due consideration has been given to market characteristics, which particularly in the EU tend to be highly complex.

So, whoever reaches Eurofi in Santiago de Compostela will be unlikely to find immediate salvation for the challenges of the unique EU post-trade ecosystem there. Instead, they will realise that the journey towards safety, efficiency and integration is not ending here.



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Enhancing efficiency and resilience of securities post-trading infrastructures

Digitalization of finance and the innovation brought by distributed ledger technologies (DLTs) are favoring the development of new business models, services and user experience, with a great potential for its adoption by financial markets infrastructures (FMIs) along the whole lifecycle of securities. Like in other domains, DLTs are expected to bring significant efficiency gains, thanks to process simplifications, extension of operating times, reduction of costs and the removal of most of the barriers to same day settlement (T+0).

Greater transparency and traceability may also improve supervisory activities and reduce counterparty risk, as well as operational risk due to fewer manual activities and the decentralized storage of information.

However, the adoption of DLTs inevitably raises a number of key concerns for public authorities, related to the massive exposure to cyber risks, the downsizing of the role of financial intermediaries, the greater dependence on external providers and the higher liquidity risks until business volumes on DLT platforms consolidate.

A fundamental role is played by the establishment of common standards, to pursue integration with legacy systems and overcome interoperability issues and fragmentation, so as not to defeat the harmonization efforts undertaken so far, as happened with the launch of T2S, a fundamental milestone in the post-trading services.

Governance aspects are also key, because accountable entities must be identified for regulatory and supervisory actions to be enforceable and effective. An active dialogue with the market is also crucial, as transition to DLTs requires rethinking all processes in order to fully exploit its advantages.

In order to allow financial institutions to keep pace with technological innovation, it is necessary to adapt the regulatory framework. An important step has been made in the EU with the DLT Pilot Regime Regulation, which allows FMIs to experiment the use of DLTs in the supply of securities trading and settlement in a secure technological environment. The Pilot Regime has been recently transposed into the Italian framework, enabling the issuance and circulation of native digital securities. In addition to what strictly set out by the EU Regulation, the Italian law has introduced the role of ledger officer at national level. Ledger officers are in charge of the issuance and circulation of digital financial instruments over the counter (OTC), i.e. outside a trading venue.

Digitalization of finance is expected to increase efficiency of the whole securities lifecycle.

From an operational standpoint, the availability of a wholesale Central Bank Digital Currency (CBDC) could facilitate the use of a comprehensive Delivery vs Payment (DvP) approach in the DLT framework. In the absence of a Eurosystem service to settle the cash leg of DLT transactions in central bank money (CeBM), market players could resort to commercial bank money or stablecoins. In this regard, the Eurosystem is seeking how to ensure that developments in CeBM keep pace with and contribute to digital innovation, while remaining a monetary anchor that supports the stability, integration and efficiency of the European financial system.

This approach includes Eurosystem-led exploratory work, which will take

place in 2024, to investigate how central bank money settlement in euro could take place in the presence of new technologies such as DLT. As part of this work, the Eurosystem intends to engage in experiments and trials (involving limited settlement of real payments and assets) to gain practical insights into different solutions together with the market players, for the use of DLT in large value payments and securities settlement. Furthermore, we have the opportunity to meet market demand for CeBM solutions during the DLT Pilot Regime thus avoiding DLT ecosystems being built around other means of payment from the onset.

Banca d'Italia is willing to contribute to this work by proposing a solution centred on the Eurosystem's TIPS instant payments platform and DLT-agnostic API to synchronize the asset-leg and the cash-leg, making an instantaneous DvP transaction possible on a 24/7 basis.

Another possible way to improve the efficiency of securities settlement is to halve the duration of the settlement cycle from two (T+2) to one (T+1) day. Such a major change has already been implemented in some markets (India) and planned in others (US and Canada, with expected go-live in May 2024). Its impact on the resilience of settlement systems is far from obvious, as T+1 settlement reduces the time available to settle trades and therefore may increase operational risks.

Looking ahead, technological advances should make it possible to reap the benefits of a shorter settlement lag without compromising the resilience of post-trading infrastructures. An accelerating factor could be the competitive pressure from DLT-based trading platforms. In any case, an appropriate adjustment period should be foreseen to allow market operators to put in place the necessary implementing measures.



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The regulatory road to a more integrated EU post-trading ecosystem

CMU objectives and the more recent regulatory agenda have contributed to the goal of reducing fragmentation and promoting a more integrated post-trading ecosystem. It is a fact that the EU made significant progress in this area.

But there is still room for improvement. The EU post-trading market is still more fragmented than in other jurisdictions, and in order to work towards a higher level of integration, the EU should move forward on some important pieces of the regulatory puzzle which are still missing.

On the digital front, legislative initiatives are progressing well at EU but also international level. Many of them should positively affect the post-trading ecosystem notably those promoting a new framework for the provision of custody services. Nonetheless, some developments would probably need more consensus to move forward.

Another key issue relates to the move to T+1 in some key jurisdictions such

as the US and how it impacts the EU. In a context of interconnected global financial markets, EU policy makers should pursue a tangible cost/benefit analysis taking into account the differences between US and EU markets.

This regulatory road to a more integrated EU post-trading ecosystem will surely be a priority for the new Commission and the new European Parliament to come in less than one year from now.

Some improvements have recently been made to the EU securities post-trading integration (CSDR and ECB)

The EU recently reached an agreement on a compromise text for CSDR Refit. This is an important step.

CSDR has been substantially improved compared to its initial version. It is made easier for CSDs to offer cross border services through a new passporting regime and an improved cooperation mechanism between supervisory authorities. In terms of settlement discipline, penalties have been decoupled from mandatory buy-ins and these latter can only be implemented in limited circumstances. In addition, CSDR encourages settlement efficiency.

Besides CSDR, we have also recently seen useful developments in the ECB governance (AMI-SeCo) designed as a forum with market stakeholders in order to facilitate the further integration of financial markets in Europe and to oversee FMIs operating in the euro area.

On T+1, EU policy makers should pursue a tangible cost/benefit analysis markets before any considerations are made.

But some important pieces of the regulatory agenda are still missing (SRD II and WHT)

The second shareholder rights directive imposes a minimum standard to further facilitate the exercise of shareholder rights, particularly in a cross-border context, and encourages long-term shareholder engagement. Some weaknesses have been identified and ESMA as well as the EBA recently published a report on its implementation and effectiveness.

Paving the way to a review of the directive, the European supervisory authorities made some recommendations such as: considering a regulation rather than a directive; explore the possibility of

introducing an EU-wide harmonized definition of shareholder; and improve the harmonization of the documentation required for the entitlement of shareholders to exercise their rights.

Complementing the review of SRD II, a directive on withholding tax is currently considered by the European Commission. A consultation has been launched to gather feedback on tax barriers that have been identified for decades. Developing a harmonized quick refund withholding tax process that would rely on custodians and issuer's paying agents should deliver significant value for investors and tax authorities.

Too many initiatives on the digital assets front?

The EU is moving in the right direction with a digital finance strategy that includes new regulations like the markets in crypto-assets regulation (MICA), the DLT pilot regime and the digital operational resilience act (DORA). One of the main objectives is to protect consumers against some of the risks associated with the investment in digital assets. Custody services and the segregation of client assets are a key element of these provisions.

On this specific topic of custody, draft recommendations made at international level may not perfectly fit with the EU framework. Policy recommendations by IOSCO or the digital asset and private law principles of UNIDROIT are some examples. The IOSCO principles, which have been defined without a proper impact analysis and which do not contain a precise definition of digital assets, introduce a new definition of control used for custody services that is likely to trigger multiple inconsistencies in the EU context.

Other challenges are still ahead of us notably through recent proposals on open data and digital euro.

T+1 is a major trend, but some jurisdictions are not ready

T+1 is an opportunity for increased standardization, harmonization of practices and potential reduction of margin costs.

Nonetheless, there are benefits of remaining at T+2 and the US move does not necessarily force the EU to follow the same path. Such a change would carry important transition costs in front of limited benefits.

EU policy makers should pursue a tangible cost/benefit analysis taking into account the full extent of the legal, structural and organizational differences between US and EU markets before any considerations are made.



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How to reconcile the “old” and the “new” post-trading focus to benefit the CMU?

EU securities post-trading is confronted with numerous challenges, some of which are known for many years, even decades; other topics are relatively new. Yet, defining the better way to reconcile or even combine the “old” and the “new” is a challenge for all players in this ecosystem, ranging from securities issuers, investors, intermediaries, to Financial Market Infrastructures (FMIs) such as CCPs and CSDs. While both “old” and “new” are extremely important, they are competing for priority and resources across the ecosystem. And the overall outcome is important as it will be one of the key success factors for achieving the objectives of the Capital Markets Union and the EU Open Strategic Autonomy.

The “old” focus points on EU post trade are well-known:

First and foremost, the importance of ensuring business and operational resilience has always been the Number One focus and one on which CSDs have greatly delivered as demonstrated over recent crisis periods. The implementation of the Digital Operational Resilience Act (DORA) is

a further step in ensuring resilience of the financial ecosystem.

Secondly, a lot has been written and said since the publication of the Giovannini reports more than 20 years ago regarding the EU securities post-trade landscape and the need to better support cross-border investments. More recently, the CSDR REFIT is helpfully cutting some red tape and providing a more suitable approach to the mandatory buy-in. It also includes the clear objective to increase settlement efficiency. The recent European Commission’s proposal FASTER (for better withholding tax procedures) is a very welcome initiative for which we hope the Council will take swift decisions, as action in this domain is urgent and timely. A common digital certificate of residence, a harmonised Relief at Source and Quick Refund procedure, and a single standardised reporting format are good steps to unlock new flows of cross-border activities, while reducing the risk of tax malpractices.

The “new” focus points relate to the digitalisation and shortening of the settlement cycle:

On digitalisation, the DLT Pilot Regime and the related discussions on the cash leg for securities settlement have drawn most attention.

With the DLT Pilot Regime, the EU wants to position itself as a key player in the development of DLT. While this initiative will bring necessary learnings, it may not be sufficient to make the adoption of DLT a success. DLT, like any technology, will not solve the existing barriers to further integration post-trade service, nor has the technology sufficiently proven to be resilient for large scale operations. DLT will need to meet the expectations of the “old” focus mentioned above to be considered as a license to operate. One of the key questions is also the need for and availability of a wholesale CBDC (wCBDC) for the settlement of the cash leg in a DLT environment.

After gauging the market’s interest in 2022, the ECB announced the launch of an exploratory phase for the development of a wCBDC in April. Within this frame, a new market contact group, that includes Euroclear, has been set up. The first trials and experiments of this task force are expected to start already in the first half of 2024. It is interesting to note that the market DLT platforms can be licensed under the DLT Pilot Regime or under the full legislative framework. With this, the ECB acknowledges that CSDR can be considered as technology

neutral and allows the use of DLT for the provision of core CSD services.

The discussion about shortening the settlement cycle (often referred to as T+1) in the EU is a new and important focus point, especially after the decision in the US and Canada to accelerate the settlement cycle to T+1 in May 2024. With CSDR Refit, ESMA will be tasked to draft a report on shortening the settlement cycle in the EU by the end of 2024. As neutral FMIs, CSDs will participate in the discussions on the opportunity to move forward with such change of settlement cycle.

The “new” focus points relate to the digitalisation and shortening of the settlement cycle.

We should ask ourselves if the introduction of new technologies such as DLT is a pre-requisite for shortening the settlement cycle or if it is better to adapt the legacy ecosystem. This unanswered question is fundamental, and we hope that the upcoming report by ESMA will contain the necessary elements to make a sound cost-benefit analysis and subsequent recommendation to the EU Commission.

A continuous dialogue between the EU post trade ecosystem players and public authorities is necessary to determine how the industry can evolve to combine the “old” and “new” focus to the benefit of the EU capital markets.



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Towards an EU T+1? Opportunities for post-trade automation and standardization

To date, Capital Markets Union (CMU) initiatives have focused on reinforcing the EU's global competitiveness and strategic autonomy, rather than efforts around harmonization and efficiency in the post-trade space. However, with the forthcoming implementation of T+1 in the U.S. in May 2024, a discussion around Europe's market infrastructure and settlement efficiency could be thrust into the spotlight.

The main driver behind the implementation of T+1 in the U.S. has been the benefits that accelerated settlement and increased settlement efficiency will deliver, including reduced risk, lowered clearing fund requirements, improved capital, and liquidity utilization, and increased operational efficiency. These drivers have become even more significant given the increased focus on settlement risk and margin usage during the 2020 and 2021 market volatility events.

Importantly, to achieve the intended industry-wide benefits of a move to T+1, there is a need to evaluate and potentially increase automation in trade processes which take place prior to settlement, therefore reducing operational risk and improving operational efficiency – all wins for firms.

When considering settlement efficiency across the EU, it is likely that the region could also benefit from increased levels of standardization and automation of post-trade processes and messaging. In fact, ECB T2S data shows a 1% decline in trade settlement rates year-on-year from 2019 to 2022 which could suggest that T2S may not be achieving the efficiencies that were intended through the initiative.

The good news is that automated post-trade solutions that enable timely settlement are already available. One example is central trade matching, a best practice which provides automation and standardization within the trade allocation, confirmation, and matching process. By successfully completing these processes on trade date, also known as Same Day Affirmation (SDA) in the U.S., matched and agreed transactions can be moved to settlement in time to meet T+1 timeframes. Central matching also allows identifiers to be generated and included in post-trade messaging, such as a unique transaction identifier (UTI), which are critical in traceability and transparency of transactions.

The EU could benefit from increased levels of standardization and automation of post-trade processes.

Another example is accurate settlement instructions, a key driver to reducing fails and increasing settlement finality. Accurate standing settlement instructions (SSIs) guarantee that trade settlements, margin and payments are sent to the correct accounts. And, because SSIs can change frequently and securities can settle different locations, automation and strong controls in this area ensures that account instructions are up-to-date and accurate, which facilitates timely confirmations and therefore a higher chance of timely settlement. As a best practice, SSIs should be stored in a controlled fashion, within a single repository in which all participants have access to, decreasing the reliance on multiple internal data stores.

Finally, a move to a 1-day settlement cycle provides the opportunity to implement data initiatives that have benefitted derivatives markets. The use of UTIs and the electronification of post-trade workflows from trade capture to settlement can help eliminate manual processes that contribute to trade failure as well as improve overall market inefficiencies. T+1 ultimately provides the opportunity to create and drive efficiencies for securities markets.

There is no doubt that the industry is rapidly evolving, with new technologies, new assets, and a move towards T+1 gaining momentum each day. Against this backdrop, the EU has an opportunity to capitalize on market developments in other jurisdictions which could enable increased competitiveness in market infrastructure while delivering many enhanced benefits for the industry.

Post-trade automation and standardization can be the enabler of this, increasing efficiencies and control, while decreasing the potential for settlement fails. Although undoubtedly complex in the changes it would require, the benefits of an accelerated settlement cycle in the EU are tangible and would deliver great benefits.