

# Impacts of implementation of T+2

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23 May 2013

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME's Post Trade Division is the European post-trading centre of competence of the Association for Financial Markets in Europe (AFME). Its members are the major users of international securities markets. The Post Trade Division acts as an agent for change, providing and supporting solutions in securities clearing, settlement and custody, to reduce risks and increase efficiency for market participants, representing its members' views towards market infrastructure organisations and public authorities.

Of the broader AFME membership (see: [www.afme.eu](http://www.afme.eu)) the following members - investment banks, regional and global custodians and wealth management/private banking - actively participate in the Post Trade Division: Banco Santander; Bank of America Merrill Lynch; Barclays; BNP Paribas; BNY Mellon; Citi; Credit Suisse; Deutsche Bank; Goldman Sachs; HSBC; J.P.Morgan; KAS Bank; Morgan Stanley; Nomura; Nordea Bank; Northern Trust; RBS; Société Générale; UBS and UniCredit. A task force of the AFME Post Trade Division prepared this paper with assistance from David Broadway of the Investment Management Association (IMA).

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## Executive summary

The AFME Post Trade Division's Transaction Management, Clearing, Settlement and Custody Committees agreed to set up a task force encompassing members from each of these committees to explore the key topics related to the implementation and their impacts of reduction in the cash securities settlement cycle by one day to trade date plus two days (T+2) for the entire lifecycle of a trade.

The key findings are:

- AFME is fully supportive of the implementation of T+2. Once successfully implemented, the shortened settlement cycle of T+2 will contribute to increased efficiency and reduced risk in post trade.
- Although the industry-led Harmonisation of Settlement Cycles Working Group concluded in 2011 that settlement cycles should be harmonised at T+2, the mandatory introduction of T+2 as provided for in the EU CSD Regulation is very welcome;
- For the successful implementation of T+2, however, the private sector will be largely responsible. Successful implementation of T+2 in Europe will also have a positive effect on making T+2 an international standard.
- Conditions central to a successful implementation in the two dimensions of functionalities and relevant constituencies are:
  - In the dimension of post trade functionalities, affirmation, allocation and confirmation have to take place on the trade date, with the pre-settlement date matching preferably on trade date but on T+1 at the latest;
  - In the dimension of relevant constituencies, an adequate degree of automation is required; this applies to the buy-side, the sell-side and to any intermediaries alike;
  - The scope should be limited to transactions in transferable securities, which are executed on a trading venue. Contracts which are executed bilaterally but are still reported to a regulated market, an MTF or an OTF should not be subject to a mandatory T+2 regime, allowing flexibility for counterparties without unduly creating additional risks.
- To determine project management leadership, the decision on whether the implementation should take place in a 'big bang' or phased approach modus plays an important role. However:
  - Given that settlement cycles are in most cases part of exchanges' rule books, trading venues should accept a leading role in this process;
  - T+2 implementation should enter into force prior to the introduction of Target2-Securities (T2S) in June 2015; AFME recommends implementation should occur within a time-constrained phased approach;
  - It is highly recommended that each and every individual participant is adequately prepared for the implementation of T+2;
  - An early determination and communication of implementation date(s) is indispensable to allow market participants prepare for implementation in a timely manner.

Industry collaboration (including CCPs, CSDs, exchanges etc) is of critical importance in accomplishing a move to an automated post trade-processing environment. AFME Post Trade members realise that this is not something which can be achieved in isolation and that it requires the cooperation of all parties involved in the trade lifecycle.

## **Introduction and background**

The primary objective of AFME's Post Trade division is to provide constructive and practical analysis that will aid the implementation of T+2 yet encompass the importance of cost reduction, increased efficiency as well as safety for the wider market. In doing so it may additionally increase the attractiveness of the European market place to cross-border investors. The securities industry and European public sector authorities share the common objective of creating a safe, integrated and efficient post trading system. To this end important harmonisation and standardisation efforts are underway, such as the continuing process of dismantling the Giovannini Barriers to improve and streamline operational processes, as well as the public sector reviews of the legal, regulatory and fiscal framework. In this broad context the implementation of T2S (Target2-Securities) is a key milestone for the industry and will play an important role in the analysis presented.

In order to function efficiently, in particular in a T2S context, it is clear that settlement cycles must be harmonised across Europe. Following the work of the Harmonisation of Settlement Cycles Working Group led by Paul Bodart in 2011, a recommendation was submitted that settlement dates should be harmonised to T+2. Currently, there is a general harmonisation of trade date plus three days (T+3), largely with the exception of Germany. Following a proposal published by the European Commission in March 2012, the CSD-Regulation (CSDR)<sup>1</sup> has stated that the rest of Europe should move to a T+2 cycle by 1<sup>st</sup> January 2015. The following analysis assesses the impacts of such an implementation throughout the lifecycle of a trade.

Harmonisation of settlement cycles is seen as particularly important for the impending launch of T2S. Recently the CSDR, published in March 2012 by the European Commission, indicated that a move to T+2 will become enshrined in Regulation. Questions previously addressed — such as why the move to a T+2 cycle would be beneficial — are now being replaced by queries relating to the implication of implementing a new pan European T+2 cycle.

It is very important that the 'one size fits all' approach is not applied across all asset classes and transaction types, which will have to be considered independently, such as repos for financing, in order to ensure that the implementation of T+2 will not result in further challenges.

A rigid T+2 cycle does not fit certain specific types of transactions, such as repos, stock loans or the physical settlement of derivatives transactions, which by their nature are transactions following a different (term) lifecycle. In addition, for certain asset types (usually more illiquid ones, multi-listed securities, ETF's, ADRs etc.), a T+2 cycle may not provide sufficient time to be able to deliver the asset to the buyer, hence resulting in settlement fails, even in cases where the buyer is comfortable to receive the stock over an extended period.

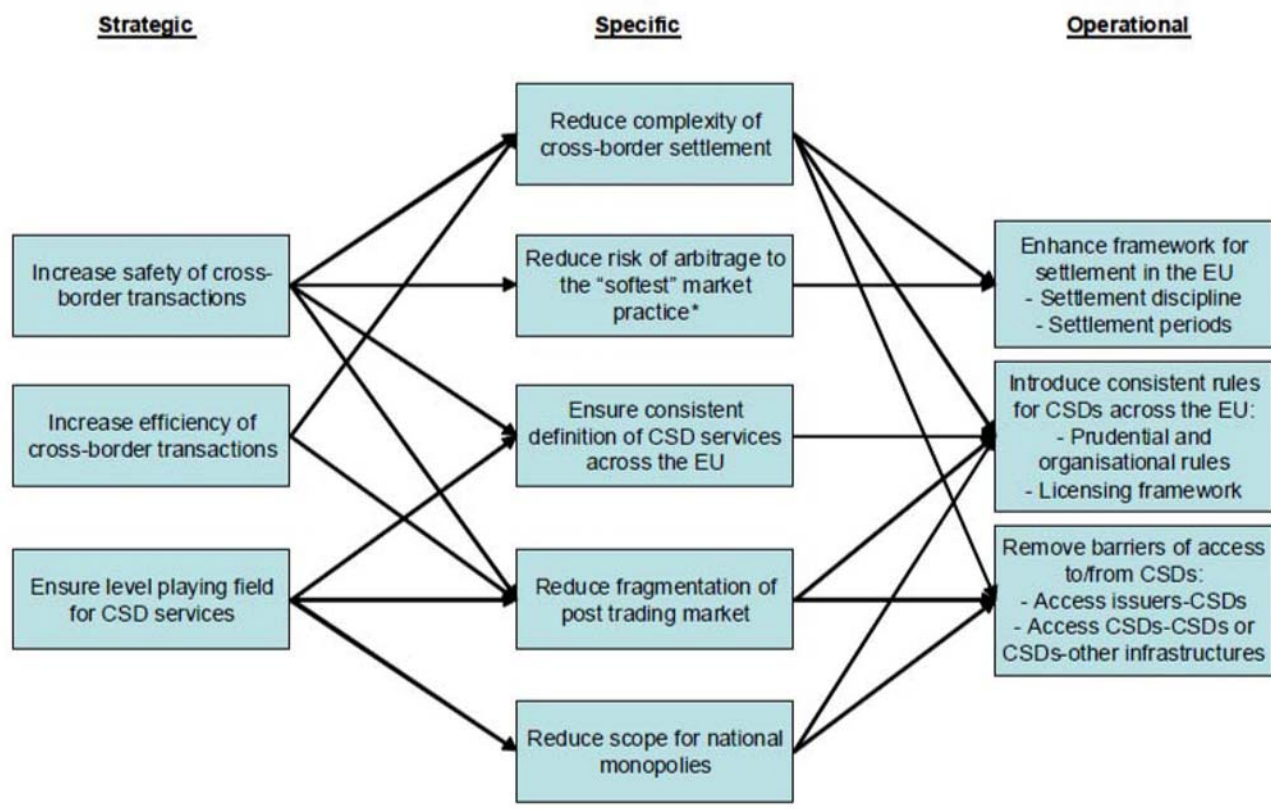
It is important to point out that flexible settlement dates are used as a key tool to manage risk in these markets. The possibility for counterparties to bilaterally agree upon a different settlement cycle would provide for this flexibility, without unduly creating additional risks. This possibility should exist only upon mutual (matching) agreement, and for trades executed outside of trading venues only.

Therefore, the mandatory implementation of T+2 should be limited to those transactions which are executed on a trading venue (whether exchange, MTF, or OTF), in line with the wording proposed by the ECON committee.

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<sup>1</sup> Proposal for a Regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on the CSDs and amending Directive 98/26/EC, March 2012, European Commission

**Objectives of a move to T+2 in the context of CSDR<sup>2</sup>**



Once implemented, the CSDR will introduce shorter settlement cycles and a stricter settlement discipline, which will challenge the existing market structure. If securities markets are to continue to operate in an orderly manner, then behavioural change will be needed across the industry.

This following analysis is based on the impacts on operational processes of such an implementation across the lifecycle of a trade, including securities allocation/confirmation/affirmation, clearing, settlement and asset servicing.

<sup>2</sup> Diagram taken from European commission staff working document: *Impact Assessment, Proposal for the Regulation on improving securities settlement in the European Union and on Central Securities Depositories (CSDs) and amending Directive 98/26/EC*, European Commission, COM (2012)73, SWD (2012)23

## **Benefits to the market**

Giovannini Barrier 6 highlights the need to harmonise standard settlement periods as a key requirement to enhance efficient cross-border processing. However, until the publication of the CSDR, there had been no regulatory requirement to ensure that this standardisation would occur.

The consensus from the AFME Post Trade Division is that a standardised T+2 settlement cycle is important as an enabling step for the successful implementation of T2S and the realisation of the associated benefits that T2S will bring. It is also the understanding of AFME members that the European Central Bank (ECB) considers it vital that the CSDR be enacted prior to the initial migration wave of T2S markets in June 2015 bringing the need for analysis by market participants of the impact of T+2 into sharp focus.

With a harmonised settlement platform and processes under T2S, the following operational, infrastructural and financial benefits could be enhanced with a move to a T+2 settlement cycle:

- Rationalisation of participants CSD/Agent account structures
- Improved Operational efficiency (reduction in realignments of holdings between CSDs)
- Removal of market specificities which require additional resources to support (Spanish registration and Italian pre-matching)
- A harmonised set of matching criteria and pre-matching process

There are existing projects in place for individual markets to realise these benefits, which would be linked to and driven by a move to T+2 under CSDR.

AFME members believe that T+2 will provide further impetus to improvements in the following areas:

- Improvement in the efficiency of the Trade Capture, Allocation and Confirmation process
- A drive towards positive electronic affirmation on Trade Date ("T")
- Behavioural changes in operational process

In addition, the shortened settlement cycle should reduce the aggregate margin required by CCPs.

Greater automation of the confirmation and affirmation process on T (trade date) would reduce the inherent operational and counterparty risk of unmatched/un-affirmed trades by enabling the timely resolution of errors. As a result this should lead naturally to a reduction in the number of failed trades. A harmonised pre-settlement date matching and settlement discipline regime will drive the behavioural changes required to improve the Trade Capture, Confirmation and Allocation processes which remain critical to the success of T+2 settlement. A pre-cursor for timely settlement will be that both participants input their instructions to the relevant settlement system with all required fields and that both instructions are fully agreed and achieve pre-matched status no later than the start of ISD (Intended Settlement Date).

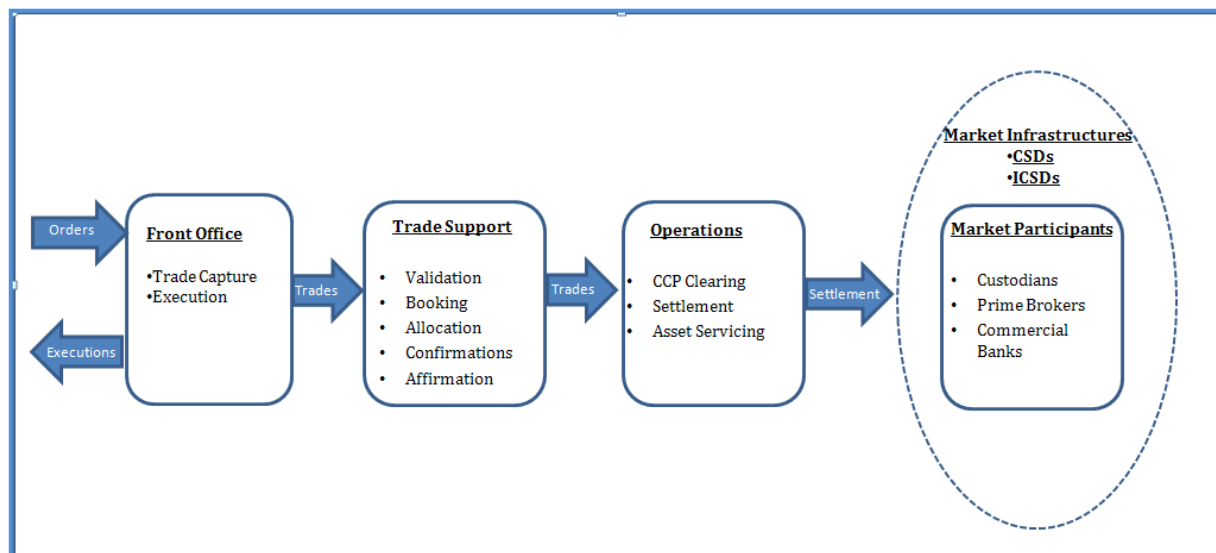
Having discussed in this paper the impacts of implementing a T+2 settlement cycle in the European markets, it is important to bear in mind that shortening the settlement cycle will have different impacts on different global markets. As discussed elsewhere in this paper, it is

therefore important that all industry participants, including those resident in “distant” time-zones, are able to adequately prepare for this market change and to adopt all necessary automation to ensure that all post-trade activities can be performed correctly within the shortened settlement period.

The consolidated challenges are outlined and expanded below; the purpose of highlighting these is to indicate the market-wide changes required to ensure that the transition to T+2 is successful.



## Pre Settlement and the implementation of T+2



**Figure 1: Diagram of the Securities Trade Process Flow**

The proposed implementation of T+2 across all European markets highlights critical areas for consideration across the lifecycle of a trade. Each part of the trade lifecycle is contingent on the previous action being completed successfully.

As we move towards a shorter settlement cycle it is increasingly important that participants allocate, confirm and affirm their transactions as early in the trade lifecycle as possible, ideally on the trade date. Achieving affirmation of economics on the trade date should lead to higher settlement matching rates in the market. AFME members consider it reasonable to suggest that there be matching of settlement information (e.g. PSET/PSAFE, SSIs) at the same time as matching trade economics, in order to reduce the need for pre-matching altogether.

Standardised electronic mediums of trade confirmation, allocation and affirmation are considered key to efficient trade processing and will be a significant factor in the successful implementation of T+2. Electronic confirmation/affirmation also provides a clear audit trail, which can be passed to the various participants in the lifecycle of the trade. The draft European Parliamentary CSDR Compromise text states in Article 6(1)<sup>3</sup> that procedures that enable the confirmation of transaction on the date of receipt of order should be made mandatory, including the prompt allocation by the client of the transaction no later than the end of the trade day and the timely receipt of a confirmation, an affirmation or rejection.

It is equally important that settlement instructions are provided to settlement agents (Custodians, Prime Brokers etc) as soon as possible, ideally on the trade date or at the latest on T+1, to allow for prompt matching and a timely recall of securities where necessary. Instructions received after the trade date will increase the risk of fails and the consequent additional cost to participants imposed by the settlement discipline regime.

<sup>3</sup> Report (A7-0039/2013) on the proposal for a regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDs) and amending Directive 98/26/EC (COM(2012)0073 - C7-0071/2012 - 2012/0029(COD)) Committee on Economic and Monetary Affairs; Rapporteur: Kay Swinburne; ARTICLE 6 (Settlement Discipline) Paragraph 1

For CCP-cleared trades, the implementation of T+2 is not expected to cause major disruption. Several of them already face the reality of clearing German transactions on a T+2 lifecycle have not encountered difficulties. This is largely because CCPs are able to instruct settlement of the two sides of the transaction on the trade date without manual intervention. Therefore, it is unlikely that the internal operational impact of a change from T+3 to T+2 will be high for the CCP cleared transaction (though it will impact the related OTC transactions).

Margin calls for clearing members and their clients will continue to be made on the morning of T+1 following completion of the risk algorithm by the CCP. Intraday margin calculation and calls, where appropriate, would continue to be made during T+1/S-1. As the last T+3 trades settle and the new T+2 trades are margined, aggregate requirements will fall as a result of the exposure window having been shortened by one day. CCPs will continue to require securities on the trade date if these are being deposited as collateral, and the funding of margin calls between clearing members and the CCP, or clearing members and their clients, will remain unchanged. AFME is strongly in favour of a three-month transition period to allow for internal technology changes and external documentation reviews as described above.

With regards to bilateral settlements, there is currently a lack of market standardisation as to when participants release their instructions to custodians or directly to CSDs. Matching timeframes are inconsistent across participants and market and all parties need to engage in dialogue to identify coordinated actions that could smooth the process.

A shorter settlement cycle would reduce the amount of time that participants have to instruct transactions and as a result would require careful operational management to ensure that compression in timing for delivery of instructions would not cause an increase in operational disruption.

Existing static data challenges will be all the more acute, especially when new sub-accounts need to be set up following the execution of an order. The challenge should encourage innovation and competition amongst IT and Service vendors to provide the industry with reliable Standard Settlement Instructions (SSI) repositories and tools. Providers of such SSI data should follow recognised industry standards, and be interoperable allowing one party to connect to all via a single connection. In the absence of any such innovation, participants will need to ensure open dialogue with each other in order to use and improve current processes, especially during any transition period. Many market participants will have international, if not global processes for their SSIs and vendors will need to provide accordingly. In this sense 'T+2' can be a trigger for change beyond the scope of CSDR.

It is worth noting that complex national specificities such as the Spanish re-registration process and telephone pre-matching in Italy will have to be addressed in order to achieve a T+2 settlement cycle. The Spanish market currently operates a manually intensive registration process for settlement and in order to enable settlement on T+2, and ultimately to join T2S, there is a planned and extensive market reform which will transform the market. The removal of the current telephone pre-matching process in Italy is an ongoing project and whilst not totally eradicated, there have been in market practices and CSD functionality (Hold and Release) which will drive further reduction in this activity.

The key driver for addressing such complexities will be primarily, but not exclusively, the implementation of CSDR in preparation for inclusion in their respective T2S waves. It is imperative that prior to any such move, these issues are addressed and resolved to ensure successful harmonisation of European settlement cycles.

## **Settlement date**

The objective should be that settlement instructions from both parties should have been input and matched in the relevant settlement system at the start of the Intended Settlement Date (ISD). If that is the case, the impacts of the introduction of T+2 on processes on ISD should be fairly limited.

However, a reduced timeframe for matching may cause an increase in the number of settlement instructions being matched on ISD rather than on ISD-1. An increase in mis/unmatching rates on 'ISD' is anticipated as non-EU based clients trading outside of EU trading hours will have less time to instruct, especially where a chain of global custodians and sub custodians criss-crosses the globe.

As a consequence, more settlements are likely to occur later in the day on ISD presenting a challenge for accurate end-of-day funding. For markets which have an optional end-of-day settlement cycle (such as the ICSDs), this shift may also see an increase in trades requiring settlement in 'Optional late settlement cycles' (e.g. Real Time Settlement). This would result in a more manual process and is likely to increase costs and complexity.

In addition to an increased number of settlement instructions being matched on ISD rather than on ISD-1, the reduced timeframe will also mean that fewer trades are settled in the overnight batch cycles, leading to an increased number of trades being managed intraday and more pressure applied on existing operational resources.

For trades requiring realignment of positions between CSDs, a mandatory T+2 cycle could lead to a higher number of fails as realignments are complex and time-consuming. The existing Short Selling Regulation (SSR) and the CSDR foresee settlement fines applied to all late settlements and buy-ins on ISD+4. This is why a precise, harmonised, T+2 compliant trade lifecycle is required (as mentioned above). The introduction of T2S will help reduce this challenge, as it will enable the cross-border CSD process to be eliminated for T2S eligible CSDs.

### **Post Settlement and the implementation of T+2:**

Whilst the key preconditions for a successful T+2 settlement regime reside in the pre-settlement phase of the cycle (which, if met, by definition reduce the concerns for the Post Settlement environment) firms should give consideration to the Post Settlement areas of fails management, settlement discipline regime, claims and corporate actions.

As with preceding steps in the cycle, these considerations exist, whatever the settlement period. However, it is prudent to anticipate additional stress in participants' operations as markets adapt to T+2.

Efficient fails management will be crucial in a T+2 environment. If more settlement matching takes place only on 'ISD' (therefore reducing the window of opportunity to borrow stock, for example) 'fails' are likely to increase for an initial period. This could have the effect of stretching existing credit lines with a participants' bankers (be they correspondents or agent banks). A shortening of the settlement cycle to T+2 will likely / may lead to an increase in credit management stemming from the transitional and initial increase in settlement fails expected, thus it is deemed that the potential of increased frictional credit demand should be considered as part of the planning process for any transition

In addition CSDR aims to bring harmonisation to settlement discipline regimes. Whatever the ultimate language of the regulation, and any transitional arrangements to ease the path to T+2, consideration should be given in advance to the treatment of fines and buy-in penalties. This is of particular importance to customer business where a firm, acting as intermediary, is not in full control of settlement of receipts but will be responsible for fines levied by CSDs in respect of late deliveries. As the regime becomes clear there will be an opportunity to emphasise the benefits of preventative practices in upstream parts of the cycle (e.g. confirmation, allocation and affirmation on trade date) together with the option of borrowing securities to cover failed receipts.

Whatever the regime, prevention is far easier to contemplate than cure, so the ultimate emphasis must be on achieving a rapid trade date allocation process and on leveraging current fail-coverage arrangements. It is however in the context of further future regulation, that AFME members believe that short selling regimes currently in place with CCPs should be reviewed in order to avoid a duplication of fines (being fined under the Short Selling Regulation as well as the CSDR) for market participants.

It is prudent to anticipate an increase in claims for funding late settlement, whether through cash or stock borrowing, as the market adapts to the shorter cycle. Should there be no obligation stipulated in the proposal for the issuers and agents to mirror a T+2 cycle on the corporate actions date sequence then this could further lead to an increase in claims. The principal challenge is on resources allocated to processing claims, which for some firms may require further investment to avoid the development of backlogs across the industry.

The Market Standards for Corporate Actions Processing<sup>4</sup> developed and endorsed by the relevant industry constituencies— i.e. issuers, financial market infrastructures and banks — and currently in implementation mode, refer to settlement cycles in the context of the sequence of

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<sup>4</sup>Source: <http://www.ebf-fbe.eu/uploads/Market%20Standards%20for%20Corporate%20Actions%20Processing.pdf>

key dates. Therefore the harmonisation of settlement cycles will be a facilitating step towards reaping the full benefits of these standards.

For corporate actions on flows, T2S has defined rules, based on and compliant with these standards, for market claims, transformations and buyer protection. It is not expected that the shortening of settlement cycles to T+2 will have an adverse effect on asset servicing (as Germany currently trade on T+2 and the UK for rights trade on T+1). Buyer protection processes might require minor adaptations however as a shortened settlement cycle should reduce the number of Market claims raised in the market.

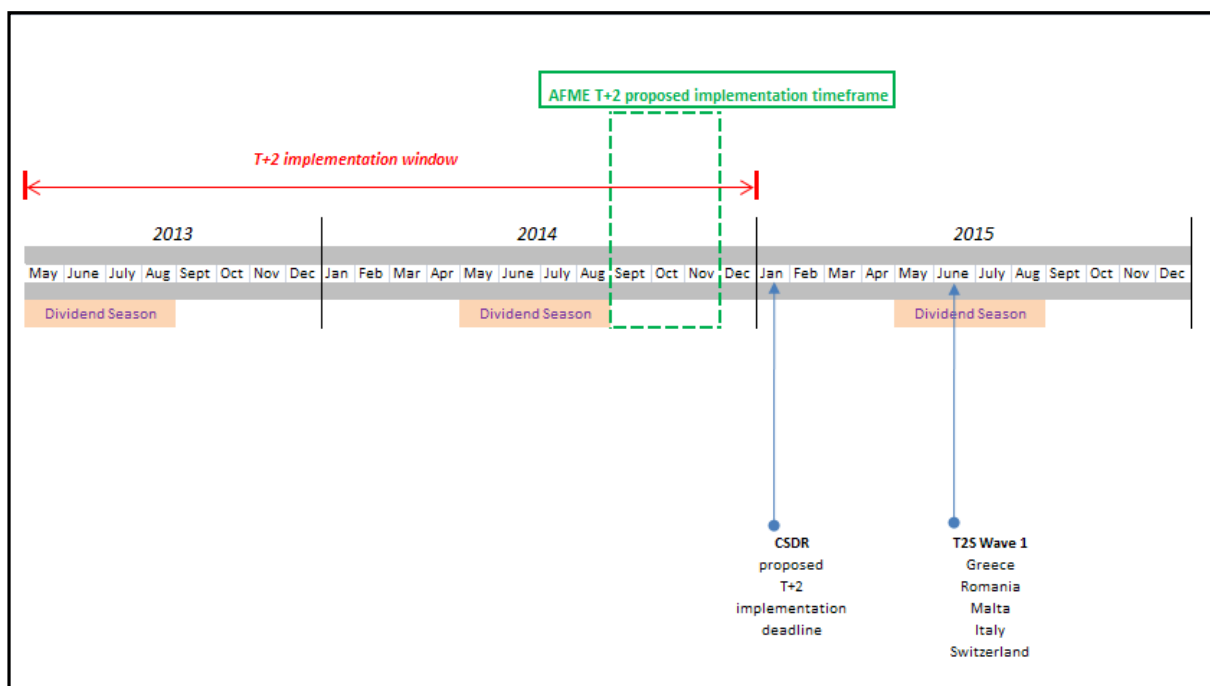
The harmonisation of market standards is a positive step towards a more efficient, harmonised and safe asset servicing process. It is noteworthy that the asset services process would benefit from a harmonised move to the shortened T+2 settlement cycle taking place outside of the March-August months, which would be the height of the corporate action 'season' and may be a hindrance in the smooth transition to a T+2 environment.

**Process for implementation:**

In view of the aforementioned impacts resulting from the implementation of T+2, AFME would like to recommend that implementation should adhere to the following:

- Be outside of the Dividend season to reduce further challenges;
- Should not coincide with the annual SWIFT release in November to avoid further IT challenges;
- Not take place in December, as most firms will go into a code freeze during that month;
- Implementation should occur within a time-constrained phased approach as outlined in the below diagram — not all markets should implement a T+2 settlement cycle on the same day.

**Visualised T+2 migration window**



### **The investors' perspective**

Investment managers comprise a broad mix of institutions, which vary in focus (e.g. long-only, hedge strategies, asset class specialisation etc.), size and degree of automation.

It is believed that larger investment managers are typically already using automated solutions for trade matching/affirmation where this is possible with their brokers, and for sending settlement instructions to their clients' custodians. Work is on-going to establish how effective this is today in achieving trade-date affirmation and how this translates to the issuing of timely settlement instructions, as well as to identify the specific areas of the wider buy-side community that are less automated and, therefore, less able currently to meet the shorter timescales necessary for a T+2 settlement cycle.

The Investment Management Association (IMA) understands from discussions with some of its members, principally from among those who are already automated in this area, that they believe T+2 is achievable, albeit with some challenges, principally:

- Stock recalls: securities that are out on loan or used as collateral, but are then sold, will need to be recoverable in sufficient time for the custodian to deliver against the trade;
- Associated foreign exchange transactions: firms will have less time to determine and place the FX trades that may be required to deliver the correct purchase currency without the need to borrow and manage incoming cash most effectively for their client - this is often completed on T+1, allowing for the associated trades to be confirmed up to the end of the trade date, but the typical T+2 settlement date for spot FX does not then occur until T+3 for the securities trades;
- Cross-time zone operations: as noted elsewhere in this paper, there is a concern that post-trade operations that are located specifically to support clients outside the EU will have less time or will be unable (especially in Asia and the Americas) to complete the affirmation and settlement instruction processes to ensure settlement on the expected date;
- As also mentioned elsewhere in this paper, there are concerns regarding markets such as Italy and Spain and whether the reforms that are underway in those markets will be completed in time for the EU-wide implementation of T+2.

There is a general recognition among the buy-side firms with which the IMA has engaged to date that trade-date affirmation is key to the facilitation of T+2 and that this needs to be undertaken electronically. It has been noted, however, that some brokers are not able to currently do this with cross-currency trades. It has also been noted that even with timely settlement instructions provided to the custodian, these may need to be passed along a custody chain with multiple intermediaries involved, which will require a high level of efficiency and automation along the chain in order to successfully effect delivery on T+2.

## **Conclusions**

One year on from the initial publication of CSDR and with a targeted date for the first migration wave to T2S in mid 2015, the financial industry has a window of approximately eighteen months to analyse the scope, costs and impact to support and transition to a standard T+2 settlement cycle. This is based on an assumption that CSDR legislation will mandate an implementation prior to T2S wave one. As the CSDR regulation is still in flight with the governing bodies, there is an element of uncertainty. However, it is the view of AFME members that all market participants should plan ahead now to identify the critical elements of a migration to T+2 and the impact on their trading and post-trade operational processing. There is no doubt that a standard settlement cycle brings efficiencies to the European markets across the asset classes but there are complexities within each of the in-scope countries that present some significant challenges to the implementation of T+2. In order for the implementation of T+2 to be successful, participants will be required to instruct on the trade date or soon thereafter to ensure that there is enough time to get trades matched on T+1. Affirmation on the trade date is important for the reasons we have outlined earlier (i.e. to reduce the operational and counterparty risks of unmatched trades and lead to a harmonised pre-settlement date matching and settlement discipline, subsequently leading to instructions being fully agreed and pre-matched no later than on the intended settlement date).

It is important that CSDs and agents continue to provide status updates throughout the entire trade lifecycle, so that any matching/positioning issues are resolved in a timely manner. With the adoption of a T+2 cycle, this feedback needs to be given regularly during the pre-settlement period, as there will be a very small window to resolve any mismatching/unmatched instructions. Funding implications may significantly change on the basis of such feedback and this should be analysed as soon as possible by the relevant treasury/funding desks.

The T+2 proposals may result in an increase in the amount of auto-borrowing due to an increase in the number of failing receipts. This presents a challenge for all market participants involved in stock lending. The long-only lenders will have less time to recall their securities when selling part or all of their position, and the intermediaries will require faster loans to cover potential fails. It is important that market participants begin a dialogue to enable them to adapt to the most efficient process available.

As the focus of the industry sharpens on the CSD Regulation, the question of what challenges exist for the implementation of T+2 become increasingly pertinent — especially given the relatively short window within which the market must be in line with the new regulation. It is conceivable that CSDs (or group owned CSDs) will work in isolation to implement T+2 without oversight from a single governing entity which will present a risk, an increase in project-related costs and uncertainty to the market. Especially given that there could be overlapping implementation dates in 2014 since no change to a market standard for settlement processing is ever welcomed during dividend season.

The European Central Securities Depositories Association (ECSDA) believes that there will be minimal direct impact for their members, given that CSDs already settle shorter settlement cycles (T+0 and T+1). The settlement period is a parameter consumed by the CSDs who currently settle on whichever date is directed by a trade-feed or by bilateral instructions.

AFME does not expect clear guidelines on the implementation of T+2 through CSDR or in fact the subsequent ESMA guidelines, so it is appropriate that the questions of “when and how will the implementation take place” and “what are the requirements for the participants” are posed to, and answered by, the market infrastructures as soon as possible. In order to accept the move to



a pan-European harmonised T+2 settlement cycle, further information is required as to the orchestration of its implementation. It is arguable that the best-placed entity or entities to orchestrate a move to T+2 would be the exchanges, which currently dictate the settlement cycle within their rulebook. Having said this, in order to achieve efficient implementation, this orchestration must be harmonised across Europe and addressed in the same way. As the exchanges would have a top-down view of the settlement process, this would add to the belief as to why these may be best positioned to provide the industry with transparent framework plans. However, regardless of who takes the decision, we feel the market should serve a notice period to its participants, which should be no less than six months to adequately allow for the relevant preparations.

Given the experience of the industry of large scale, complex projects, AFME recommends that a time-constrained phased approach with groupings of in scope markets would be recommended with no more than a few phases across 2014, separating the larger volume markets in order to reduce the implementation risk.

Although difficult in the absence of approved regulation and the opaque nature of whether there will be oversight and guidance on the implementation, it is important that the industry understands the migration schedule as soon as possible and that it is given time to prepare accordingly.

## Glossary

<b>CSDR</b>	Central Securities Depositories Regulation as proposed by the European Commission ( <a href="http://ec.europa.eu/internal_market/financial-markets/central_securities_depositories/index_en.htm">http://ec.europa.eu/internal_market/financial-markets/central_securities_depositories/index_en.htm</a> )
<b>CCP</b>	Central Counterparty: An organisation that exists in various European countries that helps facilitate trading done in European derivatives and equities markets. These clearing houses are often operated by the major banks in the country. The house's prime responsibility is to provide efficiency and stability to the financial markets that they operate in.
<b>CSD</b>	Central Securities Depository: a specialist financial organisation holding securities such as shares either in certificated or dematerialised form so that ownership can be easily transferred through a book entry rather than the transfer of physical certificates. This allows brokers and financial companies to hold their securities at one location where they can be available for clearing and settlement. This is usually done electronically making it much faster and easier than was traditionally the case where physical certificates had to be exchanged after a trade had been completed.
<b>ECSDA</b>	European Central Securities Depository Association
<b>ETF</b>	Exchange Traded Funds: an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day. Most ETFs track an index, such as a stock index or bond index. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features. ETFs are the most popular type of exchange-traded product.
<b>IMA</b>	Investment Management Association
<b>ISD</b>	Intended Settlement Date
<b>MTF</b>	Multilateral Trading Facility: A trading system that facilitates the exchange of financial instruments between multiple parties. Multilateral trading facilities allow eligible contract participants to gather and transfer a variety of securities, especially instruments that may not have an official market. These facilities are often electronic systems controlled by approved market operators or larger investment banks. Traders will usually submit orders electronically, where a matching software engine is used to pair buyers with sellers.
<b>OTC</b>	Over the Counter: A security traded in some context other than on a formal exchange such as the NYSE, TSX, AMEX, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.
<b>SSI</b>	Standing Settlement Instructions: used by financial institutions to facilitate fast and accurate cross-border payments, helping to reduce settlement risk and improve straight-through-processing (STP) rates.
<b>SSR</b>	Short Selling Regulation ( <a href="http://ec.europa.eu/internal_market/securities/short_selling_en.htm">http://ec.europa.eu/internal_market/securities/short_selling_en.htm</a> )
<b>T2S</b>	Target to Securities: a new European securities settlement engine which aims to offer centralised delivery-versus-payment (DvP) settlement in central bank funds across all European securities markets. The project was initiated in 2006 and is currently under development. Based on the latest announcements it is scheduled to go-live in 2015. The fundamental objective of the T2S project is to integrate and harmonise the currently highly fragmented securities settlement infrastructure in Europe. It aims to reduce the costs of cross-border securities settlement within the euro area and participating non-euro countries, as well as to increase competition and choice amongst providers of post-trading services. The IT platform will be built, owned and operated by the European Central Bank (ECB) and 17 national central banks in the euro area (which are collectively known as the "Eurosystem"). <a href="http://www.ecb.europa.eu/paym/t2s/html/index.en.html">http://www.ecb.europa.eu/paym/t2s/html/index.en.html</a>

**Further information**

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